



CHINA TODAY

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INTRODUCTION

By now, everybody has finally understood that China is slowly re-emerging as a political and economic giant in the world, thus recapturing the position that it occupied over the centuries.

It occupied that position due to the extraordinary Confucian ethic of its population, and the learning and scientific innovation that was consequently generated.

It was only in the recent 200 years that external powers managed to drive it into the ground through aggression, exploitation, concessions, and an immoral drugging of the entire population with opium. A magnificent civilization was thus suppressed, and pushed into its “period of humiliation”.

This attempt conspicuously failed. The country embarked on its new phase of history, first in 1949 with the establishment of the Peoples Republic of China, and then in 1978 with the revolutionary political and economic reforms that have completely transformed the country. An imperial and feudal society which had been all so easily subdued by external force, was replaced by a new social ethic, brimming with confidence, and motivated by a refreshing commitment to rebuilding the country back to its erstwhile status.

Obviously, the re-emergence of this new super-power sets off deep concerns in a post-war world, in which others had become accustomed to a *status quo* in which the gap between them and others had assumed comfortable proportions. Any change in their elegant style of life could not but be seen as a threat with political, economic, social, and military proportions.

So, the concern about the threat from China is quite natural, as is the tendency to point fingers at any and all short-comings that are perceived in that country, or the *schaden-freude* with which most of its tragedies are portrayed.

But China is unstoppable. The political and economic reforms that it has undertaken, coupled with the mobilization of its

entire national effort, has produced results that are the envy of the world today, and an example that is likely to endure. No amount of external pressure can now divert the country from the path of self-sufficiency and greatness on which it is embarked.

Rather than criticizing China for its centralized power structures, would it not be better to acknowledge that it is these very structures that have enabled China to maintain its growth rates even during the current global recession.

Rather than criticizing the human rights of individuals in China, would it not be better to appreciate the successful effort that it has made to pull hundreds of millions of its people out of poverty.

Rather than criticizing China for what are seen as its low wage structures (which seem to be quite adequate for its own living conditions), would it not be better to examine the unjustifiably high wage structures that exist elsewhere in the affluent West, and the physical and mental obesity that these have engendered.

Could we not humbly appreciate the fact that it is the savings of the Chinese population that are paying for the enormous and profligate gap between Western production and consumption.

Could we not appreciate the fact that it is the highly competitive prices of Chinese goods that enable the entire world to benefit from these items at such low cost.

Could we not highlight the fact that Chinese investments are slowly changing the face of Africa and Latin America.

Since we all believe in democracy, could we not acknowledge and respect the verdict of the vast majority of the populations of the world that see China as a beacon of hope, and an example for our emulation.

Let us finally remember that China has always been an inward looking and defensive civilization, with no history of foreign aggressions, and thus no threat to anybody else.

All this may then perhaps enable us to come to terms with the positive global force that is the China of today and tomorrow.

POLITICAL REFORMS

Editors Note: While all attention is being devoted to the envious example of the economic growth and performance of China, most observers have a tendency to decry its political growth as stunted. Few have understood that the economic growth is the direct result of the political reforms which have been slowly but surely executed over the past three decades. The following paper by an insider walks us through these political reforms, and their impact on the economic growth of the country.

Introduction

Evolution of the Chinese Political System: Following the Opium War of 1840, China gradually became a semi-colonial and semi-feudal society, with foreign powers stepping up their aggression against China. The feudal rule had been increasingly corrupt and the country was devastated by incessant wars and turbulence, and the Chinese people suffered from hunger, cold, and oppression. In those dark years, in order to change the destiny of the nation, the Chinese people launched one struggle after another, such as the Taiping Heavenly Kingdom Movement, the Reform Movement of 1898, and the Yihetuan Movement, but all those struggles ended in failure. The Revolution of 1911 led by Dr. Sun Yat-sen put an end to the autocratic rule that had existed in China for several thousand years. This revolution greatly boosted China's social progress, but it did not change the country's nature as a semi-colonial and semi-feudal society.

The Chinese people kept on looking for a suitable political system. After the last feudal dynasty in China was overthrown in 1911 revolution, the Chinese people began a heated debate on whether to adopt the republican system or the constitutional monarchy system. The Chinese people experimented with different political systems, but none of them were successful. The Chinese people were actually eager to learn from the western political systems. But the "teachers" only hoped that China should best remain semi-colonial and semi-feudal so that they can possess

China's market and resources for ever. The economic crisis of 1920s, the fast development of Soviet socialist system, the invasion of the Japanese imperialists and suppressions of foreign powers denied China the choice for capitalism. Under such historical circumstances, whoever could help the Chinese people stand up and become prosperous would obviously be supported by the Chinese people.

The People's Republic of China was established in 1949 led by the Communist Party of China (CPC). Since then, the unequal treaties imposed on China by western powers, and all the privileges they had arrogated to themselves in China were abolished, and the history of the old Chinese semi-colonial and semi-feudal society was brought to an end.

The core content and basic framework of China's socialist political system is the People's Congress System, the multi-party cooperation and political consultative system led by the Chinese Communist Party, the regional ethnic autonomy system, and grassroots democratic autonomy system. Mr. Deng Xiaoping, the chief architect of China's reform, once identified three standards for judging a political system¹:

- First, whether it can guarantee the political stability of a country;
- Second, whether it can enhance people's unity and raise people's living standards;
- Third, whether it can ensure the sustainable growth of productivity.

The Chinese political system with its own distinctive feature has been proven to be in line with the actual circumstances of China and aspiration of its people. It has injected huge power and essential support into China's economic and social development.

The Path to the Future Political System: China has stipulated the path of “socialism with Chinese characteristics” as the only way for China to achieve modernization. In taking this path, China will, “under the leadership of the CPC and bearing China's basic national conditions in mind, pursue economic development as the central task, be committed to the reform and opening up policy, free and develop the productive forces, strengthen and improve the socialist system, promote the socialist market economy, socialist democracy,

1. Selected Works of Deng Xiaoping 1976-1982, People's Publishing House, Beijing

an advanced socialist culture, and a harmonious socialist society, and make China a prosperous, strong, democratic, culturally advanced and harmonious modern socialist country”².

In the latest vision of Chinese President Hu Jintao, it is envisaged that in the first half of this century, the CPC will unite with and lead the Chinese people in accomplishing two grand goals: First, to build a moderately prosperous society of a higher level to the benefit of over one billion people by the centennial of the founding of the CPC (namely the year of 2021) and, second, to make China a prosperous, strong, democratic, culturally advanced and harmonious modern socialist country by the centennial of the founding of People’s Republic of China (namely by 2049)³.

Political Reform Models and their Success: Throughout the past few decades, there have been three reform models in socialist countries. The first is the "Conservative Reform," which imposes limited economic structural reform and leaves the political structure untouched. The second is radical change in both economic and political systems. The third, namely the "Chinese model," is distinguished by "great economic reform with lesser political reform," and is deemed the "steady model". Political changes mainly to serve the economic transformation and to lay a solid foundation for the improvement of the common good.

The great success of this last model is obvious. It fuels rapid economic development and improvement in people's living standards, and revitalizes the society without paying the cost of political unrest that had already been witnessed in other countries due to radical political restructuring. In fact, this political reform process steps away from the traditions of "Political Supremacy" and the "Planned Economy."

It is therefore from this perspective that some political reform measures are indeed integrated within the economy reforms. But the mix prominently serves the interests of improving the economy on a macro scale and the betterment of people's standard of living.

Those political reforms, considerably accumulated as historical facts, are much more profound and extensive than most

2. Constitution of the People’s Republic of China

3 Remarks of Hu Jintao addressed at grand gathering marking the 90th founding anniversary of the CPC, in Beijing, China, July 1, 2011

outsiders can perceive. Of course, there are still some who insist that these political changes in China are not yet the authentic political reform. Such schools fails to adjust their pre-set frameworks or to break their stereotypes of what a democratic political system is. In other words, their knowledge about democracy depends solely on the Western model other than wider reform philosophies that have been shaped in the process of globalization and localization and therefore fit perfectly in other countries. A more tolerant view that incorporates the diverse forms of democracy is strongly suggested, and may help us evaluate China's political reforms fairly or even with appreciation⁴.

"Socialism with Chinese Characteristics": The underlying concept of China's political reform is "Seeking the Truth from Facts" and its core content is to believe in no dogma, and to determine tangible merits by analyzing facts.

No single model is ideal for all nations to follow. Given different social, political, historical and cultural conditions, the only viable way is to chart out one's own model for development, rather than becoming a "carbon copy" of Western modernity. This is exactly what the new leadership of China had in mind when it decided to embark on the path of a bold, radical and pragmatic political and economic reform.

It is important to note at the outset that China is quite different from the former Soviet Union in both the interpretation and practice of socialism and communism. Deng Xiaoping once defined the essence of socialism as being "to liberalize and develop productivity, and meanwhile to eliminate exploitation and avoid polarization, and ultimately to achieve overall prosperity".⁵ In similar terms, former Chinese President Jiang Zemin, explained that "the communist society is the one affluent in wealth, with people's spiritual world highly enriched and improved, and every individual bestowed with the rights to develop freely in an all-round way".⁶ The CPC considers this as its overriding objective, an objective which the CPC must implement in the long-term. As this objective is consistent with the great mission of modernization and rejuvenation of China after more than a century of disasters and invasions, and has been

4. Political reform: Overlooked ingredient of China's economic success

5. Selected Works of Deng Xiaoping 1976-1982, People's Publishing House, Beijing, 1983

6. People's Daily (Renmin Ribao) February 25, 1997, Beijing

written into the Chinese Constitution, it serves as a prerequisite to understand the Chinese political system and its reforms.

The CPC understands that the realization of socialism and communism is very much a time-consuming and tough process, since there is no prior example to study. The only solution is to apply the basic principles of Marxism to the specific situations in China and in the whole world, and try to move forward by trial and error.⁷ Any measure that can help achieve this mission is deemed to be facilitating socialism and communism. Deng Xiaoping has already made it clear that the application of a market economy or a planned economy is not what differentiates socialism and capitalism and that a market economy can also be adopted by a socialist nation.⁸ In 1978 when the CPC first initiated the Reform and Opening-up policy, it had already given a clear definition of both reform and of opening-up. The aim of the Reform is to replace the planned economic system with a market economic system, while the aim of Opening-up is to broaden China's vision and learn from the outside world, and hence integrate the Chinese economy into the global economy. Tremendous efforts have been made over thirty years. The socialist market economic system has now come into being in China, and is still under development and improvement⁹.

The Impact of Political Reform

The re-emergence of China as a major player on the global stage is now likely to dominate international relations for the foreseeable future. Over the last 32 years, China has undergone an impressive economic transformation, including an average annual GDP growth of 9.5 percent. It has overtaken Germany and Japan to become the world's second largest economy. In 2008, when the global financial crisis began, China emerged as the counterbalance to the failing economies in the West, and achieved a GDP growth of 11.2 percent in 2010.

However, as China's rapid economic progress shocked the world, it gave people the impression that China had only made economic reforms but not political ones. The mainstream political views of the Western countries on the rise of China have been

7. Selected Works of Mao Tse-tung, Foreign Language Press, Beijing, 1953

8. Selected Works of Deng Xiaoping 1976-1982, People's Publishing House, Beijing, 1983

9. Liu Ji: The Reform of Chinese Political System – Address to Europe-China Forum in Ireland on September 5, 2003

distorted. Many people in the West are likely to say that China has risen as a new economic power but its political development lags far behind and democracy seems to be non-existent. This is a misunderstanding and prejudice. In fact, China's political reforms have achieved great progress on many fronts.

Since 1978, China's political reform has gone hand in hand with the economic reform, of which some are the following:

*Promoting Inner-Party democracy.*¹⁰ The CPC is the ruling party with approximately 80 million party members. To promote democracy among the people by enhancing democracy inside the party is one of the key measures of China's political reform. Over the years, a series of reforms have been carried out in the fields like perfecting the party conference system, safeguarding party member's rights, improving inner-Party elections, etc. especially in abolishing life-long tenure in leading posts, introducing competition for posts, public review before official appointments, expanding direct elections to more grass-roots party committees, and raising the number of candidate for posts in central and local party committees. For instance, in Nanjing, in August 2009 and April 2010, leaders of 363 community party organizations which cover the whole city as well as 806 village party committees were elected through public recommendation and direct vote. In recent polls, 98% party members and citizens are satisfied with the work of these newly elected leaders. This demonstrates that the reform in Inner-Party grass-roots elections system has received popular support.

*Enhancing democratic self-governance.*¹¹ There are 613,000 executive villages with a total population of nearly 800 million in China; their leadership has been basically directly elected. Meanwhile, there are 82,000 municipal neighborhood committees with a total population of nearly 500 million and 50% of them have been directly returned. In places where indirect elections are still being used, the number of candidates has also increased. A lot of rural areas in China have implemented transparent politics. Blackboards are erected in the villages to show all kinds of activities. People consequently feel more and more self-governed.

10. The Path to China's Future: Speech of Chinese Premier Wen Jiabao delivered at Britain's Royal Society, June 27 2011, London.

11. Report of the Work of Government: Delivered by Chinese Premier Wen Jiabao at the Fourth Session of the Eleventh National People's Congress on March 5, 2011, Beijing

*Accelerating reform in administration and management mechanisms.*¹²

Separate the government and the enterprise, government and public institutions. Streamline the organization. Transform government functions. Establish service-oriented government which is clean, responsible and efficient under the rule of law. Form administrative mechanisms in which decision-making power, executive power and monitoring power supervise each other and coordinate with each other. Cities like Chengdu and Handan have clearly identified the responsibility and authority of governments and functional departments at all levels. Government's "power list" has been prepared. "Transparent Administrative Office" has been implemented. The process of decision making, administration and supervision has been published. The procedure and standardization of administration has been enhanced. Chinese refer to it as "Sunshine Government Affairs Program". Another example: a lot of grass-root governments have successfully carried out the reform on administrative approval system. The reform measures are as following: Streamline the approval procedures; reduce charges; all applications for approval can now be done in public administration centers. These measures vastly advanced the efficiency of the governmental administrative approval.

*The Participating Parties.*¹³ There are 8 participating parties with over 600,000 members in China. Since 1978 of reform and opening up, 120,000 of them have been working in the People's Congress and CPPCC at all levels. Among many central government departments, all the 31 provinces and autonomous regions, 2/3 of the counties have members of participating parties holding official posts. Before any important decisions are made, comments and suggestions of the participating parties are consulted in order to bring into full play their role in political participation and democratic supervision. Meanwhile, the advantage of the political consultative system is further utilized so as to jointly promote the development of democratic politics. In recent years, the CPC central committee and the State Council held regular sessions of consultation, symposium and briefing with the participating parties and ask them to share their

12. Report of the Work of Government: Delivered by Chinese Premier Wen Jiabao at the Fourth Session of the Eleventh National People's Congress on March 5, 2011, Beijing

13. Report of Hu Jintao, Secretary General of the Communist Party of China, to the Seventeenth National Congress of the Communist Party of China on Oct. 15, 2007.

views and suggestions on issues that affect the people's livelihood such as constitution amendment, law drafts, the 11th and the 12th five year plan, national financial system reform, health care reform and education reform. A lot of their opinions have been adopted by relevant departments of the CPC central committee and the state council.

*Direct Public Supervision.*¹⁴ These measures include: establishing public opinion and media supervision system; improving petition system; establishing spokesperson system; holding public hearings before major policy implementation. For instance, in recent years, before Beijing municipal government's every adjustment on water and gas prices, people's hearings were held in advance. Even if the price is only up by several RMB cents, people's opinions must be taken into consideration before any plans could be decided on. Currently, many provincial and municipal leaders are utilizing internet blogs, video podcasts, mobile phone messages and micro blogs to communicate with the people. By these measures, the government administration is coming closer with the public, and better ready to accept public supervision.

*Improvements in the legal system to protect human rights.*¹⁵ The objective has been to build a socialist nation ruled by law and to establish and gradually improve a whole legal and judicial system with Chinese characteristics. People's status, their rights, the principles and procedures to use these rights, and punishment against acts of infringement of their democratic rights, are ensured and guaranteed by law. The country has basically advanced the rule of law and has established solid legal basis for further improvement of the political system. China's political reform is based on the protection of Chinese people's human rights, especially the right to survive and develop, so that the people can fully enjoy the economic and livelihood benefits brought by the reform so that their cultural and material needs can be satisfied. People's private properties are protected and their freedom of speech, of publication, of press is guaranteed by law. Thus, people's enthusiasm for national unity and

14. Report of the Work of Government: Delivered by Chinese Premier Wen Jiabao at the Fourth Session of the Eleventh National People's Congress on March 5, 2011, Beijing

15. China's Political Reform- Keynote Speech by Chinese Ambassador Wu Hongbo to the Germany delivered at "Ambassador Series" in Hertie School of Governance, March 8 2011, Berlin

development are greatly promoted, and conditions for further improvement of the political system are provided.

The Economic Impact of Political Reform

China could have not risen so rapidly and achieved such successes without implementing a massive amount of "lesser political reforms." Those reforms range from the political structure itself to the supplementary measures to facilitate the development of the economy.

First, the central government repudiated the mass ideological campaigns based on the Maoist doctrine of class struggle, which allow people to pursue their normal lives and material interests. In 1978 the leftist idea of "rather wanting the socialist grass than capitalist crops" were completely abolished, which was to play down ideology and take a down-to-earth attitude in making decisions according to the people's will. The first decision was to give farmers land so that they could choose their own crops. This policy aroused great enthusiasm from over 80 percent of the Chinese population of farmers and greatly improved their living standards.¹⁶

Second, an orderly shift in leadership had been realized. The Chinese system of being a cadre for life was abolished after 1990. Currently Chinese leaders can be in the position just for one five-year term or at most two terms. This system paved the way for capable young leaders to get into the right position to carry on the party and government policies so that the development becomes more efficient.¹⁷

Third, virtually all political victims under Mao rehabilitated so as to capitalize on their talents and overseas connections. The people's communes were abolished, marking the official end of this rigid political, economic and administrative system.

Fourth, rudimentary democracy was introduced by organizing village-level elections in the Chinese countryside as a massive political experiment. Other political reform experiments are being carried out, such as e-government and the practice of "small government and big society," which reduces bureaucracy and

16. Wei Wei Zhang: Political reform: Overlooked Ingredient of China's Economic Success. People's Daily Online, March 30, 2011

17. Chen Xuefei: Political Reform Paved Way for Economic Growth, China Daily Online, April 19, 2011

forsakes its many functions that can be better performed by society itself.¹⁸

Last but not least, starting from 1992, businessmen were allowed to be in the party and in government as well as in law-making through National People's Congress. In this way, the interests of this important economic sector of the population are duly represented in the Chinese parliament.

In light of the above, China has been reforming in many aspects in incremental steps to keep a nation with a 1.3 billion population politically stable and economically dynamic. Having set up its long-term, mid-term and annual goals focusing on how to improve the people's living standards, and more important and to strictly implement them, China now also rationally controlled its population to fit resources, environmental limitations and balancing the factors.¹⁹

The Incremental Approach

Chinese political reform is a kind of incremental reform. The mainstream view is that China has gone along the road of incremental reform, while Russia has chosen a way of radical reform named as shock treatment. Incremental reform is a process to advance reform through making experiments, to move forward step by step, implement the plan from some parts first then to the whole. A comparison of the reform performance between China and Russia shows that incremental reform is better than radical reform.²⁰

First, China is unique in being a developing country and most remarkable of all a super-society (not a super power) with a population of 1.3 billion, with many aspects of its economy, science, technology and education still far behind developed countries. Its development is therefore the most important issue to be addressed. China also has a history of more than 5,000 years. While it is proud of its unique civilization and culture, it suffers from many historical problems. It is a huge and heavily populated country with an area of about 9.6 million square kilometers, and this results in the unbalanced development of different regions and a disparity in social

18. Chen Xuefei: China's Political Reform is Done Gradually on Many Fronts, China Daily Online, June 16, 2011

19. Report of the Work of Government: Delivered by Chinese Premier Wen Jiabao at the Fourth Session of the Eleventh National People's Congress on March 5, 2011, Beijing.

20. He Zengke: Incremental Political Reform and Transition toward Democracy, China Center for Comparative Politics and Economics, October 2007.

needs. There will thus be quite a long time before its people reach full consensus on their ideology and the nature of reform.²¹

Second, only through an incremental approach can reformers keep leadership on the path of reform continually, and rationally choose between plans on the basis of measuring their respective costs and benefits.

Third, the incremental approach consciously chooses a reform path where resistance is very small, where one big shock is transformed into several small shocks, thus making it easier to remain within the equilibrium of political reform and political stability.

Fourth, incremental political reform stresses to make experiments in some regions first, to test by practice, and to make adjustments, and thus to avoid the situation of being locked into an unworkable reform traps.²²

Finally, the fruits of political transition of incremental political reform are more firmly consolidated. This is because that reform plan is based on the experiences of making experiments and thus have more opportunity to succeed, and because that the reform speed suits the speed of the evolution of social structure and political culture. Consequently the transition of political system is on the basis of the evolution of the social structure and the political culture.²³

Conclusion

China's political system reform will continuously stick to its own way as it has in the past. The Chinese people have suffered impoverishment and slavery in recent history. It was the leadership of the Communist Party of China that changed the situation and made the country an independent nation in which the people began to have their rights. Political reform, which the country has done on its own terms, has made it possible for China's economic development to maintain a fast pace since the reform and opening-up. China's political reform has never been steered off course in the past 30 years, even when the country was suffering from big natural disasters, economic crisis or political disturbance. Reform cannot be

21. Liu Ji: The Reform of Chinese Political System – Address to Europe-China Forum in Ireland on September 5, 2003.

22. Yu Keping: Reform Must Be Incremental, China Daily Online, June 11, 2011.

23. He Zengke: Incremental Political Reform and Transition toward Democracy, China Center for Comparative Politics and Economics, October 2007.

done in one go, and steering firmly in the right direction is China's only choice as people are enjoying the fruits brought by constant reforms.²⁴ China's political reform is thus of pure Chinese characteristics. It will be hard to measure or interpret it by western standards.

The Chances of a Repeat of the Middle East "Jasmine Revolution". This will not happen in China. China's sustained economic growth, greater political responsiveness, and considerable public satisfaction with the state's status quo jointly result in a relatively high degree of political stability. The additional factors are as follows:

First, China is not ruled by any unconstrained dictator, entrenched for decades. In contrast to all those authoritarian regimes in the world, the CPC has been institutionalizing its collective leadership with regular rotations at the top. The leadership has been continuously experimenting, innovating and adapting since 1978.

Second, although corruption, unfair income distribution and other ills that harm people's rights and interests still exist in China, the Chinese people also cognizant of the fact that China has already created many efficient and responsive public spaces for discourse about strengthening government accountability, deflecting criticism of corruption and mismanagement onto local cadres, and has demonstratively punished rather number of prominent officials for corruption.

Third, China has seen extraordinary economic growth and an uninterrupted acceleration of economic reform over the past three decades. With this economic growth will most likely continue its upward thrust in the foreseeable decades, the Chinese people have been deeply inspired to forge ahead for individual advancement in a stable and peaceful society and do not have such a bleak view of their life-chances as is typical for the majority of youth elsewhere.

Finally, having made mistakes and even suffered severe setbacks in some historical periods such as sobering lesson of Culture Revolution²⁵, both the CPC and all classes of current

24. Xinhua News Agency: China's Political Reform Should be Chinese, China Daily, November 6 2010.

25 Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China, endorsed by the Sixth Plenary Session of the Eleventh CPC Central Committee on June 27, 1981.

Chinese society have learned from experience, and will always follow the path of cautious pragmatism against any mass unrest.²⁶

The Long Term Mission: China is now the largest laboratory of economic, social and political change in human history. A new consensus seems to be emerging within the Chinese leadership, that there should be a more substantial political reform to limit the power of bureaucrats, promote the rule of law and make the state more transparent and accountable to the people, eventually with more intra-party democracy and an increased legal protection of individual rights vis-à-vis the state. A strong state is likely to be maintained, however, to ensure overall political and macroeconomic stability.

Developments that favor China's political reform include vastly improved living standards, an emerging civil society, the information and communication revolution, increased levels of education, an expanding middle class and non-state sector, extensive ties with the outside world, and recognition by the Party that it cannot and shall not micromanage Chinese society.

But a full-fledged political system may still be a long way off, for a number of reasons: the general perception of Deng Xiaoping's gradual reform as a success, and Mikhail Gorbachev's radical change as a failure; the inability of disaffected groups to organize themselves as a credible counter-force in China; the fear among the population that adversarial politics may cause an economic downturn and political chaos; and the absence of credible models for a large country like China to move out of authoritarianism.

The Future of Political Reforms:

Social stability is the prerequisite of political reform. Unlike developed countries, China is in the process of industrialization and urbanization. Over 10 million people flood into the cities every year. The number of people that are under the UN absolute poverty line is around 150 million. The gap between rich and poor, cities and rural areas as well as differences between regions made political reform very complicated. Both the disastrous "Cultural Revolution" and the successful experience of economic reform have taught us that if China were in chaos, not only no effective political reform could take place, but also would cause disaster to the world. As Deng Xiaoping

26. Resolution on Certain Questions in the History of Our Party, endorsed by the Seventh Plenary Session of the Sixth CPC Central Committee on April 20, 1945.

once said: "In China, the overwhelming issue is stability...without stability, nothing could be accomplished."²⁷

Peoples democracy has to be promoted by advancing inner-Party democracy. The CPC is the ruling party in China and an irreplaceable leader in China's political reform. To promote people democracy with inner-Party democracy is a gateway towards democracy with Chinese characteristics.

The orderly participation of citizens in politics has to be furthered. In developing countries, especially in those without mature civil societies, disorderly political movements and social chaos often occur easily. To encourage citizens to participate in politics in an orderly manner is one of the key issues in the success of the political reform. China will need to further guarantee and expand the citizens right to know, to participate, to express and supervise, and to enhance the role of political consultation in political life. Just as in economic reform, China's political reform should also be from the bottom up in a progressive manner. Experiments should be made in grassroots units and parts of the system. Only when enough successful experience has been accumulated should any further expansion take place.

It makes sense for China — a huge country with little tradition of democracy, and with a population larger than those of the United States, Europe, Russia and Japan put together, to act with both determination and discretion. The transformation of the Chinese state is inevitable, but it is likely to be gradual, pragmatic and accumulative, in much the same way as China's economic reforms unfolded.²⁸

27. Selected Works of Deng Xiaoping 1976-1982, People's Publishing House, Beijing.

28. Wei Wei Zhang: Political reform: China Will Change in Its Own Way. New York Times, May 21, 2004

ECONOMIC REFORMS

Editor's Note: This chapter builds on the results of the political reforms highlighted in the earlier chapter, and explains the impact that the political reforms have had on the economic success of the country, and on its social development.

Introduction

China's internal development from an autocratic socialist system to a market-oriented economy has led to major changes in China's administration, politics, and economy. There have been many oscillating economic reforms and tumultuous changes since the establishment of the People's Republic of China in 1949, and the change in the leadership of the country from Mao Zedong to Deng Xiaoping in 1978. Along with these monumental changes, there has been a transition from the government's strict control over everyday life to the expansion of personal choices for the people. Despite many of these economic and social changes, China's political control still remains tight and the economy faces many challenges that may have significant impact on the nation.

History

In the first few years after 1949, Mao Zedong and other leaders of the China's Communist Party (CCP) blamed much of China's pre-1949 economic development problem and failures to the political and economic burdens imposed on China by foreign powers.²⁹ In Mao Zedong's essay, "On the People's Democratic Dictatorship," he established his vision of socialism as the intellectual foundation of the left-wing of the CPC, in the sense that the changes he advocated required the destruction of pre-revolutionary institutions and their replacement by completely new revolutionary institutions.³⁰ Therefore, the CPC under Mao Zedong focused too much of its attention on the establishment of a new Chinese State

29 Thomas, Stephen C. "China's Economic Development from 1860 to the Present: The Roles of Sovereignty and the Global Economy". *Forum on Public Policy* (2006): 7.

30 Gabriel, Satya J. "The Structure of Post-Revolutionary Economic Transformation: The Chinese Economy from 1949 Revolution to the Great Leap Forward". *Satya Gabriel's Online Paper: China Essay Series*.

and on national re-construction, which led to a disastrous failure. Mao Zedong created a new state constitution based on the Soviet model of 1936, which implied complete control of the new state by making state administration the executive arm of the CCP. Implementation of the new constitution also meant that many important organizations of civil society, such as independent media and autonomous trade unions were also absent.³¹ Basically for most of the post-1949 China's national development, institutions in civil society had a weak influence, if any, on the State and on the CCP.

The intellectual institutions may not have had a strong influence on the State and the CCP but they definitely left a strong impact. In 1951- 52, Mao Zedong and other CCP leaders launched the Three-Anti's and Five-Anti's campaigns against corrupt officials and capitalists who were potential adversaries of communists. Mao Zedong also initiated the Hundred Flowers Campaign in 1957 because he thought he would get support from the intellectuals. However, instead of giving support, the intellectuals heavily criticized the CCP's policies³². This led Mao's view of intellectuals to become negative; he then labeled them as "rightists" (enemies of the people) and stopped the Hundred Flowers Campaign to launch the Anti-Rightists Campaign in which many intellectuals were persecuted. This bold attempt represented Mao Zedong's tight control of the State throughout much of the post-1949 period; however Mao Zedong's ideologies did not bring economic success to China.

China's Communist Party has been ruled by two main leaders, Mao Zedong and Liu Shaoqi, during the post 1949 period. These two groups, the radicals and the moderates, differed essentially in their goals and approach to national development of China. The radicals, obviously led by Mao Zedong and others, envisioned that the development of Chinese people could be achieved through ideological dedication to communism, political consciousness, and human liberation. Basically, his approach to national development was characterized by the revolution to transform the social relation of production and by having communist politics and ideology at the

31 Tsang, Mun C. "Education and National Development in China since 1949: Oscillating Policies and Enduring Dilemmas". *China Review* (2000): 3.

32 Gabriel, Satya J. "The Structure of Post-Revolutionary Economic Transformation: The Chinese Economy from 1949 Revolution to the Great Leap Forward". *Satya Gabriel's Online Paper: China Essay Series*

center of social life. On the other hand, the moderates, led by Liu Shaoqi, Deng Xiaoping, and others, focused on the material and moral improvement of people's life. According to them, the approach to national development was mainly economic and technical, and much less political and ideological.³³ This struggle between the radical and moderate factions of the CCP during much of the post-1949 period has led to wildly fluctuating policies for national development, mainly in terms of social and economic aspects.

The Great Leap Forward of Mao Zedong during 1958-1960 was one of the biggest national experiments in communist development in China. This was a new form of state-feudalism that was called "collectivization" or the creation of communes, which implied the creation of an institution within which the communist fundamental class process prevailed.³⁴ In other words, during this period, Mao Zedong established production teams, brigades, communes as units of production in rural areas, and set ambitious production targets for all sectors of the economy.³⁵ Although there was sharp economic decline for three years (known as the "Three Difficult Years"³⁶, and a policy-created famine that resulted in the tragic loss of 30 million Chinese lives³⁷, the political and ideological function of education began to gain dominance over acquisition of expertise for economic production. Mao's educational standpoint set into motion a rapid quantitative expansion of education at all levels, the increase of new schools for children from peasant households, and the amalgamation of political education and physical activities into the educational curriculum at all levels. However, because of the "Three Difficult Years", Mao Zedong relinquished control of national affairs to Liu Shaoqi and Deng Xiaoping in 1960.

33 Tsang, Mun C. "Education and National Development in China since 1949: Oscillating Policies and Enduring Dilemmas". *China Review* (2000): 4 - 8

34 Gabriel, Satya J. "The Structure of s Post-Revolutionary Economic Transformation: The Chinese Economy from 1949 Revolution to the Great Leap Forward". *Satya Gabriel's Online Paper: China Essay Series*

35 Tsang, Mun C. "Education and National Development in China since 1949: Oscillating Policies and Enduring Dilemmas". *China Review* (2000): 5.

36 Xu, Xueqiang, and Chan, Kam W. "Urban Population Growth and Urbanization in China since 1949: Reconstructing a Baseline". *The China Quarterly* 104 (1985): 611.

37 Thomas, Stephen C. "China's Economic Development from 1860 to the Present: The Roles of Sovereignty and the Global Economy". *Forum on Public Policy* (2006): 24.

Liu Shaqoi and Deng Xiaopong's policies, and Mao Zedong's policies of national development differed greatly. Liu and Deng's approach to national development was more economical and technical rather than political and ideological. Their first major step in socialist national development was the conversion of the forces of production. This step consisted of the development and application of science and technology, the modernization of key sectors, and the development of a skilled (qualitative rather than quantitative) labor force. Liu and Deng reset Mao Zedong's production targets to more realistic ones, introduced private incentives and individual responsibility in economic production, proposed two systems of labor with two systems of education, and reversed the expansionist policy in education.³⁸ By 1965, a dual system of education consisting of regular schools and work-study schools, aimed to produce trained elite and to educate the masses. Regular schools had much higher academic standards and could lead to university education while work-study schools were attended by children from peasant backgrounds with negligible probability of getting into the university.

Liu Shaoqi and Deng Xiaoping claimed great accomplishments for the state farms, reaffirmed their potential superiority as producers and blamed poor management for their failures over the Leap years, which Mao Zedong saw as a direct attack against himself.³⁹ He then launched the Great Proletarian Cultural Revolution (GPCR) in 1966, seized control of the party again, and stayed in power until his death in 1976.⁴⁰ This great fluctuation in the national development of China from the radical Mao Zedong to the moderate Liu and Deng and then back to Zedong, resulted in the loss of much development in China between 1966 and 1976.

With Mao Zedong's death in 1976, Deng Xiaoping gained the leadership in the CCP and carried out a major reversal of Mao's policy. In 1978, Deng and other pragmatic Chinese reform leaders began to gradually reform China's planned economy into a market economy. In the subsequent two decades, he led China through the

38 Tsang, Mun C. "Education and National Development in China since 1949: Oscillating Policies and Enduring Dilemmas". *China Review* (2000): 8.

39 Bernstein, Thomas P. and Li Hua-Yu. *China Learns from the Soviet Union- 1949 to Present*. The Harvard Cold Studies Book Series. 2010: 203.

40 Tsang, Mun C. "Education and National Development in China since 1949: Oscillating Policies and Enduring Dilemmas". *China Review* (2000): 8

largest economic transition to a “market-oriented socialist economy”.⁴¹ He opened China to foreign trade, foreign investment, foreign technology, and export-led development, all under tight Chinese government regulation and oversight. At the same time, the tight control of the people by the Party began to loosen somewhat and the overall environment became less oppressive.⁴² For much of the population, living standards improved dramatically and the room for personal choice expanded noticeably.

China's post-1978 goal was rapid economic development focused on domestic rather than foreign benefit. Gradual reforms began with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of the private sector, and opening to foreign trade and investment. The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2010 stood as the second-largest economy in the world after the US, having surpassed Japan in 2001.⁴³ In almost all years since 1978, the Chinese domestic economy has grown dramatically, with an average annual growth rate of 8-10 percent, while a progressively higher percentage of the economy has moved to the ownership of Chinese and foreign joint venture investors, and to individual Chinese owners, and even foreign private enterprises. But control over most of the largest Chinese economic sectors, such as communications, transportation, energy, manufacturing, and financial services, has still remained mostly in the hands of the Chinese government, reinforcing China's political control over the people.

Despite the economic success, there are many problems associated with China's current economic development policies, including heavy-handed government controls, abuse of the environment, and a growing competition with the global economy

41 The World Factbook-China.” Central Intelligence Agency. 4 May 2011.
<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

42 Thomas, Stephen C. “China's Economic Development from 1860 to the Present: The Roles of Sovereignty and the Global Economy”. *Forum on Public Policy* (2006): 25.

43 The World Fact book-China.” Central Intelligence Agency. 4 May 2011.
<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

for scarce energy and other resources.⁴⁴ According to the Central Intelligence Agency Fact book, other challenges include reducing its high domestic savings rate and correspondingly low domestic demand, sustaining adequate job growth for tens of millions of migrants and new entrants to the work force, and reducing corruption and other economic crimes. Deterioration in the environment - notably air pollution, soil erosion, and the steady fall of the water table, especially in the north - is another long-term problem. China continues to lose arable land because of erosion and economic development. The government vowed, in the 12th Five-Year Plan adopted in March 2011, to continue reforming the economy and emphasized the need to increase domestic consumption in order to make the economy less dependent on exports for GDP growth in the future.⁴⁵

China's internal development from the post 1949 era to the present stemmed from China's move from the earlier emulation of the Soviet Union policies to the post-1978 market-orientated policies. In addition, the change into the market-oriented ideologies bought a certain amount of political relaxation on the lives of people. Nonetheless, the Chinese government still practices its right over the fight against terrorism, jailing of political opponents/journalists, one child policy to limit population growth, regulation of press, religion, and suppression of independence/secessionist movements. Despite its economic development, China still faces many challenges that it vows to reform.

Conclusion

The economic and political reforms instituted in China since 1978 resulted in a number of important developments in the country, the effects of which are visible today. 1978 marks the beginning of China's transition towards internal development, modernization and international revival. This era has seen the implementation of a comprehensive economic reform agenda which has enabled China to register progress towards key areas, including economic growth.

In the period leading up to 1978, the situation in China was much different than present-day conditions. The catastrophic effects

44 Thomas, Stephen C. "China's Economic Development from 1860 to the Present: The Roles of Sovereignty and the Global Economy". *Forum on Public Policy* (2006): 26 - 27.

45 The World Fact book-China." Central Intelligence Agency. 4 May 2011.
<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

of Mao's ineffective policies were visible in all spheres of society, including social, economic and political. The vast majority of the Chinese population lived below the poverty line, and was neglected from many basic services, such as quality education, food-security, and even employment opportunities. Limited progress was made in the area of infrastructure development. Many of roads and key highways were left unpaved, complicating travel for millions of people. Politically, China's government organizations were seen as ineffective and unable to implement important decisions for the well-being and prosperity of the country.

The reform agenda which began during the late 1970s has brought about enormous changes in China. Today, China is seen as a major political, economic and military power not only in the region, but in the entire world. Economically, China is among the largest exporters of goods in the world, and the dominant economic power in the region. China's GDP has grown more than ten-fold since 1978, a clear illustration of the ongoing progress in the realm of economy. Militarily, China remains a important military power in the world, with a strength in air, ground and naval sectors that is unprecedented in the country's history.

Most experts believe that the China of today would not be possible without the strong, efficient and effective leadership of the Chinese Communist Party (CCP) over the past-four decades. The CCP therefore enjoys the support of the great majority of the Chinese people, enabling it to remain the dominant political party in the country.

China's reform agenda was implemented in a gradual and sustainable manner. It consisted of various initiatives, which included doing away with collectivized agriculture, lowering of prices, granting of economic opportunities for major businesses and corporations, encouraging private sector investment, as well as developing a stock market.

One can conclude that China's comprehensive reform agenda was the architect behind the major progress achieved towards modernity, and social and economic development. These reforms have helped establish a solid foundation from which the China will continue to prosper in all areas, including socially, economically, politically, technologically and militarily.

TERRITORIAL COHESION

Editor's Note: Much attention has been devoted to the question of the status of Tibet, Hong Kong, Taiwan and Xinjiang as integral parts of China. It remains to be judged whether this attention is rooted in reality, or is no more than a series of convenient pressure points against an emerging giant.

Introduction

This paper will look into China's efforts for achieving the full integration of Tibet, Hong Kong, Taiwan and Xinjiang into the mainland. Each of these territories presents its own unique dynamics and has been ruled by Great Powers during history. China has initiated a comprehensive set of measures, including social, economic and political, for integrating these regions as part of the mainland. Tibet is a vast territory in China with a large percentage of the population living in poverty. Such conditions have led to local frustrations among the local populace, contributing to a hostile stance towards the government of China. Tibet's government in exile remains an active opposition voice against the mainland. For its part, Xinjiang is a large area with vast natural resources, and comprised of various ethnic groups. A large portion of its population is Muslims. Xinjiang shares borders with Afghanistan and Pakistan, two countries in which terrorist and extremists are active. This has spurred concern among Chinese authorities about the prospect of the rise of extremism in China. On the other hand, Hong Kong and Taiwan are seen as factors of stability and prosperity in the mainland. They are recognized as the hubs for trade and investment in the region. Based on the reasons identified above, full integration and the concept of "One-China Policy" are among the top priorities of China's domestic and foreign policy. In that regard, China continues its policy of special rights and privileges, including a wide range of social and economic programs, to Tibet, Hong Kong, Xinjiang and Taiwan. China is making steady progress in its effort to achieve full integration and the goal of "One-China."

The People's Republic of China, as the new great power of the 21st Century, is the most populated country in the world with

over 1.3 billion inhabitants. China is the one country which is surrounded by most neighboring States in the world.⁴⁶ At present, China is divided into twenty three provinces, five autonomous region (Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang), four municipalities (Beijing, Chongqing, Shanghai and Tianjin) directly under the Central Government, and two special administrative regions (Hong Kong and Macao). The Constitution specifically empowers the state to establish special administrative regions when necessary. A special administrative region is a local administrative area directly under the Central Government.⁴⁷

The Tibet Autonomous Region is a province-level autonomous region of the People's Republic of China (PRC), created in 1965. In 1950, the People's Liberation Army of the newly established Communist China led by Mao Zedong entered Tibet claiming it to be a part of China.⁴⁸

Hong Kong is one of two special administrative regions of the People's Republic of China (PRC), the other being Macau. Hong Kong became a colony of the British Empire after the First Opium War (1839–42). It was occupied by Japan during the Pacific War, after which the British resumed control until 1997, when China regained sovereignty.⁴⁹

Taiwan was ceded to the Empire of Japan by the Qing Empire in the Treaty of Shimonoseki after the First Sino-Japanese War in 1895. In 1945 Taiwan was liberated from Japan as a result of World War II. Four years later, during the Civil War, the Republic of China lost mainland China to the Communist Party of China and resettled its government to Taiwan.⁵⁰

Xinjiang is located in the northwestern border of China, Xinjiang or Xinjiang Uygur Autonomous Region is the largest province in China. Xinjiang, as a province of China, was set up by the Qing Imperial Government in 1884. After Chinese Communist Party took over China (1949), Xinjiang Uygur Autonomous Region was proclaimed in 1955.⁵¹

46 Understanding China/ Seddiq Rasuli/Fairleigh Dickinson University/page 87

47 <http://www.fmprc.gov.cn/eng/premade/9054/division.htm>

<http://www.chinatoday.com/city/a.htm>

48 http://en.wikipedia.org/wiki/Tibetan_Autonomous_Region

49 http://en.wikipedia.org/wiki/Hong_Kong

50 <http://en.wikipedia.org/wiki/Taiwan>

51 <http://www.chinatoday.com/city/xinjiang.htm>

China's history illustrates clearly that these four areas have been an integral part of China. Nevertheless, Tibet, Hong Kong, Taiwan and Xinjiang were subject to the de-facto rule and control of great powers. With the exception of Hong-Kong, 1949 marked the turning point in the re-integration of these territories in mainland China. This was made possible by a series of incentives which guaranteed them special rights. To date, commonalities in religion and culture, coupled with a sense of dependency on Chinese aid, are pertinent reasons why these regions remain on the path of unification.

Tibet

The Autonomous Region of Tibet is the second largest province division of China,⁵² which lies in southwest of China, surrounded to the north by Xinjiang and Qinghai, to the east by Sichuan, to the southeast by Yunnan and to south by India, Nepal, Myanmar and Bhutan. With an area of 1.22 million square kilometers, the region is 12.8 percent of the total area of China.⁵³

The first-ever interaction between Tibet and China occurred in the 7th Century. Two events in history are attributed to this first interaction. Firstly, the marriage of a Chinese princess to Songtsen Gampo in 641 AD, which was viewed as strategic move to achieve cooperation and peace between Tibet and China; Secondly, the peace pledge signed between the two countries in 821 AD, which confirmed the two countries' boundaries, and on the basis of which each assured the other of respect for their territorial sovereignty. In addition to China, Tibet was also part of the vast land-based empires run by the Mongol Yuan dynasty (1271-1368 AD) or the Manchu Qing dynasty (1644-1912 AD), albeit as a relatively autonomous political entity. In 1906 and 1907, Britain recognized China's suzerainty over Tibet.

The 14th Dalai Lama, who was born in China, was installed in 1939-1940. He assumed full authority in (1950), following a ten-year regency. The succession of the 10th Panchen Lama, with rival candidates, was one of the excuses for the Chinese invasion of Tibet in October 1950. Under the Seventeen Point Tibetan-Chinese agreement of May 1951, Tibet became a "national autonomous

52 <http://www.asinah.net/china/tibet.html>

53 <http://library.thinkquest.org/20443/tibet.html>

region" of China, under the traditional rule of the Dalai Lama, but under the actual control of a Chinese Communist commission.⁵⁴

China's Policies for Cohesion: Throughout their history, Tibetans have had their own culture, religion, and way of life, characterized as a Buddhist way of life, much of which is very similar to that of China.⁵⁵ China initiated a number of measures with a view to achieving national unity and social cohesion. One such example is the launch of the "Patriotic Education Campaign," in 1996. This part of a comprehensive strategy whose goal is to transform Tibet's national identity into Chinese identity.⁵⁶

In addition, and from a development perspective, China accorded special focus on Tibet's modernization and development, which has attracted world-wide attention. This assistance has led to important progress. Tibet's economy has progressed significantly during the past 50 years. In this regard, Tibet has witnessed tremendous changes in its economic system and economic structure. It replaced its former closed manorial economic system, with a modern market economy. In 2000, the region's GDP reached 11.746 billion yuan, twice as much as in 1995, four times as much as in 1990, and over 30 times as much as in the pre-peaceful liberation period. The economic structure is becoming more and more rational.

Another factor for Tibet's economic growth has been the boom in modern industry. So far, over 20 branches of industry have been set up. By 2000, Tibet had 482 enterprises at and above the township level and the added value of its secondary industry reached 2.721 billion yuan. Tibet also endeavored to establish a three-dimensional transportation system. In addition to expanding its national highway system, Tibet is now in the process of constructing its air and pipeline transportation. Tibet's national highway system is comprised of 15 main highways and 375 branch highways. These roads total 22,500 km, and reach every county and over 80 percent of the townships in the region. Meanwhile, a 1,080-km petroleum pipeline has been built from Golmud in Qinghai Province to Lhasa, the highest-altitude pipeline in the world. It carries over 80 percent of petroleum transported in the region. In June 2001, work started

54 Understanding China/Seddiq Rasuli/Fairleigh Dickinson University/page 92 and 93

55 John Health/Tibet and China in the Twenty-First Century/British Library cataloguing

56 Warren W.Smith JR/China's Tibet?/Rowman& Littlefield Publishers, Inc/ Page 170 and 171

on the Qinghai-Tibet Railway, and the days when the region was inaccessible by rail will be gone for good in the foreseeable future.⁵⁷

Religion is yet another important factor which has facilitated Tibet's integration to the mainland. In addition to sharing a common religion, the people of China and Tibetans are also bound by a set of moral, social and ethical values rooted in Confucian philosophy.⁵⁸

The United States and Tibet: The United States has for long recognized Tibet as part of China. As part of its overall attempt to strengthen relations with China, the US has sought to minimize areas of potential tension with Beijing on sensitive topics, one of which is the question of Tibet's political status.⁵⁹

However, the US Congress has on many occasions expressed its concern over Tibet's current political status as part of China, the role of the Dalai Lama in Tibet's political future, as well as Chinese control on Tibetan culture and religious traditions. The Dalai Lama, Tibet's exiled spiritual leader, continues to enjoy strong bi-partisan support from the US Congress. Over the past years, the Congress has increased its efforts to convince the US Administration in strengthening its support for the protection of Tibetan culture. These efforts facilitated the creation of Special Coordinator for Tibetan issues at the US Department of State in 1997. Paula Dobriansky, Under Secretary of State for Global Affairs, served as the Special Coordinator in the Bush Administration. She was the highest-ranking U.S. official to date to have held this position.⁶⁰

Since 1990, Tibet has enjoyed US support of financial and legislative assistance in the follow areas: Inclusion of Tibetan language as part of the Voice of America (VOA) broadcasts; periodic provision of 30 scholarships for Tibetans living outside Tibet; establishment of an educational and cultural exchange program with Tibet; as well as the formation of an Economic Support Fund (ESF), which provides financial assistance to non-governmental organizations which advocate supporting and protecting Tibetans.⁶¹

Many analysts of the question of Tibet are of the view that the US Administration has effectively used the Tibetan government

57 <http://www.china-un.org/eng/gyzg/xizang/t418908.htm>

58 http://en.wikipedia.org/wiki/Religion_in_China

59 <http://fpc.state.gov/documents/organization/10892.pdf>

60 <http://fpc.state.gov/documents/organization/128379.pdf>

61 <http://www.fas.org/sgp/crs/row/R40453.pdf>

in exile, and the role of the Dalai Lama in that regard, as a pressure tool when it comes to US-Chinese relations. Yet, Tibet's continued dependency on Chinese social and economic assistance has prevented the Dalai Lama and his government in exile to enjoy any broad support of the majority of Tibetans.

Prospects for Tibet-China Integration: The status of Tibet is at the core of the dispute between China and the people of Tibet. China maintains that Tibet is an inalienable part of its territory, while Tibetans contend that they have historically been an independent country. One can state that any chance of Tibet becoming an autonomous region will occur through negotiations. In this regard, China has made public two preconditions for such talks: a public declaration by the Dalai Lama asserting that Tibet is an intrinsic part of China, and Tibet's recognition of Taiwan as part of China.

Despite their differences, many are hopeful of the prospect of constructive cooperation and improvement of ties between Tibet and China. This hope is founded on the common religion, culture and religion shared between the peoples of China and Tibet, and Chinese successful endeavor in addressing the grievances of Tibetan's through social and economic assistance programs.

Hong Kong

Hong Kong is a special administrative region of China covering 1,104 square kilometers. It has a population of seven million people. Hong Kong is one of the most densely populated areas in the world,⁶² and it located on the southeast tip of China, some 1200 kms from Shanghai.⁶³ The territory shares a vital land border with mainland China to the north and is made up of four main areas: Hong Kong Island, Kowloon Peninsula, the New Territories, and 234 Outlying Islands.⁶⁴

According to archaeological studies, human activity on Hong Kong dates back over five millennia. The territory was settled by Han Chinese during the 7th Century. The first major migration from northern China to Hong Kong occurred during the Sung Dynasty (960-1279 AD). After the Chinese defeat in the First Opium War (1839 AD), Hong Kong was ceded to Britain in 1842 under the Treaty of Nanking. After the end of World War II and the

62 http://en.wikipedia.org/wiki/Hong_Kong

63 http://www.chinatoday.com/city/hong_kong.htm

64 <http://www.nationsencyclopedia.com/economic/Asia-and-the-Pacific/Hong-Kong.html>

communist takeover of Mainland China in 1949, Hong Kong became an economic success and a manufacturing, commercial, finance, and tourism center. On July 1, 1997, China resumed the exercise of sovereignty over Hong Kong, ending more than 150 years of British colonial rule. Hong Kong became China's first Special Administrative Part with a high degree of autonomy in all matters except foreign and defense affairs.⁶⁵

"One Country; Two Systems": One country, two systems, is an idea originally proposed by Deng Xiaoping for the reunification of China during the early 1980s. He suggested that there would be only one China, but independent Chinese regions such as Hong Kong, Macau and Taiwan, could have their own capitalist economic and political systems, while the rest of China uses the socialist system. Under the suggestion, each of the three regions could continue to have their own political system, and legal, economic and financial affairs. In 1984, Deng Xiaoping proposed to apply the principle to Hong Kong in the negotiation with the British Prime Minister, Margaret Thatcher over the future of Hong Kong when the lease of the New Territories (including New Kowloon) of Hong Kong to the United Kingdom was to expire in 1997.⁶⁶

The "one country, two systems" policy in Hong Kong has enabled Hong Kong to serve as a hub for regional and international trade. This is one among a number of factors which has enabled Hong Kong's full integration without any serious challenges. As in the case of Tibetans, the people of Hong Kong too share a common culture and religion with the Chinese. One can predict that the trend of economic prosperity in Hong Kong will continue in the future. Hong Kong possesses enormous human capital that ranks among the most effective in terms of managerial skill worldwide. In addition, Hong Kong is recognized by investors as one of the most feasible venues for private sector investment. As Hong Kong will continue its role as an international financial centre, it will become the most important funding center not only for China, but also for the entire Asian continent.

Within the region, mainland China stands among the leading investors in Hong Kong. Meanwhile, the reciprocal nature of

65 <http://www.state.gov/r/pa/ci/bgn/2747.htm>

66 http://en.wikipedia.org/wiki/One_country,_two_systems

economic relation between them sees Hong Kong as the largest investor in China. Further, as China continues its economic reform process, it is giving special focus to maintaining Hong Kong's role in strengthening its economy. These are few among several reasons why China will continue its policy of cooperation and collaboration with Hong Kong. As a result, one can predict Hong Kong's full and gradual integration into mainland China.

Taiwan

Taiwan is a volcanic island of 23 million people. It lies in East Asia in the Western Pacific Ocean, and is located off the southeastern coast of mainland China. In the middle of the 16th Century, Western European power arrived in East Asia, which was transformed into a region of traders and pirates. In 1590, the Portuguese explored the area, and named it "the Beautiful" Formosa. Taiwan subsequently served as a point of contention between Europeans, the Chinese and the Japanese. In 1624, the Dutch set up forts in the south while the Spanish concentrated on the north. The Dutch forced out the Spanish in 1641 and controlled the island until 1661 when the Chinese general Koxinga conquered it, and declared it as an independent Chinese regime. The Manchus seized the island in 1683, thereby transforming Taiwan into a territorial part of the Chinese Empire.

In 1905, following the First Sino-Japanese war, a weakened Imperial China ceded Taiwan to Japan in the Treaty of Shimonoseki. During its 50 years of colonial rule, Japan offered enormous technical and financial assistance to help build Taiwan's economy. At the end of World War II in 1945, Japan surrendered, and Taiwan was ceded back to China.⁶⁷

"One China". Taiwan has been part of China since ancient times. China's early development of Taiwan dates back to the early 17th Century. Ever-since the Yuan Dynasty (1206-1368 AD) various Chinese governments of different periods set up administrative bodies to exercise effective jurisdiction over Taiwan. Since 1949, Taiwan and the mainland of China have been in a state of temporary division, but this has not changed the fact the Taiwan is an inalienable part of China. There is only one China in the world, and Taiwan is an inalienable part of China. This assessment is

67 Understanding China/ Seddiq Rasuli/Fairleigh Dickinson University/page 96

recognized among ordinary Chinese people, the vast majority of UN member-states, and the UN organization itself.⁶⁸

Since the Standing Committee of the National People's Congress issued its "Message to the Taiwan Compatriots" in January 1979, the Chinese Government initiated a policy of peaceful unification and a "one country, two systems policy" towards Taiwan. These efforts have come only through negotiations and without any indication or threat of the use of force as a means for achieving full integration.

China's strategy for the ultimate integration of Taiwan consists of the following: encouraging Taiwanese businesses to invest and trade on a large scale, undermining Taiwan's residual international position by exerting increased pressure to isolate Taiwan further, and using the threat of military forces to intimidate the pro-independence faction.⁶⁹ In addition, a similar religion and culture of China and Taiwan has played a crucial role in coherent of China.

Meanwhile, economic relations between China and Taiwan have been expanded significantly. Bilateral trade between China and Taiwan in 2007 reached \$102 billion, up from \$8 billion in 1991. China is Taiwan's largest trading partner; in 2007, 30 percent of Taiwan's exports were sold to China. Likewise, Taiwan ranks in the top ten of China's trading partners. Taiwanese businesses have invested an estimated \$150 billion in the mainland since 1988. In 2009, Taiwan opened up one hundred of its industries to mainland investments. China and Taiwan have also agreed to allow banks, insurers, and other financial service providers to invest and work in both markets. Negotiations for the signing of an Economic Cooperation Framework Agreement aimed at easing trade restrictions further have begun. Further, China has attempted to achieve political cohesion with Taiwan. One such example is China's decision to not oppose Taiwan's participation as an observer at the World Health Assembly, the governing body of the World Health Organization. This marked the first time Taiwan was granted observer status at a United Nations body since it lost its seat to China in 1971.⁷⁰

68 <http://www.mfa.gov.cn/eng/ljzg/3568/t17798.htm>

69 china, Hong Kong, Taiwan, Inc/ willem van kemenade/page 112

70 <http://www.cfr.org/china/china-taiwan-relations/p9223>

Prospects for China-Taiwan Integration. Many believe the economic developments between China and Taiwan have had a positive effect on their relations. Significant economic exchanges between China and Taiwan have been a key factor towards peaceful relations. In addition, the growing economic ties between China and Taiwan will politically benefit the pro-Chinese coalition in Taiwan. There are only two ways to settle the Taiwan question: One is by peaceful means and the other is by non-peaceful means. China, most likely, will continue its efforts towards unification through peaceful means. China and Taiwan have expanded cooperation in a number of areas, including social, political and economic. There is legitimate reason to believe that relations between the two will only be strengthened. After Taiwan's reunification with the mainland, China will pursue a policy of "one country, two systems".

The United States Role. As regards the role of the United States of America, many expect that, despite its official recognition of Taiwan as part of China, it will continue to appease Taiwan as an instrument of political pressure against the mainland. Among these efforts include, the sale of military hardware and provision of military assistance by the US government to the authorities in Taiwan. Such measures by the US will, however, remain a point of contention between US-China relations.

Xinjiang

The Autonomous Region of Xingjian Uyghur comprises the largest Chinese administrative division, situated in the hinterland of the Eurasian in northwestern China.⁷¹ Xinjiang also features the longest border line among China's provinces and autonomous regions, and shares 5,600 kilometers of frontier with Russia, Kazakhstan, Kyrgyzstan, and Tajikistan in the west, Mongolia in the northeast, and Afghanistan, Pakistan and India in the southeast.⁷²

Ever since ancient times, Xinjiang has been known to be a rather multi-ethnic region, and home to various ethnic groups believing in various religions. Nowadays, there are 47 different ethnic groups in Xingjian, in particular the Uyghur, Han, Kazak, Hui, Mongolian, Kirgiz, Xibe, Ozbek, Tajik, Daur, Tatar and Russian. Xinjiang came to be known in the ancient times, has been a part of

71 <http://www.chinatoday.com/city/xinjiang.htm>

72 <http://www.hceis.com/ChinaBasic/ProvinceCity/xinjiang.htm>

China's territory since the founding of the Protectorate of the Western Regions in 60 BC by the western Han dynasty. Following the collapse of the Tang dynasty, Tibet quickly took control of southern Xinjiang while the Uyghur seized control over northern Xinjiang, and additional territories in Central Asia, including Mongolia. However, the Mongols eventually re-conquered the region in the early 13th Century. After the disintegration of the Mongol empire, the region was divided into warring kingdoms led by various persianized Mongol Khans simultaneously, and Xinjiang for the most part remained independent of China.

The Qing dynasty Emperor Qianlong commenced a long and bloody campaign in anticipation of conquering Xinjiang in 1759 AD. However, the Chinese were unable to exert much control over Xinjiang until the 19th Century and their hold on the region was rather fragile. Consecutive rebellions hindered the ability of the Chinese to solidify authority in the region until the mid-20th Century when it was fully incorporated into China. Xinjiang was first established as a province by the Qing government in 1884. The Xinjiang Uyghur Autonomous Region was established in 1955, replacing the Xinjiang Province.⁷³

The Chinese policy towards the people of Xinjiang can best be characterized as a policy of integration and assimilation. Since 1949, the central government's integration policies toward Xinjiang have followed a path running parallel to concerns, for territorial integrity and stimulation of greater Chinese nationalism. The overall policy objective of China remains quelling unrest, wherever they occur, and assimilating the Uyghurs.⁷⁴

From establishing control over the region in the 1950s to the present day, the Chinese Communist Party (CCP) has made large investments in Xinjiang's economic development. The first priority of development has been the exploitation of raw materials. Xinjiang is believed to contain one third of China's oil reserves as well as most of China's uranium, significant coal deposits, and many other minerals. Chinese development of Xinjiang has included significant transportation and administrative infrastructure building. The rapid construction of roads, railroads, and cities facilitated the flow of

73 Understanding China/Seddiq Rasuli/Fairleigh Dickinson University/page 89,90 and 91

74 http://www.hawaii.edu/aplpj/articles/APLPJ_03.1_moneyhon.pdf

goods and services from Inner China, the Central Asian republics, and Pakistan beginning in the 1980s.⁷⁵

In the way forward, China is expected to grant Xinjiang with greater cultural autonomy, public services, and genuine economic opportunity, including the provision of job opportunities.

In this regard, the Chinese state has shown an appreciation for the value of co-opting local Uyghur elites into the government ranks, demonstrated by its well-established efforts to recruit and train Uyghur cadres and assign them to posts in the Xinjiang regional government.

Prospects for the Future. Xinjiang, like Taiwan and neighboring Tibet, is an important issue for China. Achieving internal stability in Xinjiang is among the priorities of the Chinese government. The people of Xinjiang are predominantly Muslim in religion, while much of the territory is filled with rich resources, making it a strategically important region.

Beijing's strategic and energy objectives are based on stability in Xinjiang. As in Tibet, the Chinese government has sought to create disincentives for separatism in Xinjiang by boosting the local economy and harshly repressing activities thought to promote Uighur self-determination in any way.

Many perceive Islamic radicalism as the perhaps the dominant threat to peace and security in China. As part of its overall efforts of containing the activities and influence of the Uyghurs, the Chinese government engaged numerous Central Asia States, and urged enactment of domestic legislation to limit and control Uighur activity in Xinjiang.

China has initiated a massive economic development agenda in the Xinjiang region. This effort is aimed at enabling the people of the region to benefit from basic services through social and economic development.

The goal is to prevent unrest and violent activity by addressing grievances and frustrations through development, and economic opportunities. Among specific initiatives undertaken include energy and transportation infrastructure projects, which are aimed at integrating Xinjiang to China's economy, as well as those of regional countries.

⁷⁵ <http://www.eastwestcenter.org/fileadmin/stored/pdfs/PS015.pdf>

Factors Constraining Cohesion:

Despite China's progress towards cohesion, it continues to face the following serious challenges in achieving full integration:

- The large socio-economic gap between Eastern and Western China has complicated Beijing's effort towards cohesion and integration. Poverty and under-development in Tibet and Xinjiang has discouraged large segments of populations. Overcoming these grievances has been a challenging task for Beijing, despite its continued effort in promoting development in the region. Beijing's program of developing western China is aimed at exploiting local resources in Xinjiang on behalf of China's overall economic development, and thus will not really reduce economic gaps between China's prosperous eastern coastal area and its poor western hinterlands. Economic development without concrete benefits for the Muslim population is likely to increase ethnic conflict and separatist activities in Xinjiang.
- Beijing's selection of Xinjiang as its main nuclear weapons testing site, the implementation of the one-child-per-family policy in this region, and discrimination against Uighurs by Han Chinese have resulted in frequent disturbances and sporadic separatist activities. However most of these protests and separatist activities have been on a minor scale and have lacked organization and arms. Therefore, they have not threatened Beijing's hold on Xinjiang.
- Tibet and Xinjiang will maintain their cultural identities despite increased Han immigration. The Chinese government has utilized the Han Chinese as tool for fracturing the common culture and identity shared by the people of Tibet and Xinjiang. Immigration of Han Chinese has had a negative effect on social cohesion, and led to sporadic clashes and conflicts among ethnic groups.
- Hong Kong and Taiwan are territories which pose the lesser of threats to peace and stability to the mainland. Both are on the path of peaceful unification. Nevertheless, the same can't be said for Tibet and Xinjiang whose ethnic differences and socio-economic challenges have complicated the task of integration and assimilation.

MACRO-ECONOMIC GROWTH

Editor's Note: This chapter analyses the specifics of the Chinese economy, in an effort to identify the magnitude of its global impact and challenges.

Background

Decades ago, no one believed that China could become a remarkable economic and financial power in the world. It seems that the economic rise in China is unstoppable. If we want to examine the real Chinese modern economic revolution, we need to go back to the day where the communist party decided to adopt major steps in its economic policy. Since 1978, many elements contributed to the success of the Chinese economy. However, before we go into the details on how that has happened over three decades, we must take into account some key elements of the Chinese macroeconomic statistics, such as direct investments, imports, industrial output and foreign trade, through which we will have a clearer view of what led to these major changes.

The Role of Foreign Direct Investment (FDI)

At the end of 1978, China started to change its economic policy and opened its markets to foreign investors. In the early 1980s, Deng Xiaoping, the leader of the communist party who led China towards a modern market economy, opened the doors widely to foreign investors to participate in the first special economic zones which were introduced in the country.

Those zones were set up to attract foreign investments, mainly from Hong Kong and some other countries. There were three main types of foreign direct investment (FDI) which can be identified as: equity joint venture, contractual joint venture and wholly foreign-owned enterprise. The regulations were initially restricted in order to seek joint ventures with Chinese state-owned companies as a first priority. Later, the government liberalized the trade more efficiently by reducing administrative obstacles and increasing its attractiveness to foreign investors. After the massacre in Tiananmen Square in Beijing in 1989, Japanese and western companies suspended their investment due to the troubled situation at that time. Nonetheless, after the reassurance of the Chinese

Government that it was a safe haven for their investment, the influx of massive investment restarted and increased from \$ 2.7 billion in 1984, to \$ 6.6 billion in 1990.

The highest record of FDI into China, however, was recorded in 1993, with \$111.4 billion after the direct stimulus to the economy caused by the tour of Deng Xiaoping in Guangdong and Shanghai. Seeing the need to create more jobs, he realized China needed further Foreign Investment. So the wholly-owned subsidiaries of foreign companies were encouraged to enter China from that time.

Technology Transfer and services

Most technologies were introduced to China through foreign private companies. These companies identified fast profits in a promising market, but their share of this market was limited. China, however, realizing they needed the most advanced technologies, offered the incentive of greater market in exchange of share to firms and companies seeking a joint venture with China's state-owned institutions or by wholly-owned companies of foreign investors.

Unemployment

Despite the latest index that estimated the unemployment rate in China to be 4.3%, which includes the concerns raised about whether the migrants from rural areas into the major cities are included into this ratio, the figure for urban unemployment stayed about 8%, in the seven years from 1996 to 2003.

As such, the urban unemployment rate represents 1.3 times that of the global average, according to the (ILO) report in 2004. The total labor force in China in 2009 was estimated by World Bank to be 783,157,007, in a country which graduates 6 million students every year. China's growth target is to create 24 million jobs a year in order to tackle this problem.

The government provided tax breaks, financial rewards and loans to new labor-intensive private business that would lead to the hiring of more labor than any state sectors. Early retirement at 50 has been introduced to reduce the unemployment rate, especially to urban areas, which is seen as the most important government priority. The Chinese prime minister described it unemployment openly as a potential threat to social stability.⁷⁶

⁷⁶ BBC News

Consumption

When the global economy crisis emerged, the government felt that its economic vulnerability to the impact of the world recession may cause a severe inflation in the country, and assumed that the only way out, was to emphasize and increase domestic consumption in order to control the economic crisis and to make the country less dependent on exports for its GDP growth. Chinese household consumption as a ratio of GDP is about half of that of USA, and is much below the spending levels of Europe. China's GDP per capita was about \$ 3744.00, in 2009 and the government debt rose to \$ 406.6 billion in an attempt to stimulate domestic consumption.

Inflation

The inflation rate as per consumer prices in 2010 indicates that China's inflation rose to 5%, despite the efforts of the government to bring it down to its target of 3%. The rise in the price of food, fuel, and the housing sectors played a greater role in this inflation rate than the other commodities.

Since 2003, extra money has been pumped into the economy to subsidize only the market value of land and property in Beijing and its surrounding areas, a step which has unbalanced the economy and, as a result, worsened inflation even more.⁷⁷

China has various methods and tools to control inflation in the country, such as slowing down the rate of expansion by decreasing new loans, the money supply, by close monitoring of interest rates and also by controlling the cost of living and commodities.⁷⁸

Savings

Savings are the most important factors that stimulate the Chinese economy to grow rapidly. Many people in China like to save about one-fifth of their disposable income, and China's national savings are considered to be the highest in the world, representing about 50% of the gross domestic products in 2010, and this is much higher than other developed countries. However, too many savings and high investment may lead to asset bubbles, which in return may cause the economy to overheat.

⁷⁷ Want China Time

⁷⁸ People's Bank of China

External Debt and Borrowing

The country's external debt rose from \$349.3 billion in 31 December 2009, to \$ 406.6 billion in 2010, but in spite of the debts, reserves of foreign exchange and gold has grown up from \$ 2.426 trillion in 31 December 2009, to \$ 2.622 trillion in 31 December 2010.

Monetary Policy

Monetary policy depends on the relationship between the interest rates in the economy (the price at the time the money is being borrowed) and the total supply of money. Monetary policy uses different tools to control things such as economic growth, inflation, exchange rates and unemployment. China's Central Bank has raised interest rates four times since October 2010, to curb inflation that went beyond the government target.⁷⁹

Interest rate

From 1996, until 2010, China's average interest rates were at 6.49%. However, in June 1996, it stood at the highest level ever been recorded at 10.98%. The lowest interest recorded was in February 2, 2002, at 5.31%.⁸⁰

Money Supply

China has a strong economy, which is growing faster than the usual standard. Although China's economy is one third of the USA, its money supply is greater than the USA's. China has become the largest money supplier in the world for its domestic market over the last two decades, according to Chinese-language Southern Weekly. "At the end of November 2010, the money supply rose excessively to 71.03 trillion Yuan, equal to \$ 10.71 trillion, to spur the economy," said Wu Xiao Ling, vice chairman of the Financial and Economic Affairs Committee of China's National People's Congress.

Fiscal policy

The fiscal policy was marked by efficiency for many years, but Chinese economists have become cautious towards this policy. They do have plans to boost and encourage domestic demand. When there was an indication of global weakness in recovery in 2002, Chinese fiscal revenue was increased by 10.9% and expenditure by 17.6%. This policy boosted domestic expenditure in an attempt to

⁷⁹ Wikipedia

⁸⁰ www.tradingeconomics.com/china/interest-rate

limit the recession and encourage growth, but some economists suggested China's stimulus should be directed to make the local growth less dependent on direct government spending.⁸¹

Taxation

China's tax revenues derive from different sources, such as value added tax, company income tax, business tax, consumption tax, tariff and agricultural tax. But the major portion of revenue comes from value added tax, (VAT) which constitutes 43% of the total revenues taxes in 2007. The proportion of business income tax declined from 53% in 1985 to 24% in 2007, and has remained relatively constant. When this tax is decreased, productivity increases in order to meet the standard of competitiveness in the world market.

Government spending

China's expenditure has risen from 339 RMB billion in 1991 to 7630 RMB billion in 2009, which is a growth of 95.5%. This has occurred due to a vast amount of government spending in order to accelerate the growth and upgrading the various sectors in the field of education, medical care, transportation and some other aspects of infrastructure. Despite the budget deficits, government spending continued at this level from 1991 to 2009 (with the exception of 2007 when there was a surplus of 154 RMB billions), as a stimulant to enhance the growth in numerous development sectors, at a time when development was extensive, requiring much spending to maintain the expansion.⁸²

Subsidies

China has had a policy of offering subsidies in interest-rates, related to the renewable energy and high-technology materials sectors, which have advantages over foreign competitors. This policy has continued despite the objections being raised by many countries such as USA, European countries, and some Asian countries. Many issues have been raised concerning the imposition, of restrictions and penalties by the World Trade Organization (WTO), such as those between US and EU countries regarding Chinese solar equipment, anti-dumping tariffs and Chinese glossy papers. However, Chinese subsidies can be formed in distinctive

⁸¹ Reuters

⁸² www.starmass.com/china_review/government_finance/government_financetrends.htm

ways, such as granting cheap land and facilitating financial loans, a process by which the cost of the production will be substantially reduced.

Ethical implications

The ethical practices in China are quite different from those of Western standards. The issues of human rights according to Western standards are not always in accord with Chinese ways. China always thinks that there are crucial priorities to be met, even if that does not meet Western ethical standards. China has a population of 1.34 billion people and its major concerns lie on how to provide its citizens with the necessities in education, health care, and access to food and clean water. These concerns amount to a huge task.

Many economists think that an annual growth of GDP, less than 8% in China, implies less job creation and more recession; and this would be considered as a disaster because it could lead to unrest in China and may destabilize the country. However, if this percentage occurred in Western records, it would be considered a remarkable achievement in the economy and the most successful economic event ever achieved. Ethical standards from the Chinese perspective aren't necessarily perceived as inhumane in Asia.

Analysis

As we analyse the above data, we notice that China sustained a period of rapid growth of GDP of an average of 10% a year during 1978-2010 and, as a result of such growth, China became the world's second largest economy in 2010, after overtaking Japan that year.

One of the primary concerns of China's economic policies has been to employ as many people as possible even when it isn't necessarily the most profitable and productive thing to do. High unemployment rates could lead to social unrest and that is what the Beijing government fears most.

Economists are very much concerned that China's economy is at the stage of overheating, which is associated with the massive stimulus programs. Inflation pressures and bubble assets are intensifying, but the issue of most concern is the property bubble. The New Times gave an example of Ordos City in northeastern China, which have been built recently with a multitude of apartments, but fears are rising because the city is still empty of residents. The government has noticed this problem and it has

started to raise the interest rate in attempt to slow down the property market.

Within three decades, China have also taken a lead and become the second largest exporter in the world, where it has increased its capability 163 times since 1978, In addition it is the second largest importer, mainly of raw materials, and fuel. Since 1978, it has increased its importing capacity 128 times, driven by the huge amount of invested funds through Foreign Direct Investment, as well as a landmark economic reform policy and the integration of the domestic market, infrastructure and logistics. The manufactured products comprise almost 95% of its exports, electronics represent 36%, light manufactures 24%, metal/material products 16%, machinery and equipment 13%, chemical products 6%, and primary products 5%. Thus, China became the highest world net saver as its surplus rose from \$20.5 billion in 2000 to around \$330 billion in 2010. So China's foreign reserves rose to \$2.85 trillion. Nevertheless, China's GDP capita is still below the world's average.

In contrast to many Western financial institutions which are affected by toxic assets, Chinese banks, insurance companies and security firms are controlled by the central government with great capability to maneuver and enhance the balance sheets with adequate capital and an average deposit ratio of 60%. , This is considered the most effective performance tool to combat financial crises.⁸³

China has also profited a lot in technology transfer from the United States and some other European countries. There is no doubt, that US companies have played a greater role in technology transfer through private companies, and the modernizing of the Chinese industrial and services sectors and its economy. Initially, Chinese products and services were limited. But with access to advanced technology in the country, the Chinese managed to overcome their obstacles in quality and were able to meet international standards and so entered global market competitiveness. China was very active in seeking foreign technology, and it invested in new high-tech research to improve the quality of its products and services, as well as to address its energy and environmental concerns.

⁸³ Dr. Fred Hu: Chairman of Greater China at Goldman Sachs

According to communist ideology, making profits was considered an awful crime, capitalism was seen as monopolistic, and competition in business gave unfair advantages. But in 1978 this communist idea changed into a unique combination of communism and capitalism in the market. In the so-called “Socialist market” the government controls the political decisions in the free economic market, through Chinese large state-owned companies, including banks and the stock markets, which are run by the senior members of Communist Party. As recalled by Deng Xiaoping “Capitalist have their plans and Socialists have their markets, it does not matter if it is a white cat or a black cat”.

How did China succeed in its economy and become one of the greatest countries to influence the global economy? To answer this question, we need to find the key elements that played a major role in this revolution.

The labor force in China is considered one of the most encouraging in the world market, in term of skills, work ethic and cheap labor. These features are most favorable to most investors. The transfer of advanced technology is the price set by Chinese government to motivate western companies’ investment, in order to gain an access to China’s huge market, and this transaction will never stop.

China’s quest for high-tech raises doubts about its real intentions, which became a concern to US national security. The assumption is that the transfer of sophisticated technology may constitute a real threat to the future of US domination. The fear is, where the Chinese could use it to modernize its military industry.

Conclusion

China often has its own ideology and views. The Prime Minister serves as the top economy official, being helped by top communist party members and cabinet officials. Eight of the nine top party officials come from engineering backgrounds. They are the most skilled advisers and experts in different fields to generate policies and decision-making. The financial system is dominated by state-owned banks and major companies.

China’s biggest problem remains in how to sustain the growth and many economists feels that any growth less than 8% would be a catastrophe for China’s economy. It will create a labor crisis and result in a recession in which the country will be

determined to do whatever it takes to contain this problem and maintain social stability.

The state still exerts a strong influence on the economy. It controls at least half of the economy, or 70 %, if we have to include the state-owned companies that operate as private firms.

There are no true free markets as the state manipulates all, the stock market fix prices in key industries, the senior staff of the banks comes from Communist Party members formulating economy policies and instructing the banks what to do and where to invest.

The Chinese Communist Party can manipulate the economy in a way that the Western countries cannot, as we saw earlier. When the property industry started to overheat, the government ordered the banks to reduce and slow down the lending process and when the sales went down, it offered incentives such as lowering the taxes on home purchases. It can also instruct the large Chinese state industry to buy new assets at home and abroad. It also controls the fossil fuel and natural resources, as well as the steel industry, telecommunication, transportation, power generation and the financial system.

The economists anticipate that if the data continue to show growth the way it is, and if the China government continues to sustain it, China will be the world's largest economy in the next three decades. This may lead her to dominate the world economy, and this may trigger the concerns of US, on how China should be contained. It seems that all tricks to contain it have had no such effect in slowing down its economy. This giant is still continuing to grow.

The Western Countries spared no efforts to undermine Chinese economic progress, but China has managed to manipulate all the obstacles and absorb the pressures with great wisdom and patience. As it realized the importance of normalizing relations with the West, it also has retained a special relationship with US, and the trade between the two countries are quite integrated in such a way that neither of the two parties can afford to break it, and it is not in their mutual interest to interrupt it. But observers believe that in spite of all collaboration, the US government is not at all happy with the Chinese trade imbalance and surpluses that China has managed to sustain for so many years, benefiting from high tech and expertise that came with foreign companies. It feared that China may exploit it

to improve high tech military industries which will affect the balance of power in the future.

China recognizes the importance of maintaining special relations with US, in order to reduce some of US concerns. China had played a greater role to calm this matter by investing its savings, around \$ 3 trillion, directly into US treasury bonds to overcome some of its deficits, at a time when the interest rate of most European treasure bonds were much higher than in US. This act from China has one explanation - to address US concerns and maintain a distinctive relationship for a long period of time even if it bears some losses.

POVERTY ALLEVIATION

Editor's Note: The figures of poverty alleviation in China are truly mind boggling, and have enabled the United Nations to claim that some success is being achieved in fulfilling the global targets under the Millennium Development Goals. This paper identifies the national policies that have resulted in these impressive figures, and points out some of the challenges that may soon arise if they are not addressed adequately.

Introduction

China's deliberate policies aimed at achieving extremely rapid income growth has lifted millions of people out of poverty over the past two decades. In particular, China's governmental focus on the manufacturing and industrial sector has stimulated economic growth and increased productivity in a market-oriented economy.

Beginning in 1978, official estimates indicated that poverty declined from more than 30 per cent of the rural population, to less than 5 per cent in 1998.⁸⁴ China has achieved a great accomplishment on the issue of poverty reduction, and completed their Millennium Development Goal (MDG) of halving the number of poor people well before the 2015 deadline.⁸⁵

On the other hand, income inequality has risen, causing a substantial disparity between central and western proveniences and the eastern coastal region.

Despite an impressive growth rate, remote rural locations have been excluded by this economic prosperity as a result of unbalanced growth, leading to an increase in rural to urban migration.

Poverty is still persistent in rural areas, especially in western and central regions where underdeveloped infrastructure and social systems exist.

84 The World Bank (2001). *China: Overcoming Rural Poverty* (<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20204887~menuPK:435735~pagePK:148956~piPK:216618~theSitePK:430367,00.html>)

85 According to United Nations Development Programme (UNDP)

Rural income is considerably lower than the average metropolitan wage, encouraging farmers to leave provincial areas for better-developed urban regions.

Poverty Line

In addition to the income disparity, there is a general debate about what constitutes poverty. China's poverty line has been debated by many organizations, and a common figure cannot be reached. Today, the poverty line 3,000 yuan (\$460 USD) per year is set by the World Bank. The Chinese Government has established a poverty line of 1,500 yuan (\$230 USD) per-annual net income.

For example, the Chinese Government's poverty line increase from 1,169 yuan (\$175 USD) to 1,500 yuan per year will increase the number of people below the poverty to 100 million from 36 million, and will create more space for economic growth.⁸⁶ However, some economists and politicians call the governmental poverty line controversially low and largely underestimated.

Household Responsibility System (Hukou)

The first phase of Deng Xiaoping's economic reform in the late 1970s was the introduction of the household responsibility (hukou) system. Under this system, communal farming was discontinued and the individual farm household was established. Land was contracted to individual households for a period of 15 years, and farmers were compensated for meeting a quota of goods to produce. Quotas were reduced in the 1980s, and food that was grown beyond the quota was sold at unregulated prices in the free market, resulting in a notable increase in rural income.

Additionally, migration has been limited due to the household responsibility (hukou) system. The population is divided into rural and non-rural (urban) households; healthcare, housing, education and employment are directly linked to household registration. Approval from government authorities is required for individuals to change their place of residence, preventing rural migrants from accessing the same benefits as urban dwellers. Although a rural individual may work in the city, they do not have access to the urban social welfare system, health care facilities,

⁸⁶ Beijing Review. *Redrawing the Poverty Line* (2001).
(http://www.bjreview.com.cn/print/txt/2011-01/10/content_323971.htm).

pension rights and schools. Migrants often leave their families behind due to these restrictions.

Reforms aimed at reducing labour mobility constraints due to the hukou related system have been introduced, with hopes of removing restrictions on migration. Many critics view the barriers of the hukou system as a form of discrimination, as rural hukou holders were not as privileged as urbanites. The system was relaxed in October 2001 due to the inequalities between rural and urban areas. Rural residents can now buy a temporary urban residency permit, allowing legal employment in urban areas. Some cities, including Shijiazhuang in Hebi province and Jinan in Shangdong province, allow rural people to live and work permanently.⁸⁷ Rural residents now have the freedom to relocate to more than 20,000 cities throughout China.

Urbanisation Trends

Because of the increase in the ability of rural residents to relocate, China's population growth has mainly occurred in cities over the past two decades. China's urban population has increased from 72 million in 1952 to more than 600 million people, accounting for nearly 49% of the country's population in 2009.⁸⁸ By 2015, China's urban population is projected to surpass the rural figure for the first time.

As a result of China's impressive growth rate, China now has over 160 cities with a population of more than one million people.⁸⁹ Figures show that China's population is growing more slowly than before, due to the strict governmental control on family size. Currently, urban Chinese couples are only allowed one child, reducing the population growth to less than one per cent annually. The limit on family size may affect the economic future of China's rural areas.

As its agricultural society transformed to a modern industrialised society throughout China, regional disparities broadened. Nearly 130 million of China's 900 million rural workers had migrated from the countryside to the city by 2006.⁹⁰ This fast-

87 Lu, D. (2006). China's Rural Economy after WTO. *Economic Openness, Local Governance and Rural Economy*. Hampshire, England. Ashgate Publishing Limited. p.141-153

88 http://news.xinhuanet.com/english2010/china/2011-04/28/c_13849936.htm

89 <http://www.chinatoday.com/city/a.htm>

90 National Bureau of Statistics (NBS), 2007

paced migration primarily occurred from rural to urban areas, and from central and western regions to the eastern coastal region.

A key aspect of migration is gender equality. In terms of gender migration, both men and women are migrating at approximately equal rates. Women may be less likely to migrate because of greater family responsibility. Young, single women are more likely to migrate to cities, but public childcare services are not available or affordable. Many women find jobs in factories and less-skilled jobs as domestic labour. In the Special Economic Zones of Southern China, major textile and manufacturing industry zones, the majority of the migrant workforces are young, energetic women. Men work primarily in construction and other physically demanding industries.

The majority of Chinese rural-urban migrants, both male and female, are no more than 30 years old. More than 50 percent of males between the ages of 20 and 31 migrated to the city in 2007. Females were more likely to migrate at a younger age, between 18 and 25 years old. Overall, nearly 20 per cent of total rural labour in 2007 was working in cities.⁹¹

Four types of migrants exist: *serial*, *cyclical*, *repeat* and *permanent*. *Serial* migrants first migrate to towns near their rural village before migrating to unfamiliar parts of the country. Serial migrants that make repeat visits to their villages are referred to as *repeat* migrants. Thirdly, *cyclical* migrants return home to their village every year during harvest time. Finally, migrants that go to the city to remain there are part of the *permanent* migration.⁹²

Overall, internal migrants have driven China's high growth rate and economic success. Migrant workers constitute 80 per cent of the construction labour force, and 50 per cent of the service sector.

The Floating Population

In addition to the migration trends noted above, the issue of illegal migrants, known as the floating population, is on the rise. The floating population refers to individuals, usually peasants, that live in a different area from the place on their household registration.

⁹¹ Tao Kong, S. (2010). The Great Migration. Rural-Urban Migration in China and Indonesia. RUMiCI Project (Rural Household Survey, the Urban Household Survey and the Urban Migrant Survey). *Rural-Urban Migration in China: Survey Design and Implementation*. Cheltenham, England. Edward Elgar Publishing Limited. p. 135-147

These individuals are unregistered workers that stay in the cities without a permit, a direct result of the household (hukou) registration system.

The floating population will eventually return to their village after temporarily working in a more urbanised area to better their lives, as they do not benefit from the privileges and welfare benefits of urban hukou residents. The floating population also keep their rural status for fear of losing their land. However, as a benefit for living in the countryside, peasants are permitted to have two children rather than one.

According to China's National Population and Family Planning Commission, China's floating population in 2010 reached 221 million. Nearly 45% of the floating population was born after 1980. Most of the floating population find jobs as hawkers, peddlers, refuse collectors, nannies and repairmen.⁹³

An accurate count of the statistics above is difficult to measure, and is only an example of the underestimation of migration trends and urbanisation. Looking ahead, the floating population along the coastal towns may influence the development of their hometowns and may be part of the solution of regional disparities within China.⁹⁴

Wage Inequalities

The income gap has rapidly increased between China's rural and urban divide, as the focus on urban investments overshadow rural development. China's Agricultural Ministry in 2009 found that urban workers earn 3.36 times more than rural workers, and rural income averages are continuously falling behind. The average annual income for a worker in rural China in 2008 was nearly \$700, and the average city worker earned \$2,290 annually.⁹⁵

Officially, according to the Labour Contract Law (2008), all workers have equal access to jobs. A minimum wage was established, and employers are prohibited from requiring long working hours. China has made extensive efforts to eliminate discrimination against rural migrants, but has difficulties enforcing basic labour market

93 Taubmann, W. (1993). *Urban Problems and Urban Development in China*. Institut für Asienkunde, Hamburg.

94 International Journal of Population Geography (2003). *The Floating Population's Household Strategies and the Role of Migration in China's Regional Development and Integration*.

http://piasdsrserver.usp.ac.fj/apmrn1/fileadmin/files/docs/china/China_1.pdf

95 Source: BBC News, 2009

protections. Migrant workers face discrimination within the labour market, and are more likely to have a lower-paid job in harsher conditions with longer working hours.

Impact of Migration

Beyond wage discrimination, there are many advantages and disadvantages of migration. Factors driving migration include: economic disparities between rural and urban areas, shortage of agricultural land, employment, education and standards of living. The demand for unskilled, cheap labour in manufacturing industries is also a motivating force.

Recently, the number of rural migrants staying permanently in cities has increased, especially within the outskirts of large cities. The new generation of migrants have little farming experience compared to the previous generation, potentially undermining the rural social system.

As large numbers of agricultural labour stay in urban areas, remittances play an important role in shaping rural incomes. Remittances can be a substitute for agricultural income. It is difficult to determine the total value of remittances sent from relatives working in urban areas; however, according to a Rural Household Survey from 2008, households with migrant members have higher annual incomes, higher annual expenditures and more living space than non-migrant households.⁹⁶

On the other hand, rural-urban migration has resulted in overpopulation in sub-provincial cities and increased crime. Most migrants and their families have no access to urban healthcare, education or workplace protection because of their agricultural hukou status. A high rate of unemployment among migrants leads to many returning back home.

Agricultural Subsidies

China's agricultural policy continues to evolve. Due to increased inflation rate and consumer prices, agriculture is heavily subsidised. As high inflation prices increase daily living costs, more than half of all rural regions offer subsidies to the poor. According

⁹⁶ Lee, L. & Meng, X. (2010). The Great Migration. Rural-Urban Migration in China and Indonesia. *Why Don't More Chinese Migrant from the Countryside? Institutional Constraints of and the Migration Decision*. Cheltenham, England. Edward Elgar Publishing Limited. p.29

to the National Development and Reform Commission (NDRC), the system covers the disabled, unemployed and low-income residents.⁹⁷

Rural Chinese farmers are dependant on government subsidies. Disposable incomes of rural households are considerably lower, and without these incentives, increasing domestic demand and self-sufficiency would be impossible. Agricultural subsidies aim to improve farmers' social welfare standards and status. Subsequently, agricultural subsidies are still less than a farmers' income in cities.⁹⁸ Without an increase in domestic consumption, China faces difficulty in achieving a more sustainable and balanced growth.

Land Tenure

China's growth is also affected by land use. Land tenure increased in the late 1990s to an allocation of 30 years, with the objective of improved investment of land.⁹⁹ Although households have land use rights, these individuals are restricted to renting the land or converting it to an alternative use. Currently, it is still not possible to buy, sell or mortgage agricultural land, nor do farmers have any substantial rights in land disposal.

Land ownership is separate from land use rights, and land is state-controlled or collectively-owned. Farmers have rights to land tenure, transaction and profit.¹⁰⁰ According to the Land Management Law, local governments and village committees have the ultimate authority in determining the amount, time and duration of compensation.¹⁰¹

Although the *Land Tenure Law* allows farmers to conduct land transfer, the definition of "land ownership" makes it nearly impossible because the state has ultimate control over land disposal. Laws and regulations prevent farmers' rights to land transfer and limit opportunities to leave for a potentially better life in urban areas.

Also by power of eminent domain, land confiscation and re-adjustments by the government for non-agricultural purposes is an increasing issue in rural China. Adequate compensation to the

97 http://www.chinadaily.com.cn/bizchina/2011-06/25/content_12776258.htm

98 <http://www.boabc.com/en/news/03104073.shtml>

99 Brandt, L., J. Huang, G. Li and S. Rozelle (2002), *Land rights in rural China: Facts, Fictions and Issues*. The China Quarterly 47(1): 67-97

100 Barzel, Y. 1989. *Economic Analysis of Property Rights* (New York: Cambridge University Press).

101 Hong, Z. (2006). China's Rural Economy after WTO. *The Poverty of Rights and Chinese Farmers' Land Property*. Hampshire, England. Ashgate Publishing Limited. p. 106

farmer is not provided by the government, adding to rural grievances. The threat of losing agricultural land to private or commercial development is intensifying within the rural areas, and essentially displacing rural poverty in urban areas. Many rural farmers that leave their land behind now find themselves among the urban poor.¹⁰²

Agricultural Tax

Prior to the abolition of agricultural tax in 2006, heavy taxes influenced rural residents to migrate to larger cities and urban areas. These taxes included three taxations, three surcharges and five fees. The three taxations included agricultural tax, agriculture special tax and slaughter tax. The three surcharges were mutual funds, provident funds and village management fees. The five fees consisted of education fees, planned-parenthood fees, planned-foster fees, military training fee and the village road development fees.¹⁰³

Local governments had significantly taxed farmers' income as high as 30 per cent (of per capita annual income), which in turn, negatively impacted local production and consumption during the 1990s.¹⁰⁴

As a result, agricultural taxation increased social instability and frustrations.

China currently has different tax systems for rural and urban areas. The elimination of the agricultural tax and implementation of poverty reduction programmes for rural residents may have directly contributed to the reduction of poverty.

Taxes are no longer based on the old system of agricultural tax based upon the number of family members and acreage, which lessen financial burdens of the agricultural industry.

Poverty Alleviation

Over the past ten years, the Chinese government established many poverty alleviation programmes and national strategies, for example: Food for Work Programme, 8-7 National Poverty Reduction Programme, Grain for Green Programme and the implementation of subsidized loans for poor people.

102 Oi, J. (1989) *State and Peasant in Contemporary China: The Political Economy of Village Government*. Berkeley: University of California Press.

103 Lu, Z. & Song, S. (2006). China's Rural Economy after WTO. *Characteristics of Rural-Urban Migrants: The Case of Tianjin, China*. Hampshire, England. Ashgate Publishing Limited. p.159-174

104 Tao, R. & Liu, M. (2005). *Urban and rural household taxation in China—measurement, comparison and policy implications*. *Journal of the Asia and Pacific Economy*, Vol. 10, No. 4, p. 486–505

Food for Work (FFW) Programme

The Food for Work Programme was implemented by the Chinese government from 1986-1997, and focused on the construction of roads, agricultural infrastructure projects and development of drinking water systems.

Participation in these projects offered income to poor people, however, brought unequal benefits between men and women.

8-7 National Poverty Reduction Programme

The 8-7 National Poverty Reduction Programme was aimed at taking China's 80 million poor people from under the poverty line during 1994-2000. The programme contributed to the economic and social development in rural areas over seven years.

Grain for Greene Programme

The Grain for Greene Programme was initiated in 1999 to reduce rural poverty and increase rural income.

To help restore ecological balance and reduce soil erosion in the western regions of China, farmers received subsidies in grain and money for restoring cultivated land back into forests.

Subsidized Loans

The Chinese government has provided subsidized loans for poor people since 1986; however, the loans have not always reached the poor, individual households. Subsidized loans are usually received on the township level and are believed to increase the income of poor households via a "trickle-down" effect.

The "Go West" Campaign

The rising cost of coastal labour has slowly shifted production inland. The "Go West" policy aimed to reshape the economies of the north-western and interior provinces that were mainly agricultural. These regions had living standards below the poverty line and lacked foreign investment. Launched by the central government in 2000, the long-term programme was sought to bring success and economic balance between the prospering, eastern coastal communities and the less-developed western China regions.

The "Go West" policy has been successful, and has contributed to internal transportation infrastructure projects, improvement of living standards and technological innovation. Foreign investment is now looking towards new operations and investment in the west, and the underdeveloped regions are catching

up with the more prosperous east. Land and resource concessions, in addition to financial support and tax incentives, are offered to foreign investors to encourage investment in the western regions.

Conclusion

China is taking steps towards focusing on less developed regions and domestic consumption through the Twelfth Five-Year Guideline passed in March 2011. As many China cities welcome internal migrants, the rural population is a demographic reality that the Chinese government should focus on urgently. As urbanisation takes over, more incentives (for example, education and affordable housing) should be available for rural workers.

China's challenge to meet the growing food demand is driving prices higher, and will be soon reliant on food imports due to resource scarcity. China will face potential political and economical implications if rural development is not addressed. Today, most agricultural work is completed by hand in China, as opposed to machines. The agricultural sector requires more government investment in advanced farming, irrigation systems and technology to stimulate rural consumption and increased food production.

Most recently, in June 2011, scuffles between street vendors and security workers triggered riots and arrests near Guangzhou. The disturbances were related to emerging inequalities and corruption. In other countries, rising food prices can lead to political unrest. Could there be any significant future revolts by farmers if China does not acknowledge this growing issue? There is much to be considered.

TRADE GROWTH

Editor's Note: It is obvious that trade has been an engine of growth in China, as indeed in other parts of the world. The management of that trade poses many challenges because of the inevitable relationship between the growth of foreign trade flows and internal consumption levels. China is now beginning to feel the effects of that relationship, through income inequalities and rising wage demands.

Introduction

The successful results achieved by China in terms of economic growth and international trade can be explained through the shift made by the Chinese leadership from the Communist ideology to the rules of liberal economy. In contrast to Mao's emphasis on revolutionary action for its own sake; Deng Xiaoping pursued modernization at the expense of Communist ideology, in what is known as reform and opening. The government encouraged private business and agriculture and cultivated foreign relations with capitalist countries.

In order to end China's economic isolation, the government created special economic zones, offering tax breaks and other incentives to encourage foreign investment. Most direct foreign investments have been concentrated along China's eastern coast, especially in Guangdong Province, Shanghai, Beijing and Tianjin. The reforms have engendered both rapid growth and massive employment.

The reforms launched from the mid 1970's, pursued during the last decades, merged with the entry into the World Trade Organization that promised greater challenges for its economy, enhanced the efficiency of the Chinese economy with trade as a powerful engine. China succeeded to achieve the strongest economic growth in a regular dynamics, during more than one decade, and was less affected by the most serious economic and financial crisis, since the economic crisis of 1929, that affected the world economy in 2009.

The aim of this paper is to analyze the content and directions of the Chinese trade in order to bring some answers to the following thesis: “international trade has been a strong motivator of the economic boom in China, but domestic demand and consumption of the Chinese market should replace this motivator, and keep the current trend of economic growth”.

China’s trade balance

Overview and historical evolution

In the mid 1970’s, China was still a poor and isolated economy. After the death of Mao in 1976, and under the leadership of Deng Xiaoping, economic reforms began gradually. After decades of Communist emphasis on equality, the reforms of the last decades have made China less equal, magnifying inequality individuals between urban and rural Chinese and between regions.¹⁰⁵

The reform launched by the Chinese leadership intended to achieve a successful transition towards a capitalist model.

The creation of special economic zones, with a set of fiscal and economic incentives, strengthened the flow of foreign direct investment, the financial resources and the transfer of technology and skills.

Furthermore, the Chinese economy is characterized by the presence of lot of factors that enhanced this dynamics. Adding to its huge market, with more than one billion consumers, and a geostrategic position within the most populous continent, China possesses huge natural resources and one of the cheapest labor forces in the world, which makes the products and services more competitive in the international market.

China’s entry into the World Trade Organization in 2001 required further liberalization of the Chinese economy in order to face growing competition from foreign enterprises.

Despite these efforts to open its economy, Chinese economy is still more restricted than the economies of western countries.

The productivity revolution

With China being the world’s largest exporter and second importer, the world’s second largest economy in terms of gross domestic product (GDP) and as the fastest growing major economy with an average growth of 8-10% per year, it may be accurate to

105 Ibidem

explain this trend by the productivity revolution achieved by Chinese leadership.

China's foreign trade has grown faster than its GDP for the past 25 years.¹⁰⁶ The performances realized by Chinese economy covers the three economic sectors:

- the primary sector: including agriculture, farming, forestry and fishery
- the secondary sector: comprising both industry and construction
- the tertiary sector: dealing with different types of services

Nevertheless, the two most important sectors of the Chinese economy have traditionally been agriculture and industry, which employ more than 70 percent of the labor force and produce more than 60 percent of the GDP. The high productivity of the Chinese economy in these two sectors can be justified mainly by:

- the efficiency of the labor force, which is also one of the cheapest in the world. The labor force in China constitutes a major comparative advantage, strongly criticized by the western economies as a “social dumping” practiced by China,
- the dimension of the Chinese market, the biggest in the world, and also the proximity to the most populous countries in the world (India, Indonesia, Japan. etc)
- the availability of a variety of natural resources, even though China suffers from the lack of sufficient energy, which is covered by a strong foreign policy towards the main producers of oil and gas in the world (Iran and the Arab world),
- social rules and laws are less respected in China, in comparison to Europe and the United States, which makes investors more comfortable in investing within the main economic zones, mainly in coastal zones.

The main characteristics of the trade balance

The performances achieved by the Chinese economy have been motivated by a growing presence and dominance of the

¹⁰⁶ Chen, Baizhu; Yi Feng, Determinants of economic growth in China: Private enterprise, education and openness, China Economic Review

international trade, despite the fact that the important internal market may constitute an adequate destination for the Chinese production.

The main characteristic of the Chinese trade balance is the diversification of its partners. Diverse Chinese products can be found in the biggest markets of the United States, Japan and Europe but also in the smallest countries and islands, such as Fiji or Micronesia.

The competitiveness of Chinese products in terms of prices, and the growing importance accorded recently to the quality of those products make them more competitive throughout the world.

A decade ago, China was not the top trading partner for even one of the Group of 20 economies.

Today, it is the biggest trading partner for six (Australia, Japan, Korea, India, Russia and South Africa). It has replaced the United States as the top export market for a seventh (Brazil), and risen in import for the rest.¹⁰⁷

Unlike many developing and transition economies, China attracts many foreign multinational investors because of both its large and booming domestic market as well as its cheap but high-qualified labor force.

However, for many foreign firms in the high-technology sector, China is not only a cheap export platform, but it is also an important link in the global supply chain.¹⁰⁸

Some other characteristics of the trade balance of China can be summarized in the following points:¹⁰⁹

- a substantial amount of China's trade is conducted by foreign invested enterprises,
- China's trade and foreign investments are geographically concentrated in the east coastal areas (in 2003, Guangdong's imports accounted for 31.7% of China's total imports while it constituted 34.9% of the exports),
- A large percentage of China's trade is related to processing and assembly industries,

107 Eric Bellman, Enda Curran, Yuka Hayashi and Peter Wonacott, *China Forces Global Shift in Commerce*

108 F.C. Fung, Professor of Economics, University of California, before the US-China economic and security review commission, hearing on China as an emerging regional and technological power: implications for US Economic and Security interests

109 Ibidem

- High technology products constitute a growing part of the Chinese imports and exports.

Trade balance with the major trading partners

According to the National Bureau of Statistics of China, China's ten largest trading partners in terms of goods and services represent 55.60% of Chinese imports and 57.83% of exports as of 2008.

The main partners of China are: the United States, Japan, South Korea, (Hong Kong and Taiwan), Germany, Australia, Russia, Malaysia, Singapore, India, Netherlands and Brazil.

The United States

Lawrence Summers, the Harvard University economist and former Obama aide said "When somebody writes the history of our time 50 or 100 years from now, it is unlikely to be about the Great Recession of 2008, or about the fiscal problems that America confronted in the second decade of the 21st Century. It will be about how the world adjusted to the movement of the theater of history toward China."¹¹⁰

This statement informs about the growing economic role played by China during the last decades that permitted to this country to compete and sometimes defy the biggest economy of the World, the United States.

In terms of trade bilateral exchanges the United States, as one of the biggest consumption markets in the world, remains the major partner of China.

The United States trade deficit with China rose 20 percent to a record of \$273 billion in 2010, according to figures just released by the US Commerce Department. For political reasons, it is considered as a depressing and dangerous result.

American exports to China soared 32 percent in 2010, while American imports from China rose 23 percent, yet the trade gap still widened. The American exports are much smaller than their imports.¹¹¹

However, even though China has become the world's second largest economy, the main driver of global growth and an increasingly assertive economic power; the U.S. is by far the world's

¹¹⁰ Eric Bellman, Enda Curran, Yuka Hayashi and Peter Wonacott, China Forces Global Shift in Commerce

¹¹¹ US-China Trade Numbers reveal political risk, February 14th, 2011, Brooking Institute

largest economy and one of the richest. Even as their GDP levels gradually converge, a huge gulf remains between China and the U.S. in terms of their per capita incomes and their levels of institutional and financial development.¹¹²

Therefore, it is premature to speculate about the possibility of seeing China's economy overtake the United State's machine, unless the current tendencies of economic growth will keep moving on the same speed for more or less a long period of time.

Japan and the Asia Pacific region

The Asia Pacific region represents the major market of the world since it encloses more than 50% of the world population (China, India, Indonesia, Japan, etc), which should be added to the economic dynamics of those countries and the growing economic growth achieved during last years in this region.

Japan is the second largest trading partner of China, as of 2008, with a total amount of 266.73 billion dollars, in favor of China (150.60 billion dollars as exports and 116.13 billions dollars as imports). The Japanese dynamic and open market contributed largely to China's growing exports and benefited from the growth of the Chinese market.

Hong Kong and Taiwan are also listed among the five main partners, as of 2008 statistics with a total amount of respectively 203.64 billion dollars and 129.21 billions dollars.

Furthermore, in this region of Asia Pacific, China is the largest trading partner of many countries, including Australia, Bangladesh, India, Malaysia, the two Koreas and Vietnam.

These different figures of the international trade within the Asia Pacific region and the economic boom of lot of countries, namely India, Japan, Malaysia and Korea are confirming the movement of the theater of history toward this region, with China being its heartland, the main economic motivator and a regional hegemonic power.

Europe

Taken as a single economic entity, the European Union remains one of the major economic powers worldwide. The EU achieved great results in terms of economic integration, performance and international trade. However, the European products are strongly

¹¹² Eswar Prasad, Rebalancing the US-China relationship, the Brooking Institute

competed by the Chinese trade boom, even within the European market, which can be justified by the competitiveness of Chinese products in terms of prices.

Nowadays, China is the single most important challenge for EU trade policy. China has re-emerged as the biggest exporter in the global economy, but also an increasingly important political power. EU-China trade has increased dramatically in recent years. China is now the EU's second trading partner behind the USA and the EU's biggest source of imports by far.¹¹³

In 2010, EU exported an amount of 113.1 billion Euro (+38% on 2009), while it imported 281.9 billion Euro (+31% on 2009). The trade balance is in favor of China for an amount of 168.8 billion Euros.¹¹⁴

The EU's open market contributed largely to China's export-led growth and EU has also benefited from the growth of the Chinese market. However the EU is exercising pressure in order to ensure that China trades fairly, by mainly respecting intellectual property rights and meeting its WTO obligations. In this regard, the European countries are qualifying the social policy of China towards the work power as a “social dumping” that should be adjusted in order to guarantee a fair international competition.

Other partners

China's trade machine shows few signs of slowing. After plunging in 2009 when global trade flows dried up during the global financial crisis, Chinese exports and imports rebounded in 2010. For emerging markets, the boost to incomes that comes from trading with China is welcome, but there are worries about unwelcome side effects.

As stated before, China is becoming the biggest trading partner for lot of important economies of countries that are members of the G20, including Brazil, Australia, Korea, India, Russia and South Africa.

For Brazil, as an example, in 2000, less than 2% of Brazil's exports of goods went to China; by 2009, 12.5% did, according to the International Monetary Fund. According to Brazilian government

¹¹³ The web-site of the Commission of the European Union, China.

¹¹⁴ *ibid*

data, about 80% of Brazil's exports to China are agricultural and mineral commodities; about 90% of its imports from China are manufactured goods, many of them are things that Brazil cannot make as cheaply as China because wages are higher in Brazil. Nevertheless, Brazilian officials argue with increasing vehemence that China is giving its exports an extra advantage by undervaluing the yuan.

About 30% of China's trade is with developing countries—up from less than 20% in 2000. The growing importance accorded to exchanges with developing countries is a part of a global strategy of its foreign policy to strengthen its presence in Africa and Latin America, in order to get more natural resources necessary to its huge economic growth but also to find markets for the variety and great amounts of products manufactured in China.

The evolving role of trade in Chinese economic growth

China holds nearly on sixth of the world's population. It possesses one of the fastest growing economies in the world. Since the launching of economic reforms, international trade and foreign investments have played a major role in the Chinese economic boom. Chinese authorities took advantage from this situation, regardless of the quality of political relationships they entertain with economic partners.

Nevertheless, the main challenge for China in the upcoming years is to achieve a sort of shift from this big reliance to the international market, through creating and enhancing a national consuming market, which should constitute the future engine for the economic growth and a source of well-being for the Chinese population.

During the last three decades, China became more and more reliant to international trade and foreign investment for its economic growth.

Professor Mark Williams has noted “the expansion of China's participation in international trade has been one of the most outstanding features of the country's economic development. Chinese exports rose on average 5.7 percent in the 1980s, 12.4 percent in the 1990s, and 20.3 percent between 2000 and 2003. By 2003, China's exports growth rate was seven times higher than the export growth rate recorded by the world as a whole. Foreign direct

investment has also soared, and currently over a billion dollars in FDI are invested in China each week”.¹¹⁵

The Chinese reliance on international market was a strong engine for the companies established in the eastern coastal economic zones. These companies are basically looking for cheaper production factors, mainly the work force, but also for the possibility of selling their products both in huge national and international markets. These comparative advantages have enhanced the Foreign Direct Investments and encouraged the establishment of lot of companies in China.

Furthermore, the Chinese economic strategy is oriented towards the achievement of clear objectives regardless of the eventual political conflicts or disagreements that can occur with the main partners. Based on the statistics provided in the previous chapter, China entertain strong economic relationships with some of the neighboring countries (Taiwan, Japan, South Korea) and with the United States despite the controversies that might characterize bilateral relationships.

The Chinese economic pragmatism is justified by the growing needs of a huge population, whose economic welfare depends basically on the continuity of the strong economic growth achieved during the last decade. Convinced of this responsibility, the Chinese government is prioritizing for the time being the commercial advantages to be taken from its partners, keeping in mind the political and national interest both at regional and international levels to be addressed at the appropriate moment.

However, the reliance of the Chinese economics towards the international market can be tackled through the enhancement of the national market, the biggest in the world.

Internal demand and consumption as an alternative

Convinced of the necessity to count more on the national market and to enhance the quality of life of its population, Chinese government started its endeavor to stimulate the national consumption.

The Chinese Minister of the National Development and Reforms Commission, Mr. Zhang Ping said that “China will strive to

115 Mark S. Blodgett, Richard J Hunter JR, Robert M Heyden, “Foreign Direct Investment, Trade, and China’s competition laws”.

establish a long term mechanism to boost domestic consumer demand in the next five years, including through boosting employment, promoting the urbanization process, readjusting income distribution system, improving social security network and optimizing the consumption environment. Boosting consumer demand would be China's priority in implementing its strategy to spur domestic demand during its 12th Five-Year Plan (2011-2015)".¹¹⁶

This strategy emanates from the Central Committee of the Communist Party of China, who adopted the document at the fifth plenum of his 17th session.

The goal of this new strategy of the Chinese government is to develop and unleash the potential of domestic demand, as the country's consumption is less than 50% of its gross domestic product GDP, much lower than the world's average, which is around 70%.¹¹⁷

On the other side, this new strategy should seek to achieve a good balance between stable and relatively fast economic growth and restructuring and inflations expectation management.

The main objectives of the document adopted by the Communist Party are:¹¹⁸

- Consumption would be highlighted in expanding domestic demand to release urban and rural consumption potential and allow China to ascend to the top-ranking markets in the world;
- Urbanization would be promoted in an active and stable way;
- More efforts would be made to develop the service sector and medium-sized and small enterprises and increase job opportunities;
- The income distribution system would be improved, especially for residents with middle and relatively low salaries so as to expand their consumption capacity;
- Social security coverage would be extended and the public service system improved to build positive public expectations;

¹¹⁶ China to prioritize domestic consumer demand, March 20, 2011, Chinadaily

¹¹⁷ Ibidem

¹¹⁸ China to boost domestic demand, maintain balanced economic development in coming five years, October 27, 2010, Chinese Government Official Web Portal: www.gov.cn

- The government would guide consumer consumption in a reasonable way, develop environment friendly consumption products and advocate “civilized economical, green and low carbon” consumption modes in tune with Chinese conditions;
- The key role of investment in expanding domestic demand would be given full play. More efforts would be made to maintain reasonable investment growth, optimize investment structure, upgrade investment mechanisms, raise investment quality and efficiency, and effectively push economic growth;
- Capital would be further channeled into livelihoods, social programs, agricultural and rural construction, scientific innovation, biological and environmental protection, and resources saving, aided by industry policies;
- More capital would be channeled into central and western regions.

The dimension and capabilities of Chinese national market (more than 1.3 billion) might be a good stimulus for the economic growth sustainability, as a strategy to reduce the dependence on the international market and enhance the livelihood of Chinese population.

Nevertheless, such a policy should be based mainly on the revision of current salaries, which are not allowing Chinese workers to devote a larger part of their revenues to consumption. At the same time, the Chinese comparative advantage in terms of economic competition is based on the lower work force salaries that make Chinese products cheaper, in comparison with European, Japanese or American products.

An adjustment of the national salaries on the international standards may make China lose this advantage, even on the national market. It is appropriate to remember that western countries are criticizing Chinese government, particularly on this point, qualifying the low salaries as a “social dumping”.

Therefore, the main challenge for Chinese leaders is to find a middle way of increasing the salaries of Chinese workers while keeping them lower and competitive with the main rival countries in the world.

It is also appropriate to remember that such a strategy of the Chinese leaders will have inevitably serious consequences on the

international market. With its 1.3 billion consumers and the objective of increasing national demand, China will provoke an increase in the prices of the main natural resources on the international market, mainly energy products.

The capabilities of the planet to respond to the needs of the growing world population are limited and it is certainly impossible to allow to more than one billion Chinese to have a high livelihood standard, without provoking a serious impact on the global environment and the sustainability of the international economic development.

With this new challenge of the Chinese leaders, it is clear that China will be a major stakeholder in the upcoming international negotiations on a variety of issues dealing mainly with: sustainable development and the environment, energy resources, the international economic order, etc.

Conclusion

The huge dimension of the Chinese market and the national capabilities to stimulate the economic growth in a sustainable way, while increasing the standard of life of Chinese population, should constitute the national strategy of Chinese authorities for the next decades.

When delivering a keynote speech in the annual conference of Boao Forum For Asia 2011, in south China's scenic island Hainan, Chinese President Hu Jintao vowed to boost domestic demand vigorously and take proactive opening strategies, saying: "China will implement strategies of boosting domestic demand, especially consumption demand vigorously over the next five years, building a mechanism with long-term effect while releasing consumption potential".

This new challenge set by the political leadership of China will certainly have an impact on the Chinese economy but also on the international markets. A possible scarcity of the natural resources and an increasing of the prices of products and services will affect lot of economies that are dependant on the Chinese cheap products to cover the needs of their populations.

With limited natural resources and the inevitable impacts of the growing industrialization on the environment, the planet can not afford a high standard of life for all populations over the world. The center of the world has shifted towards the Asian region, with the

high risks on the economic and food security that should be provoked by the growing needs of these populous countries on the rest of world.

It is, however, clear that the economic and fiscal incentives and measures offered to foreign investors, merged with a pragmatic trade policy towards the main partners should be maintained in order to establish a good environment for the foreign direct investments and the international trade. This policy allowed to China to achieve economic growth rates over a long period and in a sustainable way.

WTO Accession

Editor's Note: No analysis of the phenomenal growth of China's trade is possible without examining the impact of its membership of the World Trade Organisation. Given the size and importance of China's trade in the world, that accession was a foregone conclusion, but the care and attention to detail in those negotiations are evidence of the importance which China attaches to trade as an engine of its own economic growth.

Introduction:

China's staggering economic success and development has been rooted in the 1978 economic reform, and paid off in terms of steady economic growth. Economists might differ as to whether the Chinese policy focus on urban areas is the right approach, but they all agree that pulling over 200 million people, equivalent to 65% of the entire United States population, out of poverty is a remarkable achievement by any measure. There are several factors contributing to the huge economic growth of China. Accession to the World Trade Organization (WTO) has been one of the important factors accelerating the transformation of the Chinese economy.

The accession of China to WTO in 2001 marked a significant milestone in the Chinese economic reform agenda. It gave space for the Chinese economy to expand and provided a roadmap for the Chinese market reform. Opening up China's market for outside investors, the WTO accession reduced protection, helped strengthen its intellectual property right rules and regulations, modernized the framework of its trade policies, and more importantly, unleashed China's trade and labor force potential by widening the window of opportunities and capitalizing on China's competitive advantages.

Total trade (important and export) volume increased from US\$ 115.44 billion to US\$ 509.65 billion from 1990 to 2001, while the 10 years following the WTO accession saw a jump, raising the total trade volume from US\$ 620.79 billion to US\$ 2972.76 billion. The impact of such a significant increase in trade has not only been

seen on the Chinese side, but has also been rather mutual as China's key trade partners, such as US and EU, saw a significant benefit. This mutual benefit is demonstrated by increase in US and the EU export to China and by the significant increase in the Foreign Direct Investment (FDI) in China.

Notwithstanding the economic benefits associated with China's accession to WTO, China's trade relationship with its western partners will not be without tensions and frictions. In 1999, China accounted for 43% of the total trade friction cases. In 2010 alone, China suffered from 66 remedy cases worth 7.7 billion US dollars. It is hard to imagine that the trend of these trade frictions against China will be reversed. On the contrary, as China's economy grows and its political and economic influence expands, the WTO framework is likely to provide space for increased frictions between China and its western trade partners.

Historical Overview of the WTO Accession

China signed the General Agreement on Tariffs and Trade (GATT) in 1948 to become one of the 23 original signatories. A year later, following the Chinese revolution, Taiwan government announced China's withdrawal from GATT system. However, the government in Beijing did not recognize this decision. On July 1986 China informed the GATT of its desire to "resume its status as a GATT Contracting Party. Subsequently, in March 1987 a working party was established to study China's status and the first meeting of the working party took place in October that year. In 1995, China's initial Working Party under GATT was transformed into a WTO Working Party. The scope of work of newly transformed WTO Working Party was expanded to encompass trading services, new rules on non-tariff measures and rules for intellectual property rights.

The Negotiation Process:

As any other country in the WTO membership process, China had to go through an extensive negotiation process involving all the members of the WTO. Membership in the WTO is consensus based. Thus extensive bilateral diplomacy and negotiation is an integral part of the process. China's negotiations were based on the Chinese advocacy that "the world needs China and China needs the world", highlighting the mutual economic benefits and trade opportunities. Given the size of the enormous Chinese market, the importance of China's economy and the opportunities associated

with the Chinese market could not be overstated. The WTO provided a platform for opening the country by liberalizing its trade policies, rules and regulations. On the other hand, China was well aware of its competitive advantages and their ability to comfortably compete in the international trade arena. Although the reform process initiated in 1978 had put China on the right path, WTO required China to implement additional set of reforms and upgrade its trade and commerce policy framework in order to be compatible with the international standards and norms. This included several areas of China's trade policies, such as schedules of market access commitments in goods and specific commitments in services, which were the focus of bilateral and multi-lateral negotiations.

Key Issues

China's accession no doubt provided a bright prospect of access to a significantly large and lucrative market. China's accession was widely believed to offer a significant boost to their international trade, the impact of which would be felt through a number of channels primarily the expansion of markets in China for exports, stronger competition in third markets, and expanding the horizon for Foreign Direct Investment. However, WTO accession is lead by a set of principles and criteria aimed at ensuring a level ground and competitive business environment. China had to satisfy WTO and to demonstrate its compliance with these rules. The China WTO negotiations centered around 5 key WTO principles.

China had to demonstrate its commitment and policy adherence to a fair competitive business environment without discriminating between domestically produced and imported goods/services. Further commitment by China were required to assure the WTO of the elimination dual pricing systems, phasing out restrictions on trading, and introducing a more uniform and balanced administrative and judicial system.

1. Adherence to the policy and principles of market opening and to abolish nontariff barriers, reduce tariffs, and open its service sectors. Responding to this requirement, China offered almost 50% cuts in import tariffs from an average 13.3 percent in 2001 to 6.8 percent at the at the end of the implementation period and successfully secured concession from other WTO trade partners to abolish the quotas on Chinese textiles and clothing. China further negotiated a

- commitment by the United States and other countries to impose MFN (Most Favored Nation) tariffs on China.
2. Enhancing transparency of its trade policies. China had to commit to a set of criteria, including publishing its trade policies, rules, and regulations, and to provide provisions for a uniform application of the trade regime and an independent judicial review. China further committed itself for annual transitional reviews for eight years following the accession. Moreover, China committed to phase out restrictions on trading rights for all products allowing entry of foreign suppliers into distribution and wholesale services, except for a short list of commodities that may remain subject to state trading.
 3. Demonstration of commitment to WTO principle of undistorted trade and disciplines in areas such as subsidies and countervailing measures, antidumping, and safeguards. Some of the commitments made by China were stricter than those normally required of developing countries, including refraining from subsidizing its agricultural exports that may generally be not prohibited in developing countries.
 4. China negotiated preferential treatment by WTO as other developing countries. This, however, was not an easy sell to WTO members. Although China's comparatively low per capita income placed it in the categories of developing countries, it was not an easy sell given the size and healthy growth of the Chinese economy. Though China succeeded to negotiate a preferential treatment agreement by WTO members, in certain cases it agreed to tighter restrictions than other developing nations. Notwithstanding that, China did manage to secure certain transitional arrangements in areas such as the phasing out of quotas and licenses, and phased entry of foreign enterprises, that are not generally available to developing country members.
 5. Adherence to the Agreement on Trade-Related Intellectual Property Rights (TRIPS), which is an integral part of the WTO. China had strengthened its intellectual property rights regime and, since 1990, has updated its laws on copyrights, trademarks, patents, and trade secrets.

China's accession process followed a long road. China did not hide how keen it was to join the WTO and used its full diplomatic leverage to mobilize support for its WTO membership. At the same time, China was well aware that some of the key WTO members, such as the United States and the EU members were equally interested in China's accession to WTO given the WTO's potential leverage in opening up the Chinese market for foreign investment. China therefore did not shy away to use WTO negotiations as a means of advancing its broader national interests. For instance, when in May 1999 the Chinese embassy in Belgrade was hit by a rocket/bomb during the NATO aerial bombing campaign, China froze its WTO negotiations.

A breakthrough in the process of negotiations took place when on September 11, 1999, President Clinton and President Jiang Zemin agreed on the sidelines of Asia-Pacific Economic Cooperation (APEC) forum in New Zealand to resume WTO negotiations. Although subsequent negotiations did face challenges, the summit commitment by the two presidents energized the process and helped to move the agenda forward, leading to the conclusion of negotiations and China's membership of the WTO in November 2001. See the table below for key millstones:

The Hong Kong and Macau Status at the WTO:

Following the takeover of Hong Kong's sovereignty by China from the United Kingdom, in 1997 the territory maintained its special administrative zone status with full autonomy to formulate and implement its own commerce and trade policies. As such, Hong Kong continued to be a member of the WTO post 1997. This was communicated by Hong Kong to the WTO through an official correspondence on May 30, 1997. The communication made reference to the April 24 1986 circulation by the Director-General of GATT to GATT members sharing a copy of official letter from the United Kingdom confirming Hong Kong as a separate customs territory with full autonomy to conduct its external commercial relations and other matters as required by the GATT framework and agreement. The Letter from the UK government led to Hong Kong becoming a contracting party of GATT in 1986. Hong Kong's communication further drew WTO attention to the Joint Declaration of the Government of the People's Republic of China and the Government of the United Kingdom with regards to Hong Kong,

signed in Beijing on 19 December 1984. The joint declaration confirmed China's exercise of sovereignty over Hong Kong with effect from 1 July 1997 and further stipulated that Hong Kong would maintain its status as a Special Administrative Region of China with full autonomy to maintain and develop relations, and conclude and implement agreements, with States, regions and relevant international organizations in the economic, trade and other fields.

It was in this context that Hong Kong, being a member of GATT retained its status as a contracting party and by virtue of Article XI of the Marrakesh Agreement Establishing the World Trade Organization, Hong Kong became an original Member of the WTO. In accordance with the arrangements described above, Hong Kong continued as a WTO Member on and after 1 July 1997, using the name of "Hong Kong, China" and retained its membership post 2001 accession of China to WTO.

Similar to Hong Kong, Macau also retained its membership of the WTO after its handover to China on 20 December 1999 and after 2001 China's accession to WTO. The history of Macau membership at WTO goes back January 11, 1991 when the territory, at that time under the control of Portugal, became a contracting party of the General Agreement. In light of Article XI of the Marrakesh Agreement Establishing the World Trade Organization, Macau became a founding Member of the WTO since its establishment on 1 January 1995, and assumed all of the corresponding rights and obligations through formal acceptance of the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations.

On 27 October 1999, the WTO received from the Government of Macau a formal request to continue, on its own, to be a WTO Member on and after 20 December 1999, using the name of "Macau, China".

The Macau letter made reference to the history of Macau's membership in GATT in 1991 following a formal communication from Portugal to GATT which declared that Macau was a separate customs territory, possessed full autonomy in the conduct of its external commercial relations and of the other matters provided for in the GATT General Agreement.

Similar to Hong Kong, Macau's letter also made reference to the joint declaration signed in Beijing on 13 April 1987 between

China and Portugal, confirming that People's Republic of China would resume the exercise of sovereignty over Macau as of 20 December 1999 and would become a Special Administrative Region of China maintaining the autonomous social and economic systems and trade policies and continuing WTO membership on its own, using the name of "Macau, China".

Macau's WTO membership status was not affected by China's accession to WTO.

The Impact of Accession

The year 2011 marked the 10th anniversary of China's accession to WTO. Coincidentally, 2001 also witnessed China taking over the position of the 2nd largest economy in the world after the United States of America. Over the past decade, China witnessed a phenomenal economic growth. By 2009, China managed to pull over 200 million people from poverty,¹¹⁹ which equals to 65% of the entire US population. This is a significant achievement by any standard. China's economic growth started in 1980, following the 1978 economic reform process. It continued throughout the 1980s and 1990s, in an overall healthy and upward trend. The WTO accession factor, however, cannot be overlooked in China's economic reform, growth and market expansion.

The WTO accession has had a profound impact on China's economy and its drive for economic reforms. It provided a clear road map with benchmarks for China's reform process. WTO rules are important ingredients in formulating good policies for development and it provided tangible incentives for China to accelerate its economic reform process and to open its market unleashing its private sector potential. As part of its WTO process, China opened more than 100 sectors for investment and revised over 3000 laws and regulations.¹²⁰

In addition, WTO provides a platform for China to increase its global political leverage by more forcefully engaging in international economic policy dialogue. China is very much aware of this as reflected by Minister Cheng Deming, the Chinese Commerce

119 <http://www.beijingtoday.com.cn/business/playing-under-the-wto-a-review-of-the-10th-anniversary-of-chinas-accession>

120 Chinese Commerce Minister Chen Deming, China Development Forum 2011: <http://english.mofcom.gov.cn/article/newsrelease/significantnews/201103/20110307461960.html>

Minister, during his speech in the China Development Forum in March, 2011 when he said: “In past decade, China, through studying and obeying the WTO rules successfully (China) turned from a fresh WTO member to a participant into formulating the rules”.¹²¹ The WTO Chief agreed with the notion of the growing role of China in the international trade policy setting as he put it “China would have a seat at the table as negotiations commence on the trade rules for the 21st Century”.

In terms of the economic impact of the WTO, China’s economy registered a sharp increase following accession to WTO in 2001. For instance, China’s economy grew from US\$ 795 per capita in 1990 to US 2,375 in 2000. However, the growth during the following 10 years was much sharper reaching US\$ 7517.7 per capita in 2010.¹²²

Such growth was primarily made possible by market expansion, new commerce and trade opportunities, higher foreign direct investment (FDI), and strengthening of the Chinese private sector. WTO helped open the world market to China and opened China to the world market. For instance, the increase in trade volume during the post WTO 10 year period was staggering. Total Chinese international trade volume (export and import) in 2001 was US\$ 509.6 billion. However, this volume jumped to US\$ 2972.7 trillion in 2010.

China’s recognition of the importance of opening up its market for foreign investment due to the global economic interdependencies is demonstrated by the remarks of the Chinese Premier Wen Jiabao who said that “China cannot develop itself in isolation of the world” and underscored the importance of “implementing mutually-beneficial and win-win opening up strategy”. WTO no doubt incentivized such “win-win” opening up of the Chinese market which provided significant investment and trade opportunities for other countries, especially the US and the EU.

This is demonstrated by the growth of the FDI in China in post WTO era. For instance, in 2010, total utilized FDI in China was US\$ 105.7 billion compared to only US\$ 48.8 billion in 2001. In

121 <http://www.beijingtoday.com.cn/business/playing-under-the-wto-a-review-of-the-10th-anniversary-of-chinas-accession>

122 China GDP per capita (PPP): www.indexmundi.com/china

addition, China's opening of the market resulted in a huge surge in imports following WTO's membership.

Given the attraction of the Chinese market, 480 multinationals among the world's top 500 are operating in China. Chinese market is expected to continue to expand and attract more foreign companies as more sectors are expected to become accessible for foreign investment and as local consumption demands are expected to grow. According to the Chinese Commerce Minister, expanding domestic consumption remains China's priority, which will lead to further increase in imports.¹²³

Trade Frictions:

There is no doubt that WTO accession by China was a huge boost to the Chinese economy and its impact was felt globally through expanded trade and new business opportunities. As China's economy grew, so did its purchase power expanding imports and creating opportunities for other countries, dominantly the US and the EU, to exploit the Chinese market. This, nevertheless, gave rise to trade frictions between China and the West. In 2010, China accounted for 43% of the total legal trade cases worldwide.¹²⁴ According to a WTO report issued in December 2010, China globally ranked first in receiving anti-dumping (AD) investigations with 23 new investigations directed at its exports in the first half of 2010.¹²⁵ Moreover, China accounted for 75% of the global anti-subsidy cases. In 2010 alone, China suffered 66 trade remedy cases, involving US\$ 7.7 billion.

However, some might argue that such a large number of legal trade cases against China may only be due to the huge Chinese trade that account for more than 10% of the entire global trade. The Chinese appear to perceive this as part of the Western strategy to use WTO framework and its dispute resolution mechanism as a means of pressuring China to further open its market for Western investment. This impression was reflected by Li Chenggang, the Secretary of Treaty and Law of the Ministry of Commerce in an interview when he referred to the legal trade cases against China and said: "This is driven by broader geo-political factors and used a tool

123 <http://www.beijingtoday.com.cn/business/playing-under-the-wto-a-review-of-the-10th-anniversary-of-chinas-accession>

124 www.en.zgxu.com

125 http://news.xinhuanet.com/english2010/china/2011-01/27/c_13710154.htm

to pressure China for opening its markets even more. China is getting used to it and it will not be intimidated”. Li Chenggang further predicts the trend of legal trade cases against China will grow. He, however, underlined the importance of respecting the dispute settlement conclusions of the multi lateral dispute mechanisms by China. He argues that this will promote a well functioning multilateral trade disputes system, which is the long-term interest of China.

On the other hand, the Chinese appear to use the WTO dispute resolution mechanism as a tactical and temporary protectionism measure. For instance, The US and EU filed a case against China accusing it of breaking WTO rules and regulation by imposing higher import tax on certain automobile parts. Although China lost the case, it took four years. Li Chenggang argues that though China lost the case and it had to readjust its tax policy, the local industry nevertheless gained 4 years to improve its capacity and competitiveness. He says “losing (a trade legal) case is not like losing a sports game. Its loss is also a gain”.¹²⁶

Intellectual Property Rights in China.

The issue of Intellectual Property Rights (IPR) has been another issue of contention and China has been under constant pressure to enhance its IPR protection mechanism. According to some estimates, the piracy rate in China remains one of the highest in the world. U.S. companies alone lose over one billion dollar in legitimate business each year to piracy. On average, 20 percent of all consumer products in the Chinese market are counterfeit, targeting both foreign and domestic companies.¹²⁷ However, since joining the World Trade Organization (WTO), China has made progress to strengthen its legal framework and revise its IPR related laws and regulations in order to comply with the WTO Agreement on Traded-Related Aspect of Intellectual Property Rights (TRIPs). According to Asia Times Online, China’s progress in improving IPR protection was also recognized by the US-China Business Council report released in mid February 2011 saying “the IPR legal framework has become less of an issue overtime because of China’s efforts to build an increasingly comprehensive regulatory framework for IPR”. The

¹²⁶ www.en.zgxu.com

¹²⁷ www.mac.doc.gov/china/docs/businessguides/intellectualpropertyrights

report further recognizes that many companies that overall IPR picture has shown steady improvement, albeit with slow pace.¹²⁸ In 2008, IPR protection was elevated to a national strategy.

It is expected that China will increasingly improve and strengthen its IPR laws and implementation mechanism, not only because of its legal obligations under the TRIP framework, but also because of China's growing commercial interest. This is because China is increasingly spending more on Research and Development (R&D) programmes. According to the chinadaily.com, China now occupies 5th place in the world in terms of R&D spending. It spends 1.6% of its GDP on R&D. With economic growth of China, the investment in R&D is expected to further grow laying foundation for a strong innovative environment prompting China to enhance IPR laws and enforce its implementation at home, and to become more active in the global IPR policy enforcement.

Conclusion

Joining the WTO was a significant milestone in Chinese economic success. The accession further incentivized China's economic reform process and provided a roadmap accelerating the reform process. It opened new opportunities to enhance Chinese trade, strengthened its private sector, and unleashed the Chinese enterprise potential at home and abroad. In addition to the remarkable economic benefits, WTO provided a platform for China's deeper engagement in the global trade and commerce dialogue and policy settings and enhanced its international political leverage.

As the Chinese economy continues to follow a healthy growth in the foreseeable future, China's investment in R&D is expected to further expand. This would most likely give a significant rise to Chinese innovation forcing China to enhance its IPR laws and their implementation. It may also force China to adopt aggressive IPR policies in the international arena in order to protect its intellectual property rights globally.

In spite of the growing mutual economic interdependencies between China and the West, their trade frictions are expected to grow using the WTO platform. Although China feels that most of

128 Asia Times Online, March 26, 2011: www.atimes.com

the cases against it are driven by political motives, China is less likely to actively advocate for tightening the WTO dispute resolution mechanisms. China would rather use the loopholes for its own advantage to protect its interests.

INVESTMENT REGIME

Editor's Note: The magnetic pull of the Chinese economy for foreign investors makes it vital for the latter to have a better understanding of the rules and procedures that apply. Because of cultural differences, most of these are substantially different from those operating in Western markets. Hopefully, the following article will clarify the opportunities and pitfalls.

Introduction :

One of the important factors that have contributed to the phenomenal growth of the Chinese economy over the past three decades is investment.

The legal system of China did not encourage foreign investment or even local investments previously. This was reversed in 1979 when the People's Congress issued the Law on Chinese-Foreign Equity Joint Ventures.

In order to encourage investment, a number of laws and regulations have been implemented. These guarantee independent operation rights and interests of both national and international investors.

With a step by step opening-up of the financial market, the stock market in China has become one of the most active markets in the world.¹²⁹

The Emergence of the Chinese Stock Market

The beginning of share dealing in Shanghai can be dated to late 1860s. In June 1866 a list of thirteen companies, including the Hong Kong & Shanghai Banking Corporation, appeared in a local newspaper under the 'Shares and Stock' section.

According to The North-China Herald this was about the time when a regular system of dealing in Share began. In 1891, during the boom in mining shares foreign businessmen founded, in Shanghai, the Share Broker's Association.

¹²⁹ jshop.javvin.com" China Stock Market Handbook"

None of that is however relevant to the developments that have taken place since the establishment of the Peoples Republic of China in 1949.

Chinese Regulatory Organization of Investments

Over the past thirty or so years, a number of laws and regulations have been issued in China that encourage investment. The most important of these are: The Law on Chinese-Foreign Equity Joint Ventures, The Law on Chinese-Foreign Contractual Joint Ventures, and The Law on Wholly Foreign-Owned Enterprises.

Furthermore, China has been reviewing its laws to conform to the World Trade Organization's (WTO) guidelines regarding foreign direct investment and foreign currencies. This has created and enabled an environment for investment.

The growth and expansion of different types of shares and stocks trade, the Government needed to put in place detail Securities Laws to respond to this expanding market.

Therefore, numerous securities market rules and regulations emerged over the decade of 1980s. But China's securities trade laws were fully regulated by the Securities Law of the People's Republic of China and firmly established in 1999. Yet, the law has been revised considerably with many provisions modeled after United States securities laws.

In essence, the law demonstrated a commitment upon the part of China's government to move closer to the adoption of a national securities law regime which was both suite the local environment and WTO regulations – these lessons were drawn from foreign experiences and sources.

One must keep in mind that China's laws and regulations, and its business environment still need to go a long way to create and excellent environment for investment.

There is no doubt that there is a genuine commitment to move closer to the rule of law. This legitimate approach to the securities market regulation in the People's Republic of China should fuel further economic growth over the coming years. Therefore, the financial future appears bright for China.

After intensive negotiations, the People's Republic of China agreed to give a lengthy list of commitments to change its existing trade and investment practices – in short, to more transparent.

Changes in the Foreign Investment Regime

As China joined the World Trade Organization in 2001, its main concern was foreign investors and potential participants in its markets. This was of great interest and commitment to further open-up its economy. The government has taken – and continues to take – significant steps towards making the legal changes necessary to fulfill its obligations of WTO rules and regulations.

For instance, in order to invest or purchase shares in an existing company, an investor must go through an application process, following laws and regulations in mergers and acquisitions, and then the Chinese company can be converted into a foreign investment enterprise or as a co-joined entity. The laws governing less than 25% ownership by foreign investment were recently amended in an entity which does not satisfy the traditional requirements of a joint venture. Yet, the policy which restricts foreign investors in the local traditional investment structures has not changed since WTO – two systems in one structure. There are, of course, advantages for foreign investors in this bi-furcated system, since foreign investment enterprises continue to enjoy tax exemptions and reductions, and other forms of preferential treatment.

There are, however, a number of disadvantages in the foreign investment structure. For instance, most foreign investment enterprises are joint ventures or wholly foreign owned enterprises, which are "registered capital" rather than shares. This is particularly so in the case of a joint-venture that resembles an incorporated partnership closely related to a Western limited liability company. This structure presents a number of difficulties for the foreign investor, these are: requirements for the unanimous consent of the partners in relation to merger, amendment of the constituent documents of the company, liquidation and dissolution and changes in registered capital. This means that even a minority partner has significant control over the joint-venture; and the right of first refusal is given to other shareholders in relation to transfers of equity, making the company illiquid. In the event of a dispute between the

partners/parties, it is very difficult for one partner to force the dissolution of the company or to obtain a final resolution of the dispute without government intervention of some kind.

The exception to the above is the case of a foreign investment joint stock company (which must be approved at the central government level).¹³⁰ One must keep in mind that the foreign investment enterprise structure is not suitable for multiple investors. Hence, in a structuring joint-venture capital investment where there is more than one investor, it becomes much more complex.

Since China joined the WTO, major changes in the mergers and acquisitions regime to facilitate foreign investment in state-owned and privately owned domestic enterprises have not changed.¹³¹ Many of these issues also arise in the case of limited liability companies. The requirements a joint-venture structure, however, considerably reduce the flexibility available to foreign investors in this structure. Other issues which add to the difficulty are costs and time to the investment process and its approval.

First, an investor must determine at what level of government it needs approval for the project to be approved, since to date, all foreign investment projects require government approval before proceeding – a common practice in many countries.

Secondly, the parties are obliged to go through an approval procedure which requires that a project approval is obtained, a memorandum of understanding is signed, and an application, together with a feasibility study, environmental report, asset appraisal (in some cases), joint venture contract, articles of association and so on, is submitted to the relevant authority under the Ministry of Commerce (previously the Ministry of Foreign Trade and Economic Relations). After approval is given, the company must be register with the State Administration for Industry and Commerce.

¹³⁰ Provisional Regulations on Reorganizing State-owned Enterprises Using Foreign Capital, issued by the State Economic & Trade Commission, Ministry of Finance, State Administration for Industry & Commerce, State Administration of Foreign Exchange Control on 8 November, 2002 and effective on 1 January 2003.

¹³¹ Provisional Rules for Foreign Investors' Merger & Acquisition of Domestic Enterprises, issued by the Ministry of Foreign Trade & Economic Cooperation, State Administration of Taxation, State Administration for Industry & Commerce, State Administration of Foreign Exchange on 7 March, 2003 and effective on 12 April 2003.

Again, the process can be time-consuming, particularly the review of the feasibility study in the case of a large project, and is particularly wearing for a small or medium sized enterprise that does not have the time and resources as major business entities. Recent developments within the Decision of the State Council are indicative of more promising development to make the environment to smaller business entities.

In this regard, considerably more power to provincial governments will be given to approve projects, encourage and ease restriction by raising the approval thresholds. For instance, the level of investment at which a project must be referred for approval by the central government is from US\$30 million to US\$100 million. In the case of prioritized and encouraged projects, of US\$50 million, the restricted list, approvals, permits, registration and other government requirements are numerous but less cumbersome.¹³²

An important and key legal instrument, is The Law of the People's Republic of China on Administrative Licenses¹³³ which has not, as yet, attracted a great deal of attention. It is likely to constitute one of the most far-reaching changes to Chinese regulatory procedures resulting from China's accession to the WTO.

The Administrative Licensing Law sets out procedures for licensing. It is defined as the acts that administrative organs permit citizens, legal persons or organizations to engage in business.¹³⁴ The law sets out of the basic principles of publicity or transparency, fairness and impartiality, and requires that regulations relating to an administrative license must be published - meaning that the grant of a license must be disclosed. Regulations relating to licensing must be published under Article 5 and applicants have the right to apply for reconsideration or take legal action under Article 7, if issues arise. The law defines the circumstances in which licensing requirements may be imposed under Article 12, and sets out strict procedures and time limits to control the licensing process under Chapter IV.

¹³² See China Economic News (No. 34) 6 September, 2004, pp 10-12; Development and Reform Commission official on reform of investment system; reporter Dong Jian.

¹³³ See World Trade Organization Report of the Working Party on the Accession of China WT/ACC/CHN/49 1 October 2001 Item 306.

¹³⁴ Promulgated by the National People's Congress on 27 August 2003 and effective 1 July 2004.

The law is quite comprehensive. Regrettably, do to the limitation of limited space; it is not possible to do more than provide an overview of its contents in this paper. An investor must bear in mind, the significance of the laws and procedures for foreign investors, as well as for Chinese individuals and local enterprises. The significance is that it opens up the licensing and approval process. It is monitored and made public; it grants the right to appeal against an adverse decision and imposes strict time limits on the handling of applications. Furthermore, the implementation of the law has been taken very seriously by government departments.

The State Council for example, has recently issued its third List of Matters, encompassing 409 items, for which an administrative license is no longer required.¹³⁵ Government departments, including the State Administration of Taxation,¹³⁶ the General Administration of Customs¹³⁷ and the State Administration of Foreign Exchange, have issued rules or notices relating to the implementation of the law.¹³⁸

It is not completely clear yet to what extent these changes will improve the licensing process for foreign investors. As competition between local authorities for new foreign investment projects has increased, many approving authorities have already moved to expedite their approval processes.

Wholly Owned Foreign Enterprises

Wholly foreign owned enterprises are permitted to register in cases where at least half of their annual output is exported or if the nature of their operations relies heavily on advanced technology and the application of this high technology is beneficial to China. Approval to establish a wholly foreign owned enterprise is granted much more carefully when compared to joint-ventures.

Like joint ventures, wholly foreign owned enterprises are in most cases required to balance their foreign exchange. They are

¹³⁵Decision of the State Council concerning Canceling and Adjusting the Third Batch of Items for Administrative Examination and Approval, issued and effective 19 May 2004.

¹³⁶ For example, Circular of the State Administration of Taxation concerning Implementation of "Law of the People's Republic of China on Administrative Licenses" issued December 2003

¹³⁷ Measures of Customs of PRC on Implementation of "Law of PRC on Administrative Licenses" issued 18 June 2004 and effective 1 July 2004. Circular of the State Administration of Foreign Exchange concerning Implementation of "Law of the PRC on Administrative Licenses" issued 4 December 2003

¹³⁸ Idem

allowed to occupy facilities other than those managed by the Foreign Management Bureau. As a Chinese legal entity they may sign separate contracts with the appropriate government authorities or Chinese business entities to acquire land use rights, rent buildings, and receive utility services.

These enterprises enjoy exclusive management control of their business activities and have autonomy in their operation, and management, with less interference from the government. Because there is no local partner to guide the project through the approval process and through the other regulatory issues associated with construction and operation of the enterprise, the logistics of establishing a wholly foreign owned enterprise can be difficult and costly. Therefore, the best solution is consultancy expertise from a local or foreign entity with extensive experience in the matter at all levels.

An investor must bear in mind that a wholly foreign owned enterprise is considered a Chinese legal entity and must abide by the law of the land. These enterprises must employ Chinese labor in accordance with local and Central government labor laws, and are encouraged to establish trade unions, but not required to do so.

Traditionally the wholly foreign owned enterprise has rarely been the chosen method for investment in China. The independence offered to the foreign investor is often outweighed by the lack of direct links to the domestic economy and contacts. Most international corporations choose to establish joint-ventures to benefit from the relationships and connections provided by the local partners – a practice not unique China.

Recently, major international players in China's telecommunications industry including AT&T and Ericsson have set up wholly owned enterprises. In order to handle much of the domestic management, it is done by regional representative offices. Only after years of business experience in China and despite their registration as a wholly foreign owned enterprise they maintain the registration of their representative office .139

139 Standing Committee of the National People's Congress (2000-10-31). "Law of the People's Republic of China on Wholly Foreign Owned Enterprises". Lehman, Lee & Xu. <http://www.lehmanlaw.com/resource-centre/laws-and-regulations/foreign-investment/law-of-the-peoples-republic-of-china-on-wholly-foreign-wned-enterprises-2000.html>. Retrieved 2008-01-28

Governmental Standards

There is no doubt that China's openness to foreign investment has improved remarkably since the reforms of 1978. Again, guidelines and standards applied to all foreign investments, keeping in mind that the investment law is targeted to one thing, the legitimate right of Chinese interest. This does not limit the reality that investing in China can be a difficult process, if the project proposed does not come under the targeted investment area proposed by the government. The areas of interest where investments are encouraged include: the high technology sector, especially those sectors dealing with energy, transportation, environmental protection, improve methods of agriculture and raw materials. On the other hand, area of investment that cause substantial environmental damage or very large scale farming enterprises are prohibited by state law.

Exchange Traded Funds (ETFs) :

As a large recipient of foreign direct investment (FDI) capital, which represent the amount of capital investors are willing to investment and risk in particular region, investors in China can invests via exchange traded funds, mutual funds, common stocks and closed-end funds. Just as well, an oriented exchange traded fund can slowly invest in Chinese stock bonds or other securities. In fact, many Asian EFTs have large investments in China. Mutual funds also offer investors another alternative to reach the Chinese market of derivatives.

Scale and Types of Chinese Stocks

China's stock market started in the late 1980s, at the time, it was a small trading counter. It was set up by the Industrial and Commercial Bank of China but did not represent a typical stock market that traded via tickers or broker, yet few shares were traded.

Investors that desire to invest in shares of Chinese corporations directly from a stock exchange can invest in the following:

A-Shares: These are almost exclusively offered to Chinese people, they are listed on the Shanghai and Shenzhen Exchanges, denominated in renminbi, not freely convertible to international currencies since November 2002, Qualified Foreign Institutional Investors (QFIS), such as large banks, funds, and securities

companies with U\$10 billion in management have been allowed to buy up to 10 percent of a company's shares.

Later invitation to join the party, approved after long trend in China stock prices, doesn't give the average investor access to these shares.

B-Shares: This class of shares was first created in the mid 1990s to be sold solely to foreigners using foreign currencies. At that time, Chinese companies were attracted to the idea because foreigners eager to invest in China were at first willing to pay more per share than their domestic counterparts. B-Shares are denominated and listed in Hong Kong Dollars on the Shenzhen Exchange and in U.S. Dollars on the Shanghai Exchange.

Also, B Shares trade at a significant discount to A-Shares, they tend to be illiquid and difficult to buy or sell. In addition, the Hong Kong market also provide access to stocks of companies doing significant business in China.

H-Shares: Chinese companies have by far the most listing overseas beginning in Hong Kong. Shares listed outside China are freely open to all foreigners. The largest block of these are H-Shares listed on the stock exchange of Hong Kong and in Hong Kong Dollar which are fully convertible. These are: China mobile, China Unicom, China National Offshore Corporation (CNOOC), as well as all leading Chinese components on the Hong Kong exchange, the Hang Seng Index.

S-Shares: This refers to shares sold on the Singapore Exchange. Singapore traditionally maintained close links with china. As 2006, over 14 percent of the listing on the Singapore Exchange was Chinese companies. S-Shares are also freely tradable and convertible, as is the Singapore Dollar.

N-Shares and ADRs: These refer to Chinese companies listed directly on the New York Stock Exchange or the NASDAQ. For instance, in 1999, China.com and sina.com listed on the NASDAQ. U.S. listing has traditionally been considered prestigious and once purchased at higher prices. But now Asians shares trend drive their prices high enough and IPOs are a lot expensive to amount in the U.S.

Another way that Chinese company can list abroad is to sell shares from an initial issue on mainland or on the Hong Kong

Exchange to an investment bank which then will act as the intermediary and underwrite American Depositary Receipts(ADRs) on a foreign exchange against their holdings of the original.

J-Shares: In April 2007, Asia Media Co., a Beijing-based provider of TV Program guides become the first Chinese company to get listed in the Tokyo Stock Exchange's market for emerging companies. Many international exchanges are eager to attract business and publicity through Chinese company listings of J-Shares. For instance, the London Stock Exchange announced in late 2006 that it would step up efforts to attract listing from Chinese Companies. To date, they have six Chinese companies listed, but the smaller Alternative Market (AIM) board in London has long been a destination for Chinese company with forty-six (46) current listing.

OTCBB: There are thousand of more obscure companies, frequently termed "penny stocks" that don't meet NASDAQ's listing requirements. These companies trade separately, some time referred to as "Pink Sheet" - these are part of daily publications compiled by the National Quotation Bureau and contain price quotations for over-the counter stock in the United States.

STAQ AND NET: In addition to the Shanghai and Shenzhen Exchanges, China has a nation-wide, over the counter system named "First". It is a computerized trading structure called the Securities Trading Automated Quotations (STAQ) system, modeled after the NASDAQ in the United States. The STAQ system is the world's largest computerized trading method, as ranked by the number of computer outlets. The other is The National Electronic Trading (NET) system which trades in Chinese treasury bonds and shares owned by state-owned enterprises. These will eventually be open to all investors.

Facts to Consider

- Investors who intend to purchase in the stock market of China need to be cautious because of emerging market equities are volatile, also because these markets tend to lack transparency and market regulations.
- A-Shares were double the price of B-Shares and a third higher than H-Shares.
- There are different and several ways to invest in the Chinese stocks market.

- There are difficult wrinkles in such a system and a foreigner would be prohibited from buying A-Shares in accompany listed in China, but could buy B, H, L, N, or S-Shares in the same company.
- Many of China's more mature and profitable companies are not available to domestic investors because the companies are listed on overseas or foreign exchanges.
- Similar Japan, China's stock market has leaned heavily to towards the industrial sector with many manufacturing-oriented companies based on the Dow Jones Global Classification Standard.
- China Mobil and China Unicon are both listed and traded in Hong Kong Exchange only.
- The strategy for investors with an interest to investment in China is to tap on the vision of China regarding the field of investment or priorities.

Conclusion

An investor must keep in mind that to invest in China, approval by the local authorities, is necessary, especially if the initial investment is under \$30 million US Dollars.

If higher the Central authorities must be in direct involved in the approval of the project.

The Benefits:

- A foreign investor seeks to invest in China in certain sectors will receive prefer initial treatment and tax incentives.
- High technology and energy related fields are given special treatment, they are exempt from any tariff laws and in general (not pay a reduce rate) value add tax (vat) during protection
- Some especially strategic areas of technology are exempt from business taxes for a limit set by special arrangement.
- The Chinese government has made it equally attractive investment packages for those interested in investing in under developed and populated part of the North West and Central China.
- It is clear that Chinese investment law are aimed and targeted towards certain investment types of investments

that support the economy and strategic sectors of great interest to the Chinese state.

- With China's tight restrictions on new companies entering the market, supply is limited. And with the swelling masses of new investors, demand is immense. The result is a typical supply and demand battle where the supply of shares to buy cannot keep up with the demand to buy them.
- The Chinese government is attempting to address this problem on two fronts. They have been relaxing the restrictions and regulations on Initial Public Offerings (IPO's) in order to hasten the increase of available shares on the market. The theory is if it is easier to enter the public sector, more companies will want to do so, creating a situation whereby more and more shares of stock make it to the market.

By contrast, many economists are predicting America's economic growth might slow down as consumption drops in the United States and elsewhere. Morgan Stanley's chief economist, for example, has voiced public concern that while the U.S. may not be heading into recession, it's coming close. Others are not so sure that a recession is out of the question, particularly those concerned with the prolonged inversion between the yields on short-term and long-term U.S. Treasury securities - an economic indicator that has correctly predicted recessions more often than not.

ENERGY

Editor's Note: With its large population, and its huge economic growth, it is inevitable that China's consumption of energy will expand considerably. This implies a constant search for sources of sure supply, an energetic control of consequential pollution in accordance with international norms, all the while ensuring independence from all possible external constraints. This paper attempts to identify some of the parameters of these problems.

Introduction:

With a population of 1.3 billion people, and a fast growing economy, energy use in China is a fundamental element of its national interest. According to the 60th annual BP Statistical Review of World Energy, published on 8 June 2011, China stepped ahead of the United States to become the world's largest energy consumer in 2010, with a total global share of energy consumption of 20.3%. Prior to this, China, was the world's second highest energy consumer, after the United States, even though per capita consumption in China was only one-thirteenth of consumption in the United States. Primary energy consumption in China increased from less than 18 quadrillion btu in 1980 to 37.1 quadrillion btu in 1996, and is projected to reach 98.3 quadrillion btu by 2020.¹⁴⁰ Coal is the main source of energy in China, accounting for more than three-quarters of its electricity, and others include oil and non-conventional hydrocarbons, natural gas, nuclear power, electric power, renewable sources, automobiles, and motor systems. Projections are that China's energy use will increase even higher, and already figure prominently in its relations with strategic international partners. The giants of China's oil sector are China National Petroleum Corp (CNPC) with its operative arm PetroChina, China Petrochemical Corp (Sinopec), China National Star Petroleum Corp

¹⁴⁰ See Erica Strecker Downs "China's Quest for Energy Security" a RAND Corporation http://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1244/MR1244.ch2.pdf; see also Gal Luft "Fueling the dragon: China's race into the oil market", IAGS Spotlight article, available at <http://www.iags.org/china.htm>

(CNSPC), and China National Offshore Oil Corp (CNOOC), which is involved in the country's offshore oil and gas operations. Projections are that, based on current performance of the energy management system including contracting system and its related collaborative efforts, China's ability to meet its energy requirement remains a major challenge. In this paper, we discuss China's energy requirement, how it sources and manages its supply from local production and imports, and how this then impacts its geopolitics and international relations.

Energy requirements and supplies

The energy sector in China has evolved dramatically. Demand for electrical energy, reached 10 percent in 2000. Several reports are that China's demand grew by 14% between 2003 and 2005. Between 1995 and 2000, demand for crude oil grew by 5.3 percent, but internal oil production increased by 1.9 percent in the same periods. In 2005, indicators were that industry accounted for close to 70 per cent of China's energy demand, with only 11 per cent for domestic or residential demand. Regarding oil production, reports are that in 1949, when the People's Republic of China was born, it had only three oilfields producing 120,000 tons of crude oil. Crude oil production increased continuously and reached 6.48 million tons in 1963. With this, China attained energy self-sufficiency. Following the new discoveries of oil and gas, China reached the target of 100 million tons of oil yearly, in 1978. This increased to 140 million tons 1995. Production subsequently grew annually by 27.5 percent reaching 2.14 billion, following the discovery of new oilfields in the northeast, north and northwest regions amongst other things. That of natural gas reached about 70 million cubic meters. Onshore production accounts for about 90 percent of China's oil production, but 40-45% of the requirement is imported as we shall see below.¹⁴¹

Coal is the main source of energy in China, accounting for more than three-quarters of its electricity, being about 65-70% of the energy requirements. China operates 24,000 coal mines. Coal is however, highly polluting, and the Chinese government has had to

141 see Suisheng Zhao: "China-U.S. Relations transformed: Perspective and strategic interactions", Psychology Press, 2008, page 163, available online at <http://books.google.com/books>.

reduce its use, closing 33,000 small mines since 1998. Local governments are implementing energy conversion strategies, shifting from coal to natural gas in order to reduce pollution. In Beijing alone, thousands of industrial boilers were converted into gas engines to improve air quality, as part of efforts for the country to win the quest to host the Olympic Games of 2008. Overall, Chinese energy experts project a 30-50% decline in China's energy requirements met by coal-fired plants, and that the remaining 50-70% will be provided by a combination of oil, natural gas, hydropower, nuclear power, biomass and other renewable energy sources. The most important gas-producing regions include Sichuan, Daqing, Changqing, Liahoe and Tuha. The Yacheng gas field in Yinggehi basin between Hainan Island and Vietnam is also very important.

The growing energy demand in China greatly outmatches production. Average oil production was barely 1.9 percent annually during the ninth five-year plan between 1996 and 2000. To make things worse, first oil the cost of oil extraction became more and expensive and challenging in Tarim basin, as in other Chinese oilfields, owing to outdated technology and distorted incentive. Furthermore, China faced the desperate spread and availability of energy sources across the country. While the northern and eastern regions enjoy a surplus in electricity supply, other regions, such as Guangdong, which has a 20 percent yearly growth in demand for electric supply, is experiencing shortages. The supply of coal, gasoline and diesel fuel suppliers is sporadically withheld because contract prices for coal are below market prices, particularly in major coal producing regions. This is the case of Henan, where 40 percent of coal-fired power plants had fuel reserves equivalent to no more than three days of demand, according to a report on the State Grid's website. On the other hand, as a result of on-going economic growth, demand rose by over 5.3 percent each year. China thus become an increasingly reliant on imported energy, according to Downs, China became a net oil importer in 1993, and now imports nearly 2 million barrels per day. Imports of crude oil surpassed 60 million tons in 2000, compared with domestic production of about

165 million tons.¹⁴² This is projected to increase to more than 6 million barrels per day by 2020. When this happens global markets are likely to feel the impact.

In order to meet its energy requirement, China also implements a comprehensive energy security strategy, consisting of demand reduction, diversification, leveraging bilateral relationships with external partners. First, it attracts foreign capital for offshore production primarily in three areas off the east coast, namely Bohai Bay, the East China Sea northeast of Taiwan, and the South China Sea-Pearl River Delta basin off Hong Kong. Secondly, China is working to balance the availability of energy in different parts of the country through the construction of pipelines. To address geographical disparities in supply, the West–East Gas Pipeline was built. It was fully operational by 1 January 2005. The pipeline is owned and operated by PetroChina West–East Gas Pipeline Company, a subsidiary of PetroChina. Construction of the second West–East Gas Pipeline started on 22 February 2008. The 9,102 kilometres pipeline (5,656 mi), including eight sub-lines, will run all the way from Khorgas in north-western Xinjiang to Guangzhou in Guangdong. The western part of the pipeline was scheduled to be commissioned by 2009, and the eastern part by June 2011. The capacity of the second pipeline would be 30 bcm of natural gas per year, and will be mainly supplied by the Central Asia-China gas pipeline. The project is being developed by China National Oil and Gas Exploration and Development Corp(CNODC), a joint venture of China National Petroleum Corporation and PetroChina. Moreover, China is planning the building of various terminals to import liquefied gas to Guangdong and along the coast between Shenzhen and Shanghai. It is important to note that China’s energy infrastructure development efforts linking different parts of the country could help strengthen internal cohesion which is major challenge, considering the size of the country. China is also building relations with key Middle East suppliers. Other pipelines are being constructed, including a gas pipeline from eastern Turkmenistan to the Pacific port of Lianyungang, where it could be liquefied or transported for export. This 6,000 kilometers-long pipeline will be

142 See Lisa Ghini Anna, “Chinese quest for energy”, an Asia Times paper, available at <http://www.atimes.com/china/DD12Ad01.html> for a detailed explanation.

the longest in the world. Esso China (Exxon Mobil), Mitsubishi (Japan) and CNPC are involved in its construction.

China is also diligently developing its energy reserves. The largest gas and oil reserves of China are in the west, notably in the sparsely populated Xinjiang region, the “Chinese Texas”, which is a vital region for China holding 75 percent of the mineral resources of the country, especially oil. Since 1990, the oil output in Xinjiang has been increasing by 1.11 million tons annually on average, its oilfields now supplying a third of total output. In 2004, Xinjiang produced 22.60 million tons of crude oil, and CNPC and Sinopec, worked for the region's oil and natural gas output to reach 30 million tons and 18 billion cubic meters, respectively, by 2010. A third of the coal resources and a quarter of the oil sources are also in Xinjiang.

In its efforts to revive the internal oil and gas sector, China also opened-up exploration and exploitation of basins up to 150,000 square kilometres to foreign companies, with foreign investment totalling \$1.5 billion. China also offered 11 onshore concessions, including Tarim and Ordos basins. On August 24, 2001, the China National Offshore Oil Corp (CNOOC) and Taiwan's Chinese Petroleum Corp announced that they were working on a deal to conduct joint exploration of the southern Taiwan Strait, in the Chaoshan Trough and Tainan Basin. This is believed to be one of the fruits of recent improvement of economic cooperation between China and Taiwan, with massive Taiwanese investments in mainland China. As opposed to the mainland, Taiwan's imported oil accounts for 90 percent of the oil consumption on the island.¹⁴³ The Chinese government is also investing in wind turbines in Xinjiang and Guangdong, though this energy source is at present comparatively insignificant. The hydro-electricity from the Three Gorges and other dams will increase the energy supply from 20% to 28%. It is interesting to note that 22,000 of the 45,000 large-scale dams around the world are in China, and China's Three Gorges dam is the world's biggest hydroelectric dam.

China expanded has also extended its external sources to countries in other regions of the World.¹⁴⁴ These include Russia with

143 See Kenneth R. Stunkel, *National energy profiles*, Praeger, 1981, page 371.

144 For it engagement in the Asia, see for instance, See Pablo Bustelo “China and the Geopolitics of Oil in the Asian Pacific Region” Elcano Royal Institute for International and Strategic Affairs Madrid.

which signed a US\$ 1.7 billion feasibility study in 2001 for a proposed 2,400-kilometer pipeline that by 2010, to deliver 30 million tons of Russian oil to Chinese refineries each year. China is also working with Kovykta project with Russia to import gas from Siberia and eventually re-export it to South Korea. It also allowed Foreign companies to explore China in the search of new basins, including of methane. Furthermore, at the beginning of September 2001, the Chinese and Russian prime ministers, Zhu Rongji and Mikhail Kasyanov, agreed to build a 2,400km oil pipeline by 2005 from Siberia (Irkutsk) to Daling in north-eastern China. In 1997, CNPC out-bid US and other companies to win a major share in two of Kazakhstan's largest oilfields and a contract to build a \$4.4 billion deal for a 3,000-kilometer pipeline from Kazakhstan to China that would also supply Iranian refineries. This gas could be sold to countries such as Japan and Korea. China has extended its strategy to exploiting oil and gas in other countries, including Russia, the Middle East, Africa - particularly Sudan - Southeast Asia, Latin America, and above all Central Asia, including Saudi Arabia, Kuwait, Iraq and Iran.

Energy Contracting Policies

Following the oil crisis of the 1970s and facing an ever increasing high requirement, China has been pushing a number of Energy Conservation and Emission Reduction policies and strategies to address its high energy requirement. At the national level, these policies and targets focus on Energy Conservation and Emission Reduction, and on Energy Performance Contracting (EPC). In 2006, China announced a plan to reduce energy consumption per unit of GDP by 20%, and reduce major pollutants emissions by 10% by 2010,¹⁴⁵ and has been developing its EPC industry. On October 28, 2007, the China's Energy Conservation Law was amended, and on November 25, 2009, China committed to lower its 2005 carbon dioxide emission level by 40%-45% in 2020.¹⁴⁶ Regarding the EPC programme, from in 2010, China started conducting reflection to formulate specific policies on EPC. These included the "Opinions,

<http://www.realinstitutoelcano.org/documentos/226.asp>

145 See the Outline of the 11th Five-year Plan for National Economic & Social Development of the PRC approved by the Fourth Session of the 10th National People's Congress on March 14, 2006; the General Work Plan on Energy Conservation and Emission Reduction issued by the State Council on November 22, 2007; and the Eleventh Five-Year Plan of National Environmental Protection released by the State Council on June 3, 2007.

146 See PRC Energy Conservation Law amended on October 28, 2007

“Interim Measures” and “General Technical Rules” issued by the General Office of the State Council on April 2, 2010.¹⁴⁷ The Opinions set two development targets, first to provide government to support a few Energy Services Companies (ESCOs). Second, the purpose was to develop a few large scale ESCOs with full energy-saving services capacities. With this, China hopes to establish a regulated energy efficiency market by 2012, and hopefully build an advanced energy efficiency service system, by 2015, with the EPC model as one of the central energy efficiency strategies.

China’s Energy Performance Contracting (EPC) seeks to provide energy-saving services to the customers. It is implemented by the Energy Service Companies in China (ESCO). The EPC was introduced in March 1998, with the support of the World Bank and Global Environment Fund through the initiative known as China Energy Conservation Project. Phase I of the project consisted of three pilot ESCOs under this programme, in Beijing, Liaoning and Shangdong. The 475 energy-saving projects which the three companies have implemented for 405 enterprises with the total investment amount of RMB 1.331 billion, resulted in net profits of RMB 0.42 billion for the ESCO, while the energy service companies made benefits up to eight to ten times this amount. The energy saving capacity from these projects is up to 15.1 billion tons of standard coal, and CO2 emission reduction capacity created is up to 1,450,000 tons each year.

Types of Energy Performance Contracts

There are three main types of energy performance contracts namely, (i) energy-saving benefits sharing contract. In this category, the ESCO usually provides, at its own cost, construction service, materials, equipment and technology. The ESCO and the customer then share the utility savings generated under the contract. When the contract expires, the customer retains the energy efficiency equipments and is entitled to subsequent energy savings generated from the EPC project; (ii) an energy-saving guarantee contract the customer will bear the costs for the EPC projects, while the ESCO is responsible for implementing the EPC projects and guarantees a

¹⁴⁷ Opinions on the Acceleration of the Implementation of Energy Performance Contracting to Promote the Energy-saving Service Industries; the Interim Measures concerning the Administration of Financial Incentives to Fund the Energy Performance Contracting and the General Technical Rules for Energy Performance Contracting

minimum level of utility savings. Upon completion of the EPC projects, the ESCO pays the customer the difference, if the guaranteed level of savings is not achieved; (iii) an energy expense entrusted contract: the customer entrusts the operation or implementation its energy system or energy-saving innovation during the contract to the ESCO, at an agreed energy cost. If the energy expense, following implementation of the contract happens to exceed the agreed energy cost, the ESCO will pay the difference to the customer. If the energy expense is below the agreed energy cost, the ESCO will retain the difference. It should be noted the field practice, many energy performance contracts are usually hybrids of the three types.

Impact on energy consumption management

The evidence from research is also that richer Chinese households spend a higher share of their income on services. Since services are relatively more energy-green and do not involve high direct coal consumption, we can project that requirement for coal may decline in favour of clean energy sources which are in high use in the service industry. This will be the more important because studies are showing how this may also impact emissions, given the variations being revealed in house energy-use patterns (rich and poor, rural or urban, small or large, educated and uneducated or illiterate). This should result in different emission patterns in various categories of household. As a result various categories will need different paths to shift away from their respective amounts of coal consumption, towards cleaner energy sources and requirement, according to Chen and Zifeng.¹⁴⁸ Other observer believe that even though EPC model has been in existence in China for more than ten years, use of this contracting strategy “remains in dormancy.”¹⁴⁹ Beijing had committed to an ambitious energy efficiency campaign geared at cutting energy use intensity, or energy used per unit of economic output, by 20 percent from 2006 levels by 2010. The attainment of this target is however doubtful. The official Xinhua News Agency reported for instance that more than half of the

148 Kalley, Chen and Xu, Zifeng op.cit

149 See Kalley, Chen and Xu, Zifeng (2010) “Energy Performance Contracting in China” in King and Wood China Bulletin, October 2010 Special Issue, accessed on 15 May 2011 at <http://www.kingandwood.com/article.aspx?id=Energy-Performance-Contracting-in-China&language=en>.

buildings constructed in northern China failed to meet energy-saving standards in 2009, because they were not fitted with central heating measuring devices.¹⁵⁰

The impact of energy requirements on foreign policy

China's oil sectors are confronted by a number of challenges. Being a late arrival in the highly competitive oil market, China is obliged to take up more risky and marginal sources believed to have neglected or undercooked by others, such as Iran, Iraq and Sudan.

This is inadvertently stirring international political criticism. Its engagements, such as the \$1.5 billion deal for a major Sino-Saudi oil refinery in China have attracted international attention.

To address the shortage in supply, in addition to the external sources mentioned above, China is also developing reserves, a strategy believed to be inspired by US Strategic Petroleum Reserve (SPR) system, as well as the Japanese approach to oil reserve construction. This involves the accumulation of government oil reserves. This is done through various cooperation frameworks such as local investments, export of technologies and services, and participation in the management.

China has also been pursuing the development of nuclear energy as an alternative approach to meeting its requirement, but lacks technology for larger plants.

To do this, the country is obliged to seek international collaboration with companies from Canada, Russia and France. China's efforts regarding the modernization of its energy sector has involved extensive financing.

This combined involvement of two superpowers could have implications on China's national interest. According to experts, this is for instance the case of China's interaction with Iran, a country United States considers Iran a leading sponsor of terrorism, and part of what the Bush administration called the "axis of evil". The US strongly opposes China's arms deals with Iran and views them as a threat to US allies and forces in the Gulf.

Furthermore, The United States strongly opposes the transfer of the technology involved, fearing that China could use

150 Elaine Kurtenbach, "Chinese endure power shortages as coal runs short" Associated Press Article available at <http://scottscontracting.wordpress.com/2010/12/30/energy-news-coal-shortage-in-chinapower-shortages/>

breeders to produce plutonium for military purposes. The high use of coal involves unwashed coal has lead to a surge in air pollution and emissions of greenhouse gases. This poses tremendous environmental issues to both China and the world.

The Chinese response to this situation, China is pursuing multi-faceted efforts to improve its energy efficiency, increase the use of clean coal technology, coal liquefaction and gasification, as well as and coal-bed methane development, exploration, and production.

Conclusion

In conclusion, China is fully aware of its increasing energy requirement, and is unrelentingly seeking non-confrontational approaches to meeting it. It remains to be seen if innovation, and the energy performance contracting policies of China can enable it meet its projected high energy requirement. Observers have noted that it is still early to project whether China will preserve its peaceful approach to sourcing energy requirement, or if it will intimately encounter more overt rivalry, and conflict. Attaining energy security is likely to remain a long and challenging process, but China has been consistently, and quietly addressing the situation.

HUMAN RIGHTS

Editor's Note: The confrontation between Western and Chinese views of human rights appears to be irreconcilable. Where the Western interpretation is based on the rights of the individual, the Chinese interpretation sees the concept as the rights of society as a whole, with the individual being no more than a cog in the wheel of state. As a further result, the West finds the essence in political rights, whereas China sees this essence in economic rights.

Introduction

From the 18th Century, Western civilization began exploring the realm of human rights. However, it would be erroneous to claim that human rights are a Western discovery. Not even the famous Age of Enlightenment, which has inspired subsequent Western fundamental documents – the United States Bill of Rights or the French Declaration of the Rights of Man and of the Citizen – explained the origin of the concepts of human rights. These concepts of progressive punishment and justice were professed by Hammurabi's code of ancient Babylon; the Hindu and Buddhist religions offered the earliest defenses of the ecosystem; Confucianism promoted mass education; the ancient Greeks and Romans endorsed natural laws and the capacity of every individual to reason; Judaism, Christianity and Islam each encouraged human solidarity, just as both considered the problem of moral conduct in wartime.¹⁵¹ Therefore, the 18th Century notion of human rights reflected more of a re-discovery by the West of far older concepts rather than a new invention. Most important, these concepts were always associated with religious values and spiritual thoughts intended to provide common good in the core connection between the individual and society.

Starting the late 1970s, China became the Western target of human rights reproach. Western European countries and most

¹⁵¹ Ishay R. Micheline. *The History of Human Rights from Ancient Times to the Globalization Era*, 2004

notably the United States began integrating human rights into their foreign policy.¹⁵² As a result, China appeared in the U.S. State Department's annual human rights report beginning 1979. But Chinese human rights have not struck the West as much until the confrontation at Tiananmen Square on June 4th, 1989. From the extent where local demonstrators introduced the prospects of democracy and political liberalization, the event served among others as the Western official pressure point to urge China to improve its human rights records.

The entrance into the 1990s thus marked the opening of the Western pressures on China to do something about its human rights. The United States led the call, followed by other powers including Japan, Western Europe and a number of United Nations human rights entities. From this point on, the issue of human rights has since been marked on its diplomatic agenda. Critics from the West consist of the view that China lacks individual rights and neglects human rights standards based on universalism. On its side, Beijing behaved confidently and continuously does responds to these pressures. Despite incessant provocations, the Chinese government attested itself dynamic to the value and safeguard of its human rights. However, it defends its view of human rights as a secondary priority when compared to the need for achieving economic development as well as social security and stability. In line with that, it reiterates this specific issue as a country's domestic business. Therefore, it is likely that China will follow its own way with its own means, at its own pace.

The Fundamentals of Western Criticism

Individual Rights

As Author Ming Wan puts it, one basic assumption in much Western writing about China is that its repressive government is standing in the way of progress and is thus "on the wrong side of history." He also added that Western attention has focused mainly on Beijing's declared policies and Chinese dissidents opinions. As a matter of fact, both elements dominantly shape as to how the international community takes on the Chinese human rights issue. Since the 1989 confrontation, human rights activists gained forces in

¹⁵² Wan, Ming. *Human Rights in Chinese Foreign Relations: Defining and Defending National Interests*, 2001. Pp. 4

China. They were highly appraised by foreign counterparts for they are the light of individual rights. Rather deliberately, the 2010 Nobel Prize was awarded to Liu Xiaobo, a Chinese “jailed democracy activist for his unfaltering advocate of peaceful political change.”¹⁵³

Political Liberalization

Western scolding is motivated by an attempt to get the Chinese government to relax its one-party rule policy. It believes that the Chinese authorities’ dictatorship on its society remains the principal barrier leading to such mediocre records. Hence, relaxing the government structure put on the table demands for political and socio-cultural reforms. Speaking of political reforms, the Western effort leaned strongly on political liberalization as to push for extended freedoms in China.

Democracy

The strong emphasis on democratizing China is constantly referred to in Western documents. The 2010 Democracy Index Records reveals China at the 136th rank among 167 countries in its state of democracy.

According to the Office of the United Nations High Commissioner for Human rights, essential elements of democracy consist of fundamental freedoms and the principle of holding periodic and genuine elections by universal suffrage, China scored zero on the status of electoral process and pluralism.

Universal Human Rights Obligations

Western visions of better human rights in China does not halt at the level of governmental reforms. Again and again, Westerners are not satisfied on how China downplays or even ignores its international obligations towards its people.

On most recent updates, numbers of critics and reports pointed out China’s negligence to comply with the universal measures carefully designed in the Universal Declaration of Human Rights. In a 2010 report on death sentences and executions, Amnesty International identified China at the world’s top executioner among 23 other countries carrying out the death penalty. The World Health Organization listed China a year earlier as the leading country with the highest suicide rate worldwide (26%). The European Union then renewed pressures by holding the 30th round of “EU-China Dialogue

¹⁵³ The New York Times. The Opinion Pages. October 8, 2010

on Human Rights” in Beijing, where the rights of minorities especially of Tibetans, Uyghurs, and Mongols were pointed out closely.

The Chinese Reactions to Western Criticism

Human Rights are a Country's Internal Concern

Chinese authorities admit its awareness of the situation and claim progressive measures. With that said, reactions to Western criticism remained clear from the beginning. Who is who to judge and stick its fork into another one's plate? As such, local authorities stand on the fact that human rights in China remain China's internal affair. China is convinced that Western standards are not the optimal remedy for the betterment of its human rights. Nonetheless, China has not undermined its active participation in several Western-led human rights principles or committees.

The Voice of the "Silent Majority"

China maintains that the dissidents who are highly exposed in the media these days do not represent the nation's overall sentiment. Elite leaders only count on the voice of the “silent majority” as to stand up for the value of collective rights.

Western Democracy does not suit China

China's position to Western criticism is stable and confident. That is why it judges Western democracy as unsuitable for the Chinese state. Speaking of political democracy, China has adopted an electoral system appropriate to its actual conditions. Considering the peoples' vote, elections of deputies at provincial levels are currently in place and reportedly registering the right to vote for almost the entire Chinese citizens 18 years of age or above.¹⁵⁴

National Human Rights Action Plan (2009 – 2010)

Starting in 1991, the Chinese Information Office of the State Council issued twenty-one White Papers, of which thirteen deal vividly with human rights.¹⁵⁵ The rest are believed to respond to Western Criticism on China's criminal justice system, its policy toward Tibetans, and the Status of Chinese women and children. The note claims progress in Chinese human rights and ensures the continuation of such progress. By this plan, China became one of the

¹⁵⁴ China White Paper on Human Rights. Citizens' Civil and Political Rights. 2010

¹⁵⁵ Wan, Ming. Human Rights in Chinese Foreign Relations: Defining and Defending National Interests. 1953. Pp. 18

26 countries complying with the UN call for national human rights plan.¹⁵⁶ In fact, the introduction states:

“The plan was framed on the following fundamental principles: First, in pursuit of the basic principles prescribed in the Constitution of China, and the essentials of the Universal Declaration of Human Rights and International Covenant on Civil and Political Rights, the plan is aimed at improving laws and regulations upholding human rights and advancing the cause of China's human rights in accordance with the law; second, adhering to the principle that all kinds of human rights are interdependent and inseparable, the plan encourages the coordinated development of economic, social and cultural rights as well as civil and political rights, and the balanced development of individual and collective rights; third, in the light of practicality and China's reality, the plan ensures the feasibility of the proposed goals and measures, and scientifically promotes the development of the cause of human rights in China”.¹⁵⁷

Economic rights

China maintains that “owing tremendous differences in historical background, social system, cultural tradition and economic development, countries differ in their understanding and practice of human rights”.¹⁵⁸ Interestingly, it restates its human rights matters going hand in hand with the core interest of economic progress and stability. Therefore, maintaining economic standards is a priority for China.

Media Bias

China believes that the Western press is biased in most of its coverage of events in China. It refers to several instances with regard to media coverage of different events occurring in China. Current vice Foreign Minister, Fu Ying, recalled the riot that took place in Lhasa, Tibet in 2008, where she claimed the footage was made of fabricated images. The police involved in the protest were reportedly not even Chinese police. Such chauvinism thus “damaged the image of your media in China, especially among the young. “Your

¹⁵⁶ Council on Foreign Relations. National Human Rights Action Plan of China (2009-2010). April 13, 2009

¹⁵⁷ Ibidem

¹⁵⁸ Chinese State Council White Paper on Human Rights (excerpt) (1991)

reputation will take a long while to recover from this,” she concluded.¹⁵⁹

Double Standards

Overall, Beijing considers that the Western press and governments employ double standard to criticize their opponents, while forgetting the sins of their friends and of their own history. After the latest visit of Chinese President, Hu Jintao, to the United States, a blogger issued a statement, “Whenever they (Western allies) approach to this so-called “human rights” issue, their culture of hypocrisy reemerges or is conveniently reemployed. Their hypocrisy as an unconscious culture, backed up by culture of forgetfulness on their own history of “human rights abuses”, as distinctively as in the cases of history of black slave trade and genocidal history of Native-American people throughout their quincennial history of colonial aggressions, massacres and the subsequent dominations.”¹⁶⁰

The Inconsistency in Western Strategy

While on the one side, the West is constantly criticizing China for its short-comings in human rights, on the other, it is heavily dependent on Chinese credits to balance the gap between Western production and its over-consumption. The intensity of human rights pressure can thus be placed alongside the huge economic dependence Western counterparts express vis-à-vis China.

China’s maintenance of its economic steadiness remained secure for the past decade. From 2001 to 2010, China exports to the U.S. alone went up from \$102.3 billion to \$364.3 billion. This also represents a big piece of Chinese trade with the world, which covers a total of \$1,577.9 billion in that same year.¹⁶¹

China Going Global

While resisting Western criticism, China is constantly engaged in systematically expanding the width and depth of its relations with the rest of the world, and particularly with developing countries..

China holds the status of dialogue partner in the Cooperation Council of the Arab States of the Gulf (GCC) in the

159 Xinhua News Agency. Chinese White Paper 2009, 2010

160 The 4th Media: Just Another Voice. “Human Rights” Issue and Western – American Culture of Hypocrisy. January 2011

161 U.S. Department of Commerce. U.S. – China Trade Statistics and China’s World Trade Statistics

Middle East. In Latin America, it engages into the role of an observer in a number of organizations. And in Africa, it has membership in the Asia-Africa Forum, the China-Africa Business Council and the China-Africa Cooperation Forum.¹⁶² In line with its foreign direct investment, Chinese identification in Africa, Asia and Latin America is explained by its goal to push on outward foreign direct investment expected to rise to a total of US\$ 360 billion by 2015.¹⁶³

Improvements in the Standard of Living

As a main driving economic machine of the world, China has not ceased to register increasing standards of living's indicators internally. Exclusively, there is the special focus on the development of rural areas. In 2009, investments in poverty reduction programmes hiked by 3 billion Yuan.¹⁶⁴ Such facts are proven by the Chinese regime to contribute to its vision of a people-oriented approach on human rights improvement.

Year after year, the retail sales of consumer goods has been growing. The Chinese National Bureau of Statistics reported a 17% increase just for the month of May.¹⁶⁵ With that said, it is envisaged that China will incessantly encounter upward consumer spending.

Conclusion

For more than two decades now, China and the West have conflicted in their interpretation and performance of human rights. As the former takes the direction of universalism while emphasizing the impacts on the individual, the latter focuses on its collective social rights in the state as a whole. In response to all the criticism from the West, the Chinese answer has not changed, in that it refuses any interference in its domestic issues.

For the West, political reform is a must with the specific insistence on democratizing China. As for China, it is primordial to maintain the legitimacy of its sovereignty in order to provide social subsistence and betterment to its population as a result of economic growth. In its continuous journey to get an ever greater share of the global economy, China is convinced that the resultant improvement

162 Mitchell, Derek J. *China and the Developing World*

163 Korniyenko, Yevgeniya; Sakatsume, Toshiaki. *Chinese Investment in the Transition Countries*. January 2009

164 *Facts and Figures about China's Progress in Human Rights*. September 2010

165 National Bureau of Statistics of China. *China's Major Economic Indicators in May*. June 2011

of the living conditions of its people is the best guarantee of their human rights.

China has rigorously maintained non-interference in the domestic affairs of other countries, and expects other countries to behave similarly. It remains to be seen whether that will indeed be the case.

EDUCATION

Editor's Note: Education has always been a fundamental element of Confucianism, so it is natural to expect that China would place due emphasis on this sector of social progress. However, the transformation that has taken place in China in the educational sector since 1978 is truly phenomenal, and has no parallel in history anywhere in the world. A major part of that transformation lies in the deep intermingling of education into the economy, almost to the extent of seeing them as just one single sector.

Introduction

In 1963, the Chinese Government laid down a plan designed to make China one of the greatest powers of the 21st Century. Such plan foresaw the development in 4 major areas commonly known as the four modernizations, which included “Agriculture, Industry, National Defense and Science & Technology”. The success of such a strategy is abundantly displayed by the Chinese fast economic growth or raise as a world power, and it is usually depicted by scholars as “the economic miracle of the 21st Century”.¹⁶⁶ What is less documented, however, is the supportive role played by the Chinese education system in the development of China. In fact, the reformation of Chinese education proved to be instrumental for the modernization of the country; in the future, further education reforms will be a necessary condition for a steady development of China.

Historical Background:

Historically, the Chinese have always put a very strong emphasis on education. With more than 5000 years of history and the pedigree of a great civilization, the Chinese traditionally paid great respect to their education and educators. In the words of the greatest Chinese philosopher Confucius: “When the mind was

¹⁶⁶Lampton, David M. “China’s Economic Miracle in the 21st century: Challenges, Conflicts and Consequences. Institute of Policy Studies (IPS). May 30, 2007.
http://www.spp.nus.edu.sg/ips/synopsis_cab_lampton_300507.aspx

disciplined and expanded by study, the remarkable harmonies of nature would become plain. One has to fill oneself with knowledge like a vessel. Upon the knowledge gained, the indwelling truth would act like a yeast, forcing the mind to assume its original perfect shape”.¹⁶⁷

Not only was the Chinese population highly dedicated to learning, but also the output of such studies has been quite remarkable throughout history. From the invention of paper and gunpowder, from the compass to the printing process, major Chinese inventions have changed the course of human civilization.¹⁶⁸ Often regarded by its neighboring countries as a big brother, China exported art, philosophy (including Confucianism) and its traditional values all over Asia.

In spite of being a leader in the field for various millennia, Chinese education was in a poor state prior to the modern 1978 reforms. The first attack on Chinese society came from the two Opium Wars (1839-42 and 1856-60), by which the British forces sought to destroy the social fabric and the structural integrity of China. Such a period of history is usually recognized as the beginning of the “Century of Humiliation”, characterized by British and Japanese exploitation of China.¹⁶⁹ Later on, such humiliation will become one of the main reasons for the reforms of the Chinese education systems.

Contributing to further declension, the Cultural Revolution negatively affected the national education system in the middle of the 20th Century. While giving independence, uniformity and a rejuvenated pride to the newborn China, the revolution was tainted with many extremes. With the intent of creating a new and equal society, between 1966 and 1976, millions of educated youths were sent to work into rural fields.¹⁷⁰ The exasperated government centralization, the absence of private enterprises and the creation of the mandatory assigned job system resulted into the chronic malfunctioning of the education system and the quasi-shut down of

167 Crawford, Vernon. “From Confucius to Oz”. (Berkeley: Berkley Trade Publisher) 1991. Pg 33

168 Kamal, Ahmad. “Understanding China.” (Fairleigh Dickinson University) 2010. Pg 149-153

169 Scott, David. “China and the International System 1840-1949.” (Albany: State University of New York) 2008. Pg. 250-259

170 Chang, Hsia Maria. “The Labors of Sisyphus, the Economic Development of Communist China.” (New Brunswick: Transaction Publisher) 1998. Pg 18-54

tertiary education.¹⁷¹ Fortunately, beginning with the 1978 reforms, the Chinese government realized the importance of education and became aware of the need for a change.

The Advent of the 1978 reforms:

It is commonly accepted that a new chapter of Chinese history was written in 1978, with the beginning of the economic reforms. Such reforms were usually referred to as marketization or socialization, and the main idea was to introduce elements of the market-oriented system to gradually substitute the planned economic one.¹⁷² Following up on the momentum, and later on the success, of the economic reforms, a similar treatment was reserved for the Chinese education system.

Since the very beginning, it was clear that the education system was to be tuned with the new economic cycle. In 1978, Deng Xiaoping confidently stated that “education undertaking must be geared toward the needs of national economic development”.¹⁷³ Deng’s assessment carries the weight of a new ideological revolution (in terms of education); in fact, rather than serving the people and the proletariat politics, the new objective of Chinese education became the support of economic and social development.

Science and Technology

The revolution of the Chinese education system would soon be identified in terms of “Science and Technology”. Very much in line with its ancient philosophy, the Chinese political elite looked at the past in order to discover the future. Analyzing modern history, they came to the conclusion that the humiliating defeat at the hands of the British forces, during the Opium Wars, was to be traced back to the scientific and technologic sophistication of the British. Ashamed of and motivated by the tragic past, the Chinese leaders decided to fill the technology gap between China and the West, in order to make sure that the Middle Kingdom would never again experience such humiliation again.

Under the modernization manifesto, science and technology were to be the cornerstone for economic development. In a speech

171 Wei, Huang. “Authoritative Comments on China’s Education Law”. Beijing Review May 22-28, 1998. Pg 12-15

172 Gore, Lance. “The Chinese Communist Party and China’s Capitalist Revolution.” (New York: Routledge) 2011. Pg. 40-46

173 Mok, Ka-ho. “Retreat of the state: Marketization of education in the Pearl River Delta.” Comparative Education Review. August 1997.

to the National Science Conference, in March 1978, Vice-Premier Deng Xiaoping asserted that “The crux of the Four Modernizations is the mastery of modern science and technology. Without the high-speed development of science and technology, it is impossible to develop the national economy at high speed”. Science and technology were therefore identified as a means to national strength and economic growth.¹⁷⁴ Beginning with the legislation of the mid-1980s, China sought to create a vigorous and technical establishment that could operate at the same level of the developed countries and could directly impact agriculture, industry and national defense.

The central government was highly involved in the science and technology project, and as a result a number of associations grew to support its strategy. A very good example of such phenomenon can be found in the multiple activities of the revitalized China Association of Science and Technology (CAST). Founded by the government, and under the direct control of the Communist party, CAST was an umbrella organization that already in 1986 included more than 130 scientific societies and almost 2 million individual members. The functions of the CAST association were multiple: firstly, it promoted the setup of conferences and sharing of knowledge among Chinese scientists; secondly, it had a major role in popularizing science and technology and disseminating scientific knowledge (mainly through the publication of journals and books targeting high school students); and finally, it connected Chinese scientist to the international community through international conferences and joint research projects.¹⁷⁵ In conclusion, CAST and many other governmental agents worked very hard to promote the new direction of the Chinese education system.

The Scientists and Engineers Factory:

The outcomes of the government’s efforts were quite encouraging. China’s new orientation toward science and technology moved steady and with great determination.

In July 1984, about 1.6 million candidates took the entrance examination for college and universities and more than 1 million students took the test for placement in science and engineering

¹⁷⁴ Schneider, Laurence. “Science, Technology and China’s Four Modernizations” *Technology in Society*, Vol 3 Issue 3. 2002. Pg 291-303.

¹⁷⁵China Association for Science and Technology. <http://english.cast.org.cn/> 2007.

colleges.¹⁷⁶ By 1997, Science and Technology accounted for more than 50% of the national graduates . While losing some ground to economics and management studies, eight years later the field of science and technology still dominated the scene. Ranked by the proportion of student numbers in total enrollment in 2005, the tops fields are as follows: science and engineering 41.3%, economics and management 23.3%, literature and foreign language 14.8%, medicine 7.2%, education 6.5% and law 4.5%.¹⁷⁷

The growth of science and technology is well reflected in the number of engineers graduating every year from China. In 2006 a new report Committee on Science, Engineering and Public Policy declared that in 2005 “more than 600,000 engineers graduated from institutions of higher education in China” while “in America, the total of the students was about 70,000”. A more recent study from Duke University contested that the numbers, asserting that while the United States produced 137,437 engineers China produced 351,537, which is still almost three times the output of the United States.¹⁷⁸ Very interestingly, the heated debate was not over the issue of who is taking the lead in the fields of science and technology, but how far ahead China is in terms of the production of engineers.

It is important to underline that China not only produces many engineers, but also it produces good quality ones. Geoff Colvin, in his CNN publication, describes such engineers as “top of their class, English speaking engineers, they are the best of the best”, and continues asserting that “some of the most advanced research in the high-value, fast-growing field of technology is being done in China”.¹⁷⁹ While this is not to say that China has surpassed the rest of the developed world in quality of engineers, there are some really encouraging results that are being quietly achieved.

Similar, if not more astonishing, progresses have been made in the fields of science. With great respect and admiration, a Financial Times report asserted that “China has experienced the

176 Worden, Robert. “China: a Country Study”. (New York: Manohar Publisher) 1988. Pg 169

177 Zhao, Xiliang. “The Transformation of China’s Higher Education System and Its Global Implications.” (Nottingham: The China Policy Institute) 2009. Pg. 9-11

178 Bracey, Gerald. “Heard About the One About the 600,000 Chinese Engineers?” The Washington Post. May 21, 2006.

179 Colvin, Geoff. “Desperately Seeking Math and Science Majors.” CNN. July 29, 2010.

http://money.cnn.com/2010/07/29/news/international/china_engineering_grads.fortune/index.htm

strongest growth in scientific research over the past decades of any country, and the pace shows no sign of slowing”, in that, “China far outperformed every nation, with a 64-fold increase in peer-reviewed scientific papers since 1981, with particular strength in chemistry and material science”. Jonathan Adams, research evaluation director at Thomson Reuters, asserted that “China’s awe-inspiring growth meant it was now the second largest producer of scientific knowledge and was on course to overtake the US by 2020 if it continued on this trajectory”.¹⁸⁰

Vertical and Horizontal Growth:

The Chinese government implemented a great number of educational reforms targeting both vertical and horizontal growth. In other word, the reforms aimed at generating a comprehensive improvement of both the primary and higher education systems, yet managing to enhance both the quality and the quantity of the schools in China. While some basic reforms mainly functioned as a breaking point from the old system, other aimed at creating more sophistication and enhancing international competitiveness of the Chinese schools.

The first and foremost outcome of the reforms can be seen in the higher level of literacy and access to education for the masses. It is somehow incredible to see how much the Chinese government was able to achieve in little more than a generation. When the People’s Republic of China was founded, the enrollment rate of school aged children was 20%, whereas today, the Chinese government can boast of a literacy rate which is higher than 96%. In addition, thanks to its compulsory education system, the government has stepped up its efforts to provide free education (up to 9 years) to both the urban and rural areas, aiming at the creation of a system where education can be a service to be universally provided.

As it was explained earlier, the Chinese system attained both vertical and horizontal growth. Therefore, not only is the number of students in the Chinese school considerably large, but also the system is capable of producing world class students that can compete in the international arena.

In the latest Program for International Students Assessment (PISA), the authoritative study on the academic performance of 15-

¹⁸⁰ Cookson, Clive. “China Scientists Lead World in Research Growth.” *Financial Times*. January 25, 2010.

year olds across the world, Chinese students from Shanghai literally outscored their international peers in all of the three subject matters of the test, namely, reading, mathematics and science. These results are even more stunning in the light of the fact that this was the first year that China participated in the project.¹⁸¹

Achievements in Tertiary Education:

Starting from 1999, the Chinese government has also increased its level of support and interest for higher education. Such transformation involved the commitment of greater resources to tertiary education, generating into significant changes of its organizational structure. The evolution of the system has mainly gravitated around the development of key universities and the enhancement of their prestige and quality. Today, elite universities are the top ten universities in China and they both receive the largest amount of education funds, and have priority on selecting the best students that pass the national entrance exam. All the while, importance is also given to the improvement of the rest of the university in China, which have constantly improved, even if not at the same speed as key universities.

Similarly to the primary education system, the number of enrolled students in tertiary education has been skyrocketing since the beginning of the reforms. In fact, the number of undergraduate and graduate students in China has been growing at approximately 30% a year since the beginning of the new century, as to quintuplicate in about a decade. In other words, the number of Chinese students enrolled in degree courses corresponded to approximately one million at the beginning of the century, and it has now grown to five million.¹⁸² As a result, it was calculated that about 60% of high school graduates attend university in China today, as compared to the just 20% in 1980.¹⁸³ Finally, the total number of universities in China has also increased; the number of higher education institutions has more than doubled in the past decade, from 1,022 to 2,263.¹⁸⁴ Such numbers clearly indicate that in less

181 Gumbel, Peter. "China Beats Out Finland for Top Marks in Education" *Time*. December 07, 2010. <http://www.time.com/time/world/article/0,8599,2035586,00.html>

182 "Work in Progress: A Special Report on the Future of the State." *The Economist*. March 17, 2011. <http://www.economist.com/node/18359954>

183 Levin, Dan. "The China Boom". *New York Times*. November 05, 2010.

184 "Work in Progress: A Special Report on the Future of the State." *The Economist*. March 17, 2011. <http://www.economist.com/node/18359954>

than a decade the Chinese education system has turned to be one of the largest structures in the world.

Enrolling many students or expanding the numbers of schools was not the only achievement of the education reforms. In fact, the Chinese government has been focusing on improving the quality of the tertiary system, especially over the last decade. For example, the funding of institutions is not more determined only by the numbers of students enrolled; on the contrary, Chinese universities are now subject to great pressure to upgrade themselves in terms of objective rankings. Such rankings include international rankings, the numbers of national and international publications, the citations, and international cooperation. These are in fact the new parameters that determine the allocation of funding.¹⁸⁵

Considering the results and the successes of the Chinese experiment, it would not be too daring to assume that the Chinese reforms can be taken as an example by the rest of the developing countries of the world. Similarly to China, many other countries in the developing world have been trying to use educational transformation in order to sustain economic growth and development; however, their results have been less than successful. The reason for such failure might be found in the fact that such countries solely focused on primary and secondary education. If the Chinese experiment of a comprehensive approach continues to be successful, it can be argued that the “Chinese model” will be adopted by many developing countries in the future.

The Financing of Education

One of the main areas of concern regards the future financing of Chinese institutions. It is rather simple to elaborate that as the GDP of China keeps growing at current rates, such growth should be matched by the national budget on education.

However, the equation is not as simple as it seems. As the Chinese government has the responsibility to create funds for a very large number of projects that sustain development, education competes in a very aggressive environment for financial resources. Generally, the United Nations guidelines recommend that a given country should invest around 6% of its GDP in education. While the current global average level is 5%, the level of underdeveloped

¹⁸⁵ Zhao, Xiliang. “The Transformation of China’s Higher Education System and Its Global Implications.” (Nottingham: The China Policy Institute) 2009. Pg. 8-9

countries is 4%, the educational share of national GDP is a little below 4% in China.¹⁸⁶

It should be mentioned that since the GDP of China has grown faster than 8% a year; the budget for education has been growing in absolute terms at the same rate, even though it has not managed to increase its percentage share of GDP beyond the current 4%.

Equal Access to Education

An even more threatening problem to the system can be identified in the unequal access to good education for the Chinese population. Reflecting the massive disparities between the wealthy eastern region and the underdeveloped western region, top quality educational and research opportunities are only available in several cities such as Beijing, Shanghai, Nanjing and Guangzhou. On the other hand, high quality education is not available in the eleven western provinces of China, while some of the rural villages are completely unable to institute the compulsory free nine-year education policy.¹⁸⁷ Such disparities are an obstacle to a healthy and sustainable growth of China.

In the past decade, the Chinese government has implemented a series of policies that aimed at reducing this geographic disparity. In 2007, the State Council decided to assist rural regions by launching campaign to encourage up to 10,000 college graduates a year to go and teach in remote, countryside schools. With the intent to provide further incentive, the Education and Finance Ministries planned to offer such teachers an annual salary of at least 15,000 Yuan (\$1,900), which is equal to a salary of what university graduates earn in large cities.¹⁸⁸ The latest outline of the new governmental strategy for education has re-stated the importance of developing the rural areas, by proposing special development of preschool education in rural and deeply poor areas. The reports assert that by 2020 China will reach regional balance through the reasonable allocation of education resources, including teachers, equipment libraries and dormitories¹⁸⁹.

186Huazhon, Wang. "Education to Get Land Transfer Windfall." *China Daily*. 07 April, 2011.

187 Ogden, Suzanne. "Global Studies: China" (New York: McGraw-Hill) 2007. Pg. 176-177

188 Ogden, Suzanne. "Global Studies: China" (New York: McGraw-Hill) 2007. Pg. 177-178

189 "Outline of China's National Plan for Medium and Long-Term Education Reform and Development (2010-2020)". July 2010,

Pg. 8-12Beijing. http://www.aei.gov.au/AEI/China_Education_Reform_pdf.pdf

Reforms apart, if the urbanization trends continue with the same intensity, the Chinese education system will be unable to mobilize the necessary resources to face the phenomenon of mass migrations. Arguably, China is where the largest human migration in world history is taking place. Because of this massive migration, the Ministry of Education will have to ensure that urban schools will be able to absorb the incoming populations.

Finally, the problem of disparity is not only a mere result of Chinese geographic development; in fact, inequality is also increasing among citizens living in the same cities. While the fast paced economic development has brought increasing wealth, it has also increased the gap between the few newly rich Chinese and the poorer ones. While a finer and more sophisticated education in the cities has become more expensive, the students of more modest families are not able to fairly compete against wealthier ones.

It was estimated that college tuitions have soared 20 times from 1997 to 2007, and that if living expenses are also included, an average university student is required to pay 40,000 Yuan (\$5,000) a year just to cover basic education bills.

Since the annual per capita income in China averages 36,000 Yuan (\$3,800), education becomes relatively costly for an average Chinese student.¹⁹⁰

Student employment

Chinese students are not particularly worried about finding “a job”. With the Chinese economic horizon in continuous expansion, the government has been able to generate enough jobs for the increasing numbers of graduate students in the cities. However, while it is relatively easy to find jobs, the average Chinese student will find it hard to get a job that would enable him/her to comfortably live in the largest cities. This economic challenge is created by the exorbitant increase in the cost of living in most of the developed cities of China.

The rising of cost of living does not affect all Chinese students in the same way. On the one hand, there is great demand and a large number of highly paid jobs for those students who graduate from Chinese key universities; on the other hand, students graduating from less important universities have fewer chances to

190 Wang, Xiaobing. “College Education and the Poor in China.” Rural Education Action Project. Pg. 18-22

receive a high paying job.

As a result, graduates with degrees from smaller universities have to settle for less desirable jobs; and as a further consequence, they have a tendency to shift from one unsatisfactory job to the other in search for better pay or better professional working conditions. According to a survey, 50.3% of college graduates leave their first job in less than 12 months.¹⁹¹

Keeping the Miracle Alive

There is no doubt that the Chinese education system has experienced a miraculous transformation. Comparing the modern structure to the pre-1978 model, one can really understand the depth and magnitude of the changes in the Chinese society. In less than thirty years, education was transformed from a rudimentary, extremely centralized and uncompetitive structure to a modern, efficient and promising one. Not only has China recorded a 400% increase in the level of literacy, but it was also able to develop a number of high level universities that are capable of competing with the rest of the developed world. On the international level, Chinese students (both graduating from high school or universities) have earned the fame to be top-class hard-working examples for the rest of the world. These and many other great achievements have made the Chinese developmental model a successful one.

It can be argued that the Chinese experiment in education was so successful that, in the near future, the rest of the developing countries might look up to China in order to upgrade their own educational structure. In the past century, the Western education system has been considered, by the majority of the world, as the only reference for educational development all around the world. The brightest scholars used to travel to the West to learn about science, technology and other modern studies, but the school systems of the majority of the countries have been shaped in resemblance of the Western ones. The Chinese success in education might create another gravitational pole for the rest of the world.

Judging from previous trends and modern accomplishment, it can be estimated that the pace of future reforms of the education system will be determined by the growth of the national economy. As mentioned earlier, starting from 1978 the education system was

191 Chang Ching, Liu. "Top Dogs and Fleas: China Graduates' Job Market." *Want China Times*. 06 March, 2011.

geared toward the economic growth of China, with the intention to support the four modernizations. Today, the education system is still very much linked to the economy, assuming both a supportive and a reactive role in the relationship. On one side, education provides skilled labor for the key areas that allow the development of the economy, on the other, the system will have to adapt and reform in order to be able to maintain its supportive role. Therefore, in order to “keep the miracle alive”, the Chinese education system will have to be able to match the economic growth, and to diversify according to the needs of the economic sector.

Such diversification will have to take place both on the financial and social level. Financially, the most pressing issue is the growth of the education budget. For many years now the central government has been targeting the 4% quota; now, it is the right time to improve the target. As the schools and universities of China keep improving their level of professionalism, it is important for the government (and private enterprises) to provide adequate financial support. Socially, the most important reform should aim at decreasing the level of regional and social disparity within the country. In fact, the rich eastern region enjoys better services and opportunities than the poor western region. A similar scenario is found in the comparison between the modern urban areas and the traditional rural ones. Both because of social justice and practical reasons, it is important for China to provide access to quality education to the poorer areas.

ENVIRONMENT

Editor's Note: The intrinsic contradiction that exists between economic development and environmental concerns is evidenced in China more than anywhere else in the world. With its massive economic growth and urbanization on the one hand, and its equally massive determination to control pollution and environmental degradation on the other, China is literally juggling with two incompatible objectives simultaneously. Despite the magnitude of the task, the results that it has achieved are most impressive, and are likely to form the model for replication in other parts of the world, including both developed and developing countries.

Introduction

All human development produces an impact on the environment. In the case of China, the current development model, based as it is on rapid urbanization and energy-intensive heavy industry, has produced accelerated economic growth for the last three decades, and while it has lifted 400 millions of Chinese out of dire poverty, it has also brought about serious environmental problems.

In the past decade, the environmental situation has reached a turning point, as the years of accumulated damage began to weigh the country down and threatened to hinder its future development.

Furthermore, due to the colossal size of the territory and the population of China, the ramifications and consequences of environmental damage will not remain confined within the country's borders and will make a lasting impact on the rest of the planet.

For this reason, perhaps nowhere else in the world today is environmental protection more important than in China.

The Dimensions of the Crisis

In order to understand China's current environmental situation, it is necessary to briefly look at its main elements and the complex interaction among them.

Industry, urbanization and energy

Today, over 16 percent of the energy the world uses, is in China,¹⁹² and this percentage keeps growing. In fact, if China's energy demand continues to grow at the current rate, the International Energy Agency (IEA) has predicted that in twenty years China would be responsible for over 20 percent of the world's energy demand, more than Europe, Russia and Japan combined.¹⁹³

The largest portion of China's massive energy usage corresponds to the energy-intensive heavy industry that the country's development model has hinged on for many years, such as steel and aluminum mills, zinc smelters, glass and cement factories, among others. In 2006, China produced 49 percent of the world's glass, 48 percent of its cement, 35 percent of its steel and 28 percent of its aluminum.¹⁹⁴ Since 2006, China is also the second-largest global producer of cars and trucks.¹⁹⁵

The other large contributors to China's use of energy are the cities. Urban households consume over three times the energy that rural households do.¹⁹⁶ Every year millions of people migrate from the countryside to the cities in China, making it the stage of the largest rural-urban migration in the history of humanity. As peasants move into the urban centers, their way of life changes. The traditional Chinese lifestyle becomes more and more "westernized", as city life encourages the consumption of goods such as modern appliances and cars, the number of which skyrocketed from 9.9 million in 2001 to 21 million in 2005.¹⁹⁷ This urbanization trend is likely to continue: the recently unveiled 12th Five-Year Plan intends to encourage further urbanization, so that at least 10 million rural residents per year will move to the cities until 2015.¹⁹⁸

192 Bergsten, C. Fred, Charles Freeman, Nicholas R. Lardy and Derek J Mitchell, *China's Rise: Challenges and Opportunities* (Washington, D.C.: Peterson Institute for International Economics – Center for Strategic and International Studies, 2009), p. 137.

193 Op. cit., Bergsten et al., p. 141.

194 Op. cit., Bergsten et al., p. 142-143.

195 Kahn, Joseph, and Jim Yardley. "As China Roars, Pollution Reaches Deadly Extremes." *The New York Times*. Aug. 2007.

<http://www.nytimes.com/2007/08/26/world/asia/26china.html?pagewanted=all> (May 2011).

196 Yusuf, Shahid and Tony Saich, eds. *China Urbanizes: Consequences, Strategies, and Policies* (Washington, D.C.: World Bank, 2008), p. 10.

197 Op. cit., Yusuf and Saich, p. 11.

198 Dickinson, Steve, "China's 12th Five Year Plan. Infrastructure, Infrastructure, And More Infrastructure. Did We Say Infrastructure?" Web log post. *China Law Blog*. Harris & Moure,

In order to keep up with the new cities and generate enough energy for them, China has been building massive power plants: just in 2005, China built enough plants to generate the equivalent of energy produced by the whole of Great Britain in a year, while in 2006 it added to its power grid as much as France generates in a year.¹⁹⁹

Heavy industry and rapid urbanization are at the core of the development model that has sustained China's remarkable growth rate, raising the standard of living for millions, but they are also responsible for the country's staggering levels of pollution.

Air quality and greenhouse gases

Two-thirds of all the energy that China uses to fuel its power plants, its industry and millions of households comes from coal,²⁰⁰ which is a non-renewable and highly polluting source of energy. The combustion of coal not only releases large amounts of carbon dioxide (CO₂) into the atmosphere, but also sulfur dioxide (SO₂), responsible for acid rain, and other contaminants such as nitrogen oxides and mercury, as well as particulate matter, major air pollutants with significant impact on human health.

Particulate matter is nowadays one of the main problems in China. Particulate matter is made of microscopic particles of dust and soot emitted from the combustion of fossil fuels, that are suspended in the air and may be easily inhaled. Particulate matter is harmful to human health and it is a leading cause of lung cancer and heart disease. In cities such as Beijing and Guangzhou the concentrations of particulate matter are among the highest in the world.²⁰¹

Out of the twenty cities with the worst air pollution in the world, sixteen are located in China.²⁰² Since the country consumes

pllc, March 2011.

http://www.chinalawblog.com/2011/03/chinas_12th_five_year_plan_infrastructure_infrastructure_infrastructure_did_we_say_infrastructure.html (June 2011).

199 Op. cit., Kahn and Yardley.

200 Tilt, Bryan. *The Struggle for Sustainability in Rural China: Environmental Values and Civil Society* (New York: Columbia UP, 2010), p. 4.

201 McIntyre, Douglas. "The 10 Cities With the World's Worst Air." *DailyFinance*. AOL Money & Finance, Nov. 2010. <http://www.dailyfinance.com/2010/11/29/10-cities-with-worlds-worst-air/> (May 2011).

202 Op. cit., Yusuf and Saich, p. 11.

approximately twice as much coal as the United States, this makes China a leading global source of greenhouse gases.²⁰³

Water

Rapid urbanization and industrial activity have also made an impact on the country's water resources. China is experiencing a shortage of safe water, both in the expanding urban areas and in the farmlands that feed the nation.

Recent studies estimate that the Chinese have access to merely one-fifth of the water per capita as compared to Americans,²⁰⁴ and currently, two-thirds of China's cities suffer from water scarcity.²⁰⁵ This is particularly true in Northern China, home to about half of the country's population, where desertification is advancing rapidly, exacerbated by deforestation.

To address the water problem, the Chinese government is investing approximately \$62 billion in the construction of the South-to-North Water Transfer Project, expected to be completed in 2050, whose aim is to pump water from the Yangtze River basin to the thirstier provinces in North China. The project has raised much controversy, as it will not be a definitive solution and the full extent of the environmental consequences it is expected to entail is as yet unknown.

Then again, water is not only becoming scarce, but also increasingly polluted: about 70 percent of the water from five of China's seven largest rivers is unfit for human consumption.²⁰⁶ Around urban areas, 90 percent of river water is polluted with heavy metals such as arsenic, lead and mercury, and toxic organic material that are the by-products of industrial activity.

According to China's environmental monitors, one-third of all river water in China have tested Grade V, the most degraded kind.²⁰⁷

The burden of environmental damage

Air and water pollution have severe impacts on human health. According to the World Health Organization (WHO), in 2008 the leading cause of death in China was cancer, followed by

203 Op. cit., Bergsten et al., p. 112.

204 Op. cit., Kahn and Yardley.

205 Op. cit., Yusuf and Saich, p. 12.

206 Op. cit., Yusuf and Saich, p. 12.

207 Op. cit., Kahn and Yardley.

heart disease, cerebro-vascular disease and respiratory system disease.²⁰⁸ There is also evidence pointing at the proliferation of “cancer villages”, areas located near certain industries where the number of reported cases of cancer has spiked.²⁰⁹

The mortality rates in China for cancers associated with water pollution, particularly liver and stomach cancer, are well above the world average,²¹⁰ while the annual number of deaths from air pollution is estimated at 300,000 people.²¹¹ The WHO estimates that air and water pollution together cost China over 400,000 lives per year.²¹²

But the impact of pollution is not only felt in the sphere of public health. A Chinese study places the cost of water scarcity associated with water pollution at RMB 147 billion annually, equivalent to 1 percent of GDP, while acid rain costs RMB 30 billion in crop damage and 7 billion in material damage a year.²¹³ Other studies estimate that SO₂ pollution in general costs China \$60 billion per year in economic impacts on public health and agricultural production²¹⁴.

The total cost of environmental damage varies according to different estimates. Studies cited by the World Bank, conducted in Shanghai and Chongqing, show that the total cost of air and water pollution in China in 2003 was RMB 781 billion, or about 5.78 percent of GDP.²¹⁵ The 2006 Annual Report of the Congressional-Executive Commission on China cites official Chinese sources, which estimate that “environmental degradation and pollution cost

208 "China: Country Health Information Profile - Health Situation and Trend." WHO Western Pacific Region. World Health Organization, 2010.

http://www.wpro.who.int/countries/chn/2010/health_situation.htm (June 2011)

209 Congressional-Executive Commission on China Annual Report. (Washington, D.C.: Congressional-Executive Commission on China, 2010), p. 153.

<http://www.cecc.gov/pages/annualRpt/annualRpt10/CECCannRpt2010.pdf>

210 Cost of Pollution in China: Economic Estimates of Physical Damages. (Washington, D.C.: The World Bank, 2007), p. 45.

211 Op. cit., Tilt, p. 71.

212 "China: Country Health Information Profile – Country Context." WHO Western Pacific Region. World Health Organization, 2010.

<http://www.wpro.who.int/countries/chn/2010/CHN.htm> (June 2011)

213 Cost of Pollution in China: Economic Estimates of Physical Damages, p. 81 and 113.

214 Op. cit., Bergsten et al., p. 152.

215 Cost of Pollution in China: Economic Estimates of Physical Damages, p. xvii.

China an estimated 8 to 12 percent of annual GDP".²¹⁶ In 2007, the first report of the Green GDP initiative showed that in some provinces the public cost of pollution was so high, that net GDP turned out to be close to zero.²¹⁷

Achievements in Environmental Protection

China started to recognize the magnitude of the environmental crisis since the 1990's, and this has been reflected in the increasing importance of environmental concerns in the country's successive Five-Year Plans.

The 10th Five-Year Plan (2001-2005) set out to reduce the total amount of major urban and rural pollutants by 10 percent as compared with 2000, in addition to other measures to protect natural resources, with a projected total cost of RMB 700 billion (\$84 billion), nearly twice as much environmental spending as in the 1996-2000 period.²¹⁸ Notwithstanding the government's efforts and some laudable improvement, the targets proved very difficult to attain. Studies show that 10 out of 13 environmental targets set forth in the 10th Five-Year Plan were not met.²¹⁹

The 11th Five-Year Plan (2006-2010) set a number of targets related to the environment, such as industrial water consumption, solid industrial waste, forest coverage, etc.; especially noteworthy, the Plan projected a reduction in energy intensity by 20 percent and air pollution by 10 percent.²²⁰

Within the framework of the 11th Five-Year Plan, most of the measures implemented during that period were directed towards more efficient use of energy and reduction of global warming emissions, with much less emphasis on other areas of environmental concern. The following are some of the most important of these measures:²²¹

216 Congressional-Executive Commission on China Annual Report. (Washington, D.C.:

Congressional-Executive Commission on China, 2006):

<http://www.cecc.gov/pages/annualRpt/annualRpt06/Environment.php> (June 2011)

217 Op. cit., Bergsten et al., p. 83.

218 "China Sets Five-Year Plan for Environmental Protection." People's Daily Online. Jan.

2002. http://english.peopledaily.com.cn/200201/12/eng20020112_88510.shtml (May 2011)

219 Cost of Pollution in China: Economic Estimates of Physical Damages, p. 1.

220 Op. cit., Bergsten et al., p. 155.

221 Op. cit., Bergsten et al., p. 83.

- Green trade policy: Elimination of export subsidies for heavily polluting industries, and suspension of their ability to export.
- Green credit policy: Suspension of credit to polluting companies.
- Required efficiency plans from high energy-consuming industries.
- Higher electricity prices for energy-intensive industries.
- Denial of permits to heavily polluting industries.
- Increased pollution tax applied to power plants that emit SO₂.
- Forced shut-down of thousands of energy-inefficient industries across the country.
- Grant of economic incentives to plants that installed flue gas desulphurization (FGD) systems to reduce SO₂ emissions.

The Chinese government took major steps to enforce these environmental policies and improve their effectiveness. China's National Development and Reform Commission closed hundreds of small inefficient power plants, and replaced them with more efficient plants that generate more energy with less coal.²²² Also, thirty large-scale industrial projects in 2005, and over one hundred in 2006, were halted by SEPA due to environmental concerns.²²³

On June 3, 2011, the Ministry of Environmental Protection presented its 2010 Annual Report in a press conference given by Vice-Minister Li Ganjie. The report notes that there have been improvements in water and air quality, as a result of the 11th Five-Year Plan. According to the report, the targets for key indicators, such as reduction of pollutants in surface water and SO₂ emissions in cities, have been met.²²⁴ Nonetheless, Mr. Li acknowledged the fact that the environmental situation in China is "still very grave"²²⁵, and stated that many other areas of the environmental situation remain

²²² Op. cit., Bergsten et al., p. 156.

²²³ Idem. Also, op. cit., Tilt, p. 109.

²²⁴ Seligsohn, Deborah. "China Issues Annual "State of the Environment Report" - Ministry Calls Situation "Very Grave"." ChinaFAQs. The World Resources Institute, June 2011.

<http://www.chinafaqs.org/blog-posts/china-issues-annual-state-environment-report-ministry-calls-situation-very-grave> (June 2011)

²²⁵ Op. cit., Seligsohn.

critical: rural pollution and heavy metal pollution are still prevalent problems, and biodiversity is in decline, with a continuous loss of species and genetic resources.²²⁶

The new Five-Year Plan, approved by the National People's Congress in March 2011, places environmentally sustainable growth among China's key objectives for the near future.²²⁷

Among the targets set forth, the country's leadership has proposed to actually curb economic growth, bringing the goal down from 7.5 percent to 7 percent. In the same manner, by 2015 China intends to draw 11.4 percent of its energy from non-fossil fuel sources, to bring down the country's use of coal and oil by 10 percent, and to reduce CO₂ emissions per unit of GDP by 17 percent.²²⁸

The 12th Five-Year Plan also provides for new legislation for the control of heavy metals. These ambitious objectives, if met, would mean a significant contribution to the global battle against pollution and man-made climate change.

Another key policy outlined in the plan is an increase in economic incentives to seven industries, with the purpose that by 2015 they will comprise 8 percent of GDP. They are: energy saving and environmental protection; next generation information technology; biotechnology; new energy (especially hydropower and nuclear power); new energy vehicles; high-end equipment manufacturing; and new materials.²²⁹

The idea is that these industries should gradually replace heavy industry, which will lead to less pollution, and curb China's increasing dependence on foreign oil, gas and coal.²³⁰ This shift would also help to rebalance the country's economy, by moving away from the traditional investment-led growth model, into a consumption-led growth model.²³¹

226 Idem.

227 Op. cit., Zhang.

228 Foster, Peter. "China's Five-year Plan: Key Points." Telegraph Online. Mar. 2011. <http://www.telegraph.co.uk/finance/china-business/8363275/Chinas-five-year-plan-key-points.html> (June 2011)

229 Wheatley, Alan. "Analysis: Why the World Should Heed China's Five-year Plan." Reuters.com. Mar. 2011. <http://www.reuters.com/article/2011/03/07/us-china-economy-plan-idUSTRE7261J820110307> (June 2011)

230 Op. cit., Bergsten et al., p. 137.

231 Op. cit., Zhang.

The Challenges

China faces a number of political, social and economic challenges that it will have to surmount, if its environmental policies and laws are to achieve their goals.

The changing institutional framework

For many years, China has suffered from a lack of adequate administrative infrastructure for the enforcement of its environmental policies and measures. China has had no Ministry of Energy. Energy policy was formulated by the National Development and Reform Commission, the country's central planning agency, through an Energy Bureau. In 2007, this department had only 100 full-time staff members, while the Energy Department of the United States had 110,000 employees.²³² Only recently, in January 2010, did China's State Council announce the creation of a National Energy Commission, a "super ministry" headed by Prime Minister Wen Jiabao himself.²³³

Similarly, up until 2007, SEPA, China's environmental protection office, only had about 200 full-time employees, compared with 18,000 at the Environmental Protection Agency in the United States.²³⁴ In order to more appropriately tackle the increasing complexity of environmental issues, in March 2008 the National People's Congress raised SEPA to the status of a new Ministry, the Ministry of Environmental Protection (MEP). The MEP has become a more powerful institution, with more staff, a larger budget and a broad mandate to draw up environmental laws and enforce national standards.²³⁵

This has allowed the central government to gain better control of the environmental situation around the country. Nonetheless, improvements are still needed. One of the shortcomings of the MEP is that in order to implement environmental policy and ensure compliance of the country's national environmental laws at a local level, it still relies on the basic institutional framework that SEPA created years ago, namely the Environmental Protection Bureaus (EBPs). EBPs are often staffed

232 Op. cit., Kahn and Yardley.

233 Wan, Zhihong. "Wen Heads 'super Ministry' for Energy." China Daily, US Edition. Jan. 2010. http://www.chinadaily.com.cn/china/2010-01/28/content_9388039.htm (May 2011)

234 Op. cit., Kahn and Yardley.

235 Op. cit., Bergsten et al., p. 83.

with very competent and committed professionals, but they still suffer from lack of manpower and adequate technology, as well as from a large degree of financial and administrative dependence on local governments,²³⁶ which often eschew the central government's environmental mandates.

The local politics of environmental protection

Central government inspections in 2006 revealed that 70 percent of local projects had been approved without the mandatory environmental assessment, and one half of these did not comply with the required pollution controls.²³⁷ Similarly, in 2006 although all local governments had reported meeting their targets of pollution reduction, the national levels had actually risen, leading SEPA to suspect that local authorities had misreported their emissions on purpose, thereby undercutting the central government's efforts.²³⁸

China's growth is in more than one way the heritage of Deng Xiaoping's political vision and market-oriented reforms. Deng established an economic model and a political culture that put growth at the hub of everything else, and placed secondary importance, if any, on considerations such as the environment. Deng's model also gave considerable power and independence to local party leaders and officials, in an effort to decentralize governmental administration. Local authorities independently controlled taxes, land use, lending, and even the police and the courts in their region.

Since President Hu Jintao took power in 2002 and Mr. Wen took office as his Prime Minister, growth has remained a priority, but its focus was adjusted to include the notion of sustainability, and new laws (such as the Environmental Impact Assessment Law) were passed to address the issue of environmental damage. But after more than twenty years of "growth at any cost", it has become part of both Chinese mentalities and business practices, and it will take time to get the local party leaders and authorities to shift gears along with the central government and outgrow what Premier Wen has referred to as an "outdated mindset".²³⁹ For local leaders it is difficult to come to terms with the fact that the high growth targets

236 Op. cit., Tilt, Chapter 6.

237 Op. cit., Bergsten et al., p. 80.

238 Idem.

239 Op. cit., Zhang.

that a few years ago had to be met and exceeded at all costs are not the goals anymore, and that the same factories that were the community's pride because of high productivity levels, are now being fined and even closed because of high pollution levels.

Local officials on a daily basis face a problematic task, which is learning to balance out two seemingly opposing priorities: their community's environmental well-being with their economic well-being, the need for clean air and water with the need for those factories that create jobs and raise the local standard of living. Often, that means having to deal with the discontent of those affected by the environmental damage on the one hand, and on the other having to bear the brunt of the socioeconomic consequences (unemployment, poverty, migration, etc.) when the factories responsible for the damage are closed. Faced with these difficult choices, sometimes local officials find themselves overlooking environmental violations in order to save people's jobs, maintain economic stability and prevent social unrest²⁴⁰.

This erosion of environmental mandates at the local level has been acknowledged by the central government authorities, who are taking the necessary steps to insure the full implementation of environmental protection laws and policies, attacking the problem on all fronts. In 2007 China established the National Bureau of Corruption Prevention, which depends directly from the State Council. This agency coordinates anticorruption work by focusing on preventive anticorruption measures, and has implemented new mechanisms to detect and discourage illegal activities.²⁴¹

Additionally, one of the targets of the new Five-Year Plan is strengthening the MEP, so it can apply more pressure on local authorities through the system of performance evaluation and promotions, to force them to comply with environmental directives²⁴². Nonetheless, there is still work that needs to be done in order to continue to improve transparency and accountability in the provincial and regional governments, especially to increase the opportunity for public scrutiny and participation.

240 Op. cit., Bergsten et al., p. 78. Also, op. cit., Tilt, Chapters 5 and 6.

241 Op. cit., Bergsten et al., p. 99.

242 Johnson, Ian. "China Faces 'Very Grave' Environmental Situation, Officials Say." *The New York Times*. June 2011.

<http://www.nytimes.com/2011/06/04/world/asia/04china.html> (June 2011).

Social unrest and environmental activism

Economic growth is necessary to foster the social harmony prized by the Chinese, but the environmental neglect that has come hand in hand with it is already causing some social unrest and discontent, which may in time pose a significant threat to the country's political stability. Recent protests in Inner Mongolia were in part directed at coal mining, which is damaging the grasslands that the inhabitants use for the traditional practices of herding. According to the New York Times, similar tensions are on the rise in other sensitive areas like Tibet and Xinjiang. In response to this trend, the MEP has pledged to "strictly limit development"²⁴³ in these fragile areas that are prone to instability.

So far, most incidents remain isolated and have been dealt with quickly by the authorities, but the steady rise in the amount of public protest and incidents of social unrest²⁴⁴ that China has seen in the last decades shows that this trend should not be taken lightly. The number of public protests in China reached almost 90,000 in 2005²⁴⁵, and specifically "the number of mass protests over pollution has increased by 29 percent per year since 2000"²⁴⁶, putting social stability at risk on the long-term.

Ordinary people in China have begun to discover the power of organized, measured protest, especially if it is coherent with the Communist Party's own principles, as is the case when it comes to protecting the environment. An interesting case is what happened in the port city of Xiamen, when in June 2007 the residents used mobile phone text messages to organize a successful campaign against the construction of a new chemical plant that posed both health and environmental risks, due to its use of potential carcinogens.²⁴⁷ In response to the massive support this campaign gathered and the amount of negative publicity it attracted, Xiamen authorities stopped the project, and have recently announced that the plant will not be built in Xiamen after all, but will be moved to

243 Idem.

244 Op. cit., Bergsten et al., p. 37.

245 Op. cit., Bergsten et al., p. 96.

246 Congressional-Executive Commission on China Annual Report. 2006.

247 "'Text Protest' Blocks China Plant." BBC News. May 2007.

<http://news.bbc.co.uk/2/hi/asia-pacific/6704359.stm> (June 2011)

another location.²⁴⁸ As environmental activist Wu Xian said, “People from other parts of the country will follow our example”.²⁴⁹

Despite the rise in this trend, environmental advocacy in China still entails political risk. Environmental civil society organizations are permitted and the work of activists is encouraged at the level of national government, but at a local level they are at best coldly tolerated, and at worst they are often met with repression.

The main reason for this is that the Chinese government places high value on social harmony and stability. In the light of this priority, constructive criticism of environmental issues is possible in China, as long as the limits are strictly respected. These topics are no longer taboo for Chinese society; on the contrary, the government itself is slowly opening up more and more to public debate of environmental problems. But there is a very fine line between advocacy and political agitation that cannot be crossed in China without risking arrest. As a result, many activists in prominent environmental cases, such as the campaign in Xiamen or the protests in 2007 against the pollution of Lake Tai, to mention a few examples, have ended up being arrested, charged and convicted of miscellaneous crimes.²⁵⁰

The authorities at all levels still need to realize that they need nongovernment organizations, the media and ordinary citizens to act as watchdogs to keep its priority environmental protection goals on track. Environmentalists should not be merely tolerated, but instead it should be recognized that they fulfill an important role in helping the government enforce environmental laws and fight corruption, by exposing the violators.

As the income level rises for millions of people, the new middle-class consumers with a better education are taking up environmental issues and have more leverage to pressure the government further for clean air, safe water and other “green” concerns. In this context, the internet and other related technologies have been taking on more importance, fulfilling a role as a platform

248 "China to Re-site 'toxic' Factory." BBC News. Jan. 2009.

<http://news.bbc.co.uk/2/hi/asia-pacific/7828003.stm> (June 2011)

249 Bristow, Michael. "China's Rising People Power." BBC News. Jan. 2008.

<http://news.bbc.co.uk/2/hi/asia-pacific/7195434.stm> (June 2011)

250 Kahn, Joseph. "In China, a Lake's Champion Imperils Himself." The New York Times. Oct. 2007. <http://www.nytimes.com/2007/10/14/world/asia/14china.html> (May 2011)

for fostering public discussion, building public opinion, and generating constructive proposals for the government to address the main environmental problems. As the awareness of civil society as to environmental issues grows in China, so does the amount of intellectual debate on the subject, especially from the “New Left”²⁵¹ thinkers. This debate has often influenced public opinion, evolving later into public policy.

Conclusion

Traditionally, China has refused to be constrained by international pressure in its internal affairs. In many salient issues such as liberal democracy, trade and human rights, external efforts to force Western standards on China have had counterproductive results, if any at all, and this is also true of environmental issues.

It is true that China so far has been skeptical about the adoption of international commitments or guidelines in environmental issues, such as those outlined in the Kyoto Protocol for the limitation of greenhouse gases emissions, since these would imply slowing down economic growth. China often contends that the United States and the European Union also deviate in practice from the very same standards that they defend in principle, in the pursuit of their national interest.

Nonetheless, it is also true that while resisting external pressures, China has been developing its own environmental standards and policies, debating and passing its own laws, and finding its own way to enforce them, adapting to the unique political and cultural realities of its people. Taking into consideration the fact that it is still a developing nation and technically a poor country, China is leading the way in environmental protection efforts. Chinese pollution standards are now similar to those of developed countries such as the United States. The country still has a long way to go, but it is taking commendable steps in the right direction, and this should be acknowledged more often.

The world has nothing to gain from pointing fingers at China. To effectively tackle the immense environmental challenges

²⁵¹ The “New Left” is the name given to a current of contemporary Chinese critical thinkers, some of whom are involved with the Chinese environmental movement, such as Hu Angang, a famous economist who has spoken in favor of the implementation of carbon emission reduction targets in China and has proposed alternative views of how a global consensus on climate change can be reached.

that humanity faces, we need to step up the efforts, and no significant progress can be made without China's full and committed participation.

In the bilateral sphere, instead of fearing and continually antagonizing the Chinese giant, developed countries such as the United States could instead approach China with technical cooperation. There are many environmental projects, such as carbon capture and sequestration, industrial energy efficiency and biofuels, to mention a few, in which close cooperation with China could significantly advance the global arsenal of knowledge and tools to fight environmental destruction.

DEFENCE

Editor's Note: The significant expansion and modernization of the Chinese defence capabilities is interpreted by most Western observers as an emerging threat. The West's own aggressions against China and the rest of the world are conveniently forgotten, as is the fact that China itself has never expanded outside its traditional borders, has fought no aggressive wars, has no bases abroad, and has a thinking and strategy that is entirely defensive in nature.

Introduction

Defense is of paramount importance for any nation-state to protect its citizens, maintain order and stability, pursue growth and development, and facilitate access to prosperity for its citizens. China is no exception. In an age of globalization, the current trend is to pursue defense modernization to maintain the arteries of development uninterrupted. Yet, the achievement and modernization that China is pursuing is viewed as a threat by others.

For China, the number one constant and reality is unity. Unlike other historical great powers, China has been marked by repeated foreign invasions that have threatened its continuity as a civilization. As a result, it always attached principal importance to safeguarding internal stability, unification, territorial integrity, and land border and coastal security. Following the Opium War in 1840 and the subsequent "period of humiliation", there is a new determination of "never again" today.

Therefore, the key to face the threats of all possible external forces is defense modernization by moving away from low-tech of "people's war" and into the high-tech of "active defense." This modern defense outlook was based on three principles: no provocation to another nation; no bases anywhere on foreign soil; and no seizure of territory.

Land borders have always a major concern for China, hence, the Great Wall. Presently, the nation's economic pulse is on its large coastal border. This is a critical zone for China and the international

community in order to keep the global economy moving. Hence, China's pursuit of a professional armed force – a modernized army, air force and navy. This is a new national defense strategy, and in fact, Chinese leaders are sometimes baffled at the attention given to this process of modernization.

Unlike other nations, has China begun only recently to develop a maritime capacity and strategy. It was on these shores that the fate of Chinese civilization hung in the 19th Century. China, unlike the United States, does not enjoy two large oceans as natural protections for its coastal cities. For China, the costal lines are the pulse and heart of its economy, and development and. The national strategic priorities of China are: internal security and stability, territorial integrity and unification, borders and maritime security, international trade, and access to sources of energy and basic resources.

China's National Defense and Strategy

Initially, China depended on the Soviet Union for its defence needs, but once the Soviets withdrew in 1960, it embarked on self-reliance. By the 1970s, China possessed its own network of defense industries across the entire spectrum of military needs.

The Chinese government pursues a national defense policy that is defensive in nature. The Constitution of the People's Republic of China clearly specifies the tasks of the armed forces, to consolidate national defense, to resist aggression, to defend the motherland, to safeguard the people's peaceful labor, to participate in national construction, and to strive to serve the people.²⁵²

This defensive policy springs from the country's historical and cultural traditions. Ancient Chinese sages and thinkers advocated that leaders should be “associated with benevolent gentlemen and befriending good neighbors,” but keeping in mind that “a common border does not mean good friends.” This implies that resolving disputes by non-military means is preferable to wars. This is also in keeping with ancient wisdom – that war is expensive, and that it depletes manpower and resources.

The speed and critical priority on defense modernization are reflections of China's economic growth, and its side effects, but not limited to it. The acquiring of new hardware and technology results

252 China's Constitution, National Defense, www.china.org.cn

from regional and international trend of defense modernization, the effects of economic development, and bi-products of globalization.

For China, modernization encompasses a diverse and complex range of political, economic and organizational choices. It is not simply selecting among advanced technologies. Any state must bear the direct influence on industrialization strategies and resource allocation, and manpower and training requirements at all levels - what to acquire, how much, how quickly, by what means, and for what purposes.²⁵³ China is no exception.

China's defense mirrors the economy it supports. This means that defense planning policies have always been oriented toward the long-term strategy of self-reliance under a logical, but incremental progression in the development of an independent defense industry through the cultivation and gain of practical experience with a broad range of technical, engineering, and manufacturing skills – a scientific and managerial infrastructure for research and development, and production, as well as the arterial infrastructure for ease of movement of equipment and manpower.

Another issue for China's leaders to consider was, and is, the consequence of their development of military power and how others might react, regionally and internationally, as sparking an arms race or conflicts with neighboring states and regional powers.²⁵⁴

Again, defense modernization requires the support of economic and technological forces. Levels achieved can only improve gradually and/or incrementally, along with the growth of China's economic strength. The Chinese leadership insists that economic construction is critical; defense subordinates to it and is in the service of the overall national economic construction. In fact, the Four Modernizations clearly place defense as the last priority, but a pivotal pillar to lead the nation as a sovereign entity, respected as an equal among other nations, and not subordinate to any power, as was the case during the Opium Wars and “period of humiliation”.²⁵⁵

Therefore, China has been working to develop a revolutionized and professional people's army with Chinese

253 China's Four Modernizations: The New Technological Revolution, Westview Special Studies on China and East Asia, p241-42

254 China's Search for Military Power: Internal Control, Peripheral Denial and Limited Force Projection, M. Taylor Fravel

255 <http://chineseculture.about.com>

characteristics. Reducing quantity and improving quality is a basic principle upon which to be efficient via modernization, embracing science and technology. Meeting the characteristics of modern wars and improving the levels of weaponry, equipment, communication, systems and operations, and infrastructure.²⁵⁶

In addition, China does not seek hegemony, nor does it seek military blocs or military expansion. China does not station any troops or set up any military bases in any foreign country. Its vision is to develop some very specific military capabilities - internal stability, historical territorial integrity and maritime rights and interests, regional stability, and limited force projection and minimum deterrence - as part of a national strategy.²⁵⁷

China's Defense Forces

Chinese military modernization encompasses all the defence services. The ground army, the Peoples Liberation Army (PLA), which was previously had been the center of gravity of the Chinese Armed Forces, remains the largest service and provides the bulk of senior leadership for the military, but it has felt the impact of force reductions as the emphasis has shifted, a result of maritime security needs.²⁵⁸

The PLA primary responsibility is defending China from external threats. Its secondary mission is domestic security in accordance with the law; that is, when requested by local authorities and approved by the central leadership. The ultimate command authority for the PLA is the Central Military Commission. The command chain runs through four general headquarters departments, in Beijing, to the forces deployed in seven military regions throughout the country. All three support national economic development with labor and service projects. It can mobilize to provide rescue and relief support in the event of floods, earthquakes, and other natural disasters.²⁵⁹

The PLA's modernization program includes the complex and difficult task of: reduction in force size; changes in force structure; reform of the structure and missions of the reserves and

256 *ibid*

257 *China's Search for Military Power: Internal Control, Peripheral Denial and Limited Force Projection*, M. Taylor Fravel, p72

258 *Military Review, Chinese Army Modernization – An Overview*, Lieutenant Colonel Dennis J. Blasco, U.S. Army, Retired

259 *Ibid*

militia; changes in the personnel system; influx of new equipment; doctrinal revision to prepare the PLA to fight and win “Local Wars Under Modern High-Technology Conditions” or “Local Wars Under Informationalization Conditions”; improvements in the frequency, content, and methods of military training with emphasis on joint operations; transformation of the PLA logistics system; enhancement of all soldiers’ standard of living, pay, and lifestyle; modification of the professional military education system.²⁶⁰

Defense Modernization

Defense modernization is not new. For decades prior to 1990, China acquired or built a range of sophisticated weapons. Between 1984 and 1986 the United States sold to China naval antisubmarine weapons, antiaircraft missiles, and antitank weapons, as well as half a billion dollars worth of radar, navigation, and computer equipment, to upgrade interceptor aircrafts in China’s possession. But Chinese purchase of Western hardware and technology suddenly stopped due to Tiananmen Square events in 1989, and the reemergence of Sino-Russian cooperation in defense.

The reawakening of Chinese tradition in research and development, and the reverse engineering of obtained hardware spearheaded China to become a manufacturer of sophisticated weaponry. It became one of the significant global suppliers of arms.²⁶¹

Since the 1990s Russia impacted the PLA modernization but under different historical conditions. It also enabled the PLA’s first manned spaceflight to perform military reconnaissance in 2003, and enabled future PLA radar surveillance and reconnaissance satellites for all-weather strike capability.²⁶²

Also, Russian technology and assistance facilitated the PLA Navy (PLAN) to launch its first second-generation nuclear powered and conventional submarines. It assisted the PLA in building three new classes of stealth warships. The strategic relationship helped modernize PLA Army main battle tanks, armored personnel carriers, amphibious tanks, airborne tanks and anti-tank missiles.²⁶³

²⁶⁰ Ibid

²⁶¹ China: Its History and Culture, 4th Ed., W. Scott Morton and Charlton M. Lewis, p235

²⁶² Ibid

²⁶³ Ibid

Between both nations, there is an increasing emphasis on broader technological development cooperation, whereby China seeks to attract Russian technological investment, and China also invests in high technology in Russia. In 1993, there were 300 Russian scientists in China on long-term defense-related programs. In 2000 there were 1,500.²⁶⁴

In fact, high technology development contracts between both nations jumped to approximately seventy contracts between 2001 and 2002, in shipbuilding, nuclear energy, aerospace and defense industry companies.²⁶⁵

In the past few years, however, it has become quite obvious that defense industry cooperation between Russia and China is on the decline. In the 1990s, China was the main importer of Russian weapons, accounting for up to half of Russian arms exports in 2004-2005. By 2007 that figure had shrunk to just 25 per cent. The projection for 2008-2010 is a mere 12-17 per cent. China has almost stopped buying complete weapons platforms from Russia. It is now interested only in components, subsystems, engines, and technical expertise.²⁶⁶

Other than Russia, it is believed that Ukraine sold approximately \$1-2 billion in military products to the PLA in the 1990s, benefiting from Russian and Ukrainian military competitive relations. This consisted of supplying space and missile technologies, conducting training for PLA astronauts, and possibly selling advanced liquid fuel rocket engines, as well as being the principle source for air-to-air missiles. It is also reported that Ukrainian companies developed new naval radars which are part of air-defense destroyers.²⁶⁷

Another source of supplies was Israel. During the 1970s and 1980s, technology was transferred for tank weapons, anti-tank missiles, surface-to-air missiles, cruise missiles, military electronics and aircraft design – all of U.S. origin. Most of this came to a stop after the 1989 Tiananmen events due to U.S. bipartisan pressures.²⁶⁸

264 Ibid

265 Ibid

266 Institute for National Strategic Studies, *Global Military Balance: Stable or Unstable?* Ch. 4

267 Ibid

268 Ibid

Some collaboration with Israel continues. In late 2000, a U.S-Israeli committee was reportedly created to review Israel's sale of such technologies. Nevertheless, such sales have surfaced. In 2002, it was reported that Israel sold a large number of its Harpy anti-radar drone to the PLA. A December 2003 report notes that Israel may be trying to revive some military-technical commercial ties that may focus primarily on counter-terrorism.²⁶⁹

In 2004 Europe was ready to end its 1989 arms embargo against the PRC. After the mid-1990s, Britain, France, Spain and Italy modified their interpretations of the sanctions to allow increasing "dual use" technology. Europeans have sold defense electronics and helicopter technology to the PLA. By 2002-2003, stronger China-EU links were being developed.²⁷⁰

In fact, Britain sold microsatellite technology used in anti-satellite capabilities and Rolls Royce turbofan engine technology used on fighter-bombers. The French and Italian contributed to the PLA's first modern attack helicopter. The Germans and the French sold marine engines for PLA submarines, and combat ships.

There is also EU-China cooperation in "space science, earth observation, environmental monitoring, meteorology, telecommunications and satellite navigation, microgravity research for biology and medicine, and human resource development and training."²⁷¹

Analysts suggest that in order to reach a high level of defense modernization, China will likely try to form new alliances with European arms makers as quickly as possible, thereby, creating anxiety in the Asian region, the U.S, and Moscow.

But to remain competitive with Europe, it is possible that Russia may become more eager to sell whatever it has that is new and more deadly. For example, the fear of European competition may drive Russia to allow the PLA to co-produce up to 20 of its most modern and effective conventional submarines.

It can also be expected that many European defense companies that now cooperate with U.S. defense companies will seek

269 *ibid*

270 *ibid*

271 *ibid*

cooperative alliances with PLA-controlled companies. Such moves should be viewed with concern in Washington.²⁷²

Defense Spending Statistics

Today, global military expenditure stands at over \$1.6 trillion in annual expenditure at current prices for 2010, and has been rising in recent years. This represents a 13 per cent increase in real terms since 2009 and a 50 per cent increase since 2001.²⁷³ Out of these figures, the USA is responsible for 43 % (\$698 bn) of the world total, distantly followed by China with 7.3% (\$119 bn), UK (3.7%), France (3.6%), and Russia (3.6%).

Recently, a report by the Stockholm International Peace Research Institute (SIPRI) found that of the top 100 arms-producing companies, 78 are based in the West, with 45 in the United States and 33 in Western Europe.

Regardless of the global financial and economic crisis, military spending has increased, with only a few exceptions. The contributing factors are: foreign policy objectives, real or perceived threats, armed conflicts, contributions to multilateral peacekeeping operations, and availability of economic resources. The last point refers to rapidly developing nations like China and India that have seen their economies boom in the last decades. Among larger economies, both developing and developed: 16 of the 19 states in the G20 saw real-term increases in military spending in 2009.²⁷⁴

As stated above, defense is big business. It is also a reflection of a global trend of military modernization. In essence it is also the forever present pursue military superiority and strategy of power projection - a clear strategy of the West.

China's Defense Tradition

Defense, being an expensive acquisition, is also an expensive endeavor requiring management of operations, maintenance and repair, and upgrading of high value, complex assets for ground, sea, air and space. Therefore, an integrated logistic and technological modernization is a must to facilitate the functionality of the enterprise on hand. This approach guarantees organizational

²⁷² Foreign Military Acquisitions and PLA Modernization written testimonies of Richard D. Fisher, Jr., Center for Security Policy, Before the U.S.-China Economic and Security Review Commission February 6, 2004, p5-6

²⁷³ www.globalissues.org

²⁷⁴ *ibid*

leadership, management of manpower and supply, agility and flexibility, and to maintain reduce and sustain costs. This is the essence of military modernization.

Yet, this modernization goes hand-in-hand with ancient tradition. The defensive orientation was evident since the early imperial period. Historically, China has feared invasions from its northern neighbors; hence, the Great Wall for the purpose of keeping the “barbarian” armies out.

The ancient philosopher most readily identified as a defensive strategist, as well as conflict negotiator and defensive tactics adviser, is Mo Zi (Mo Tzu). He deplored war because strong states invade weaker states.

This philosopher-engineer devised defensive war-fighting techniques in the event that peaceful avenues of conflict resolution failed.²⁷⁵ Mo Zi followed a victory-denial strategy, a vital component of Mao’s strategic doctrine which holds that should deterrence fail, then defensive war fighting capabilities in the form of a protracted war of resistance should be put in place.²⁷⁶

Another sage, Sun Tzu, stated in the oldest book on strategy, *The Art of War*, “War is a matter of vital importance to the state; a matter of life or death, the road either to survival or to ruin”.

Therefore, a defensive stance is the most suitable stance, and in keeping with the wisdom of the sage, and the decision of Chinese leadership was not to participate in an arms race during the Cold War. This is a position that the current, and possible future leaders of China will uphold.²⁷⁷

Mo Zi is not alone in providing a philosophical antecedent to contemporary victory-denial strategy. Where Mao’s strategic thinking differs from Mo Zi, but agrees with Sun Tzu, is in the interpretation of defensive strategy. He stated that “invincibility lies in defense; the possibility of victory in the attack”.²⁷⁸ In other words, while maintaining the pre-eminence of defence, there should nevertheless be no let up in offensive capabilities.

275 Chinese Strategic Culture: Part 1 – The Heritage from the Past by Asrudian from Modern Chinese Defense Strategy By Rosita Dellios

276 *ibid*

277 Strategic Thinking From Art of War Author Sun Tzu Relevant Today, www.impactfactory.com

278 Chinese Strategic Culture: Part 1 – The Heritage from the Past by Asrudian from Modern Chinese Defense Strategy by Rosita Dellios

Analysis

Today, China's defense modernization is balanced within the parameters of historical events, relations with its neighbors, territorial and border issues, resource and energy needs, secure shipping lanes for trade, the global trend of military modernization, and the United States as the sole global power – all which are linked and vital for a sustained economic development.

Historically, the Great Game of the 19th Century pitted the British and Russian empires against each other for domination of Central Asia. Likewise, the implosion of the Soviet Union in the 20th Century will ignite new contests for power in this region under the label of the New Great Game. A region full of energy resources and of great importance for China as a result of what has been labeled the New Silk Road – an artery of natural gas and oil pipelines linking it with China's north-western borders, and the dilemma that the Straits of Malacca, as a choke-point, that it represents for China.²⁷⁹

Again, the fact that good neighbors don't make good friends is a reality for China. There are pending continental border territorial and maritime claims/disputes that have not been resolved, as well as the issue of Taiwan.

Since the Open Door policy, China's trade and development has expanded to the four corners of the globe, linking it to the world economy and vice versa via sea shipping lanes. Therefore, the responsibility of safeguarding China's vital interest from piracy and other threats is a duty. China, as any sovereign nation, cannot rely nor depend on foreign defense forces.

Many analysts argue that the studies of modern Chinese history focused on China's 'response to the West' concentrate overwhelmingly on subordinating the equally. In other words, China views that its territorial integrity that must be protected by two walls – significant and longer-lasting overland links with Russia and Central Asia that can be defended by modernized land forces, and the maritime contacts with Western Europeans, Americans, and Japanese, which require a modernized maritime defense force.²⁸⁰

Some analysts claim that Beijing assesses that Washington is trying to sustain a “unipolar” balance of power by strengthening its

²⁷⁹ Military Mobilization in Seventeenth and Eighteenth-Century China, Russia, and Mongolia, Peter C. Perdue, MIT, p 759

²⁸⁰ *ibid*

security alliance with Tokyo and by expanding NATO's reach beyond Western Europe, along with of course the access of India to US nuclear capabilities in clear violation of the Nuclear Non-Proliferation Treaty. Therefore, China will most likely continue to promote what has been referred to as a "strategic partnership" with Russia marked by cooperation over border issues, trade and investment, and military sales, as well as continued close relations with other regional powers, like Pakistan and Iran.²⁸¹

There are also those that believe that the PLA's modernization goals are more manageable because, unlike the U.S. Army, the PLA does not seek to project force across oceans, and it limits its scope of operations to what it considers as the protection of Chinese sovereignty, including Taiwan and much of the South China Sea. The PLA does not have foreign bases or a web of defense commitments throughout the world. Moreover, unlike the U.S. Army, the PLA remains a party-army bonded by loyalty to the Chinese Communist Party.²⁸²

Today, China ranks as number two as a global military power. In fact, the U.S. remains and will continue to remain the undisputed leader, showcasing the world's largest navy, continuing to increase its defense budget, and its engagement in military activities in hotspots; on the other hand, China has slowly edged out Russia but only by the slimmest of margins in available manpower and financial capital.²⁸³

The most interesting aspect of the defense modernization of China is the following. Even more importantly than buying individual Russian-made weapons, China has been able to acquire and license a wide range of Russian military technology, and to make use of Russian military expertise to design some new weapons - indeed, sometimes entire new weapons systems - of its own.

In the 1990s and the early part of this decade, many if not most of the Russian military design bureaus and research facilities worked for the Chinese, who had become their main customer. As a result, though many of the latest Chinese weapons systems developed over the past decade bear the hallmarks of Russian

281 <http://ejournalofpoliticalscience.org>

282 Military Review, Chinese Army Modernization – An Overview, Lieutenant Colonel Dennis J. Blasco, U.S. Army, Retired

283 www.GlobalFirePower.com

sources – but more and more hardware and technology will have Chinese characteristics.

Conclusion

Unity and territorial integrity remain a constant priority for China. The reality of today's international and interconnectedness is complex and dynamic. Hence, the critical need for defense modernization to keep up with a sustained level of growth under a national strategy of development. China's land and maritime borders are mined with many pending issues and claims that have the potential to spark conflicts, as they did in the past. Within this historical reality, China's leadership, from Mao to the present, understands the critical importance of maintaining a defense structure that would guarantee the consolidation of historical milestones, the continuity of its civilization, and the path to modernization. This can only be achieved by embracing the necessary means, as was laid down by Deng Xiaoping through under the Four Modernizations, to continue on the path to a modern China with a momentum that is embraced by the leaders and the population.

Analysts point at the forward leaps that China has taken regarding its defense modernization. Having acquired hardware and technology from different sources, it would only be naïve not to assume that China would not employ its long tradition of research and development for its own military hardware, weapons systems, strategies, and know-how with Chinese characteristics.

Furthermore, analysts and strategic institutions clearly have understood that military doctrines are constantly changing. Tomorrow's forces are likely to be considerably different from today's. Technology and the nature of war are undergoing rapid change because of the information revolution. The wars of today are already the wars of terrorism. The wars of tomorrow may well be cyber-wars. Some countries may respond by maintaining defensive doctrines to respond to these challenges. Others may acquire greater offensive capabilities in these new areas. With this in mind, it is evident that China is responding to the ongoing trend of defense modernization to meet present and future military challenges - keeping in mind that it is not and will not be a part of an arms race, but to stay the course of unity, integrity, and modernization.

RELATIONS WITH THE UNITED STATES

Editor's Note: The relationship between the United States and China is critical for the future of the world. As these relations develop, a new bi-polarity is slowly replacing the old US-Soviet world of the Cold War. The major difference between the China and the old Soviet Union lies in the basic strategy of territorial integrity and Confucian ethic that typifies Chinese thinking. A secondary difference lies in the slow but sure deterioration in the pre-eminence of the United States itself as a result of current economic and financial realities.

Introduction

The United States of America and People's Republic of China cannot agree on their relations because of differences in their foreign policies, old frictions, diverging values and interests, economical interests, and most importantly national security.

China is the only power that is presently thought capable of becoming a peer competitor of the United States, and this creates great anxiety as China's expansion is in contradiction with the National Security strategy of The United States, which states that no country, friend or foe, can be allowed to achieve equality with the United States.²⁸⁴

Should China become an equal or greater power than the United States, it would seek to use its increasing influence to restructure the rules and institutions of the international system to better serve its interests, and other states in the system. This would then create tensions, distrust, and conflict.

However, China's economic, political, and defense prowess is already allowing Beijing to challenge American influence in the region and around over the world. The Chinese are the preferred partners of many African governments and are the biggest trading partner of other emerging powers such as Brazil and South Africa.

²⁸⁴ United States Government, The White House. (2006). The National Security Strategy of the United States of America. Washington, DC: The White House.

China is also stepping in to buy the bonds of financially strapped members of the Euro zone, and is otherwise beginning to invest heavily in that region.

The challenge they bring to the United States is significant for both economic and national security reasons. The Soviet Union collapsed because its economic system was highly inefficient. China, by contrast, has proved its economic prowess on the global stage. Its economy has been growing at 9 to 10 percent a year, on average, for roughly three decades.²⁸⁵ It is now the world's leading exporter and the biggest manufacturer; still it is sitting on more surpluses of foreign reserves.

Consequently, China's military spending and modernization program increasingly worries U.S. interests and allies, regionally and globally. This will not only elevate the mistrust between the two powerful armies, but will also encourage continued tensions. The United States of America will not be able to either contain or slow China's growth. However, by applying pressure through certain issues such as: human rights, WTO, Taiwan, Tibet, and the currency dispute, it can attempt to put China on the defensive.

Foreign Policies

The relations between the United States of America, a young civilization with a strong economy and army; and China, one of the oldest civilizations with the largest populations, can be characterized as complex and multi-faceted. They are neither allies nor enemies; the United States' government and its military establishment do not regard the Chinese as an adversary, but as a competitor. Their relations over the fifty years, since the establishment of People's Republic of China in October 1949, have been complicated. For instance, extreme hostility turned into outright military conflict in Korea.

However, rapprochement in the early 1970's led to a strategic partnership during the latter part of the Cold War, a partnership that was followed by today's often rocky relationship. In the first public sign of warming relations between Washington and Beijing, China's national ping-pong team invited members of the United States team to China. Journalists accompanying the United States' players were among the first Americans allowed to enter

²⁸⁵ <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

China since 1949.²⁸⁶ Secretary of State Henry Kissinger then made a secret trip to China, paving the way for President Richard Nixon's visit the following year. The United Nations then recognized Beijing and gave the Security Council the seat held over the previous years by Chiang Kai-shek's exiled regime.

The United States' main concern is to monitor both the expansion and the modernization of the Chinese military and economy. Nevertheless, the passive global policies of China fail to allay the concerns of the American government and its allies. Because of this, the United States has put in place specific national strategic policies to pressure Beijing into recognizing American interests in the region and globally.

Since the U.S. wants to keep an eye on the expansion of the Chinese military, they are scrutinizing Beijing's attempt to threaten its neighbors or challenge the American government. Given the strategic uncertainty, The United States has no choice but to follow a two pronged policy towards China. One point is to engage China and encourage it to become a responsible stakeholder in the international community. The second point is to engage in careful hedging against competitive or aggressive behavior by the Chinese government. The United States' global commitment to its allies requires the maintaining of qualitative superiority and quantitative sufficiency of its armed forces.

In response to U.S. concerns, the Chinese government has played down the modernization of its military and persists in developing friendly relations, enhancing political mutual trust, conducting security cooperation, and maintaining common security with all countries on the basis of the Five Principles of Peaceful Coexistence. The Five Principles consists of: mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.²⁸⁷

Old Frictions

Washington D.C and Beijing had uneasy relations in the past, and disagreement among the two nations have brought them in

²⁸⁶ http://uschina.usc.edu/article@usct?diplomacy_in_the_sports_arena_10957.aspx

²⁸⁷ The People's Republic of China. China's National Defense in 2008. Beijing, 2009. Web. 21 Jun 2011. <http://www.china.org.cn/government/central_government/2009-01/20/content_17155577_15.htm>.

confrontation on several issues, such as the support of the United States for China's nationalist government during China's civil war, the Korean War in 1950, the Vietnam War and the Taiwan issue. Because of these old ideological frictions and important geo-strategic difference in the region, U.S. and China cannot agree completely on their relations.

During World War II, the United States backed China's nationalist government in its fight to expel the occupying Japanese forces. However, in January 1949, the Nationalist government lost control of Beijing in its civil war with the Communist forces. By October, the peasant-backed Communists had established the People's Republic of China under the leadership of Mao Zedong. Nationalist leader Chiang Kai-shek and thousands of his troops fled to Taiwan. The United States supported Chiang's exiled Republic of China government in Taipei, setting the stage for several decades of limited U.S. and China relations.

Furthermore, the ideological confrontation of both countries in the Korean peninsula during the 1950's ended hopes for any early normalization of their relations and increased the mistrust between the two nations. The United States and the People's Republic of China began fighting against each other in the Korean War on November 1, 1950. Soviet-backed North Korea invaded its southern counterpart. The United Nations and the United States rushed to South Korea's defense. China, in support of the communist North, retaliated when the U.S, United Nations, and South Korean troops approached the Chinese border. As many as four million people died in the three year conflict until the United Nations, China, and North Korea finally signed an armistice in 1953.²⁸⁸

Another damaging point for the United States and China's relations came during the Vietnam War, where both nations' interests continued to intersect. China's involvement in the Vietnam War started when the Communist Party of China provided material and technical support to the Vietnamese communists. China sent anti-aircraft units and engineering battalions to North Vietnam to repair the damage caused by American bombing, rebuild roads and

288 Malkasian, Carter (2001). *The Korean War: Essential Histories*. Osprey Publishing. p. 16.

railroads, and performed other engineering work; freeing North Vietnamese army units for combat in the South.

One of the most debated and hot issues between the United States and China is the issue of Taiwan. The United States has always tried to use the Taiwan issue as a pressure point against China. In 1953, President Dwight Eisenhower ended the U.S. navy blockade of Taiwan, which prevented Chiang Kai-shek's exiled government from attacking mainland China; Chiang then deployed thousands of troops to the islands of Quemoy and Matsu in the strait between China and Taiwan. China responded by shelling the islands. As a result, Washington then signed a mutual defense treaty with the Nationalists and, in the spring of 1955, the Eisenhower administration threatened a nuclear attack on China. Since then, Taiwan has been the source of tension and heated discussion in relations between the two countries.

The United States continues its relations with Taiwan on the bases of the Six Assurances negotiated between the two.²⁸⁹ The Six Assurances are guidelines used in conducting relations between the United States of America and Taiwan. They were proposed in 1982 by the Taiwan during negotiations between the U.S. and China over the Joint Communiqué on Arms Sales to Taiwan. The U.S. government agreed to these points and informed the United States Congress of this in July 1982. The Six Assurances were:

1. The United States would not set a date for termination of arms sales to Taiwan.
2. The United States would not consult with China in advance before making decisions about U.S. arms sales to Taiwan.
3. The United States would not alter the terms of the Taiwan Relations Act.
4. The United States would not mediate between Taiwan and China.
5. The United States would not alter its position about the sovereignty of Taiwan which was, that the question was one to be decided peacefully by the Chinese themselves, and would not pressure Taiwan to enter into negotiations with China.

²⁸⁹ <http://www.taiwandocuments.org/assurances.htm>

6. The United States would not formally recognize Chinese sovereignty over Taiwan.

China sharply disagreed with this de jure political status, and asserted that there was only "One China" and that Taiwan was an inalienable part of it.

The United States, and the United Nations, have both agreed subsequently with the One China principle, but US arms sales to Taiwan continue nevertheless. As a result, latent tensions remain over this issue.

Diverging Values and Interests

Another fundamental reason for the periodic clashes, disagreements, and complex relations of the United States and China lie in the diverging values and interests. There are times when the two nations find it difficult to read each other's intentions or they interpret the issues differently. Such differences have at times prevented them from developing common values and sharing core interests.

For example, China has stressed its core national interests as being institutional security, economic development and territorial integrity. Among these, institutional security has been the most important, with serving the people supposedly its primary tenet. From anti-feudalism to anti-imperialism, and from anti-warlordism to anti-colonialism, China has experienced genuine changes. But they are also changes on a path towards reform, and it's possible that the U.S. simply does not recognize this particular platform of democracy. Until China and the United States become more objective in judging the performance of each other's systems, and better understand each other's criticisms, they cannot develop confidence in their relations.

Furthermore, human rights in China are a matter of dispute between the two governments. The Chinese government argues for a wider definition of human rights, with a priority given to economic and societal rights, all in relation to national culture and the level of development of the country. Contrary to Chinese thinking, Western human rights ideas uphold the notion that people are born equal, and that political human rights are primordial.

Economic interests

Another thorny issue in the United States and China relations is their divergent economic interests. Trade relations have

become increasingly strained in recent years over a number of issues, including a large and growing United States' trade deficit with China, resistance by China to reform its currency policy in accordance with US requests, United States' concerns over China's mixed record on implementing its World Trade Organization obligations, and numerous Chinese industrial policies that appear to impose new restrictions on foreign firms.

The United States and China's economic ties have expanded substantially over the past three decades. Total United States-China trade rose from \$2 billion in 1979 to \$457 billion in 2010. China is currently the second largest trading partner of the U.S; it is its third largest export market, and the biggest source of imports.²⁹⁰

The rapid pace of economic integration between the two, while benefiting both sides overall, has made the trade relationship increasingly complex. On the one hand, China's large population and booming economy has made it a large and growing market for United States exporters. Over the past decade, China has been the fastest-growing market for U.S. exports. On the other hand, United States imports of low-cost goods from China greatly benefit the U.S. consumers by increasing their purchasing power.

U.S. affirms that the use of China as the final point of assembly for their products, or use Chinese-made inputs for production in the United States, assists the American economy to lower costs and become globally competitive.

China's purchases of U.S. Treasury securities (which stood at nearly \$1.2 trillion at the end of 2010) helped keep United States' interest rates relatively low. However, growing economic ties with China have exposed U.S. manufacturing firms to greater, and what is often perceived to be "unfair," competition from lower-cost Chinese firms.

Because of this, many United States production facilities are relocating to China, resulting in the loss of thousands of manufacturing jobs. The U.S. has also raised concerns that China's large holdings of U.S. government debt may give it leverage over the United States.²⁹¹

290 Wayne M., Morrison. United States. China-U.S. Trade Issues. Washington D.C: Congressional Research Service, 2011. Print.

291 Wayne M., Morrison. United States. China-U.S. Trade Issues. Washington D.C: Congressional Research Service, 2011. Print.

National Security

It has been normal in recent decades for U.S. and China relations to experience regular turbulence. Although the two countries have frequently collaborated on issues of common interest, they have also faced setbacks as they have tried to advance their own economic prosperity and national security.

The key reason for the ups and downs in this complex relationship has been a combination of contradictory expectations and a lack of real trust. On the one hand, the two countries still hope that the other will act responsibly when it comes to the big decisions. And yet despite such hopes, they still seem destined to constantly hedge against each other, in both national security and foreign policy.

Finally, it is projected that the United States will see China become its biggest threat to hegemony. The United States currently dominates the world's political, military, and cultural scene. The economic relationship between the U.S. and China, the global energy crisis, and the increase in Chinese soft power will ultimately lead to the decline of United States' hegemony, and could threaten American views of their own national security.

Both the U.S. and Chinese economies are dependent on each other. Without American consumers, the Chinese economy would not be as powerful, and the economic relationship between the two countries would not be interdependent.

Eventually, the Chinese middle class and its consumption patterns will grow large enough to end any reliance on exports to the United States. When this happens, the Chinese ownership of American debt could be used as a political leverage. For the present, however, China needs American markets and the United States needs Chinese capital.

The global energy crisis creates competition between the two governments as well. Competition for fossil fuels will decrease American influence in the world. China will overtake the United States as the lead consumer of fossil fuels. As China ensures the supply of more energy resources, their technological and military prowess to safeguard those supplies will approach those of the United States. Chinese influence will expand as fuel imports increase. Any expansion of Chinese influence negatively affects the United States. As the competition between the U.S. and China grows, United States' hegemony declines.

An increase in exports, global political participation, and culture projection will help China gain influence in the international community. Trade agreements between China and other countries, specially, unexplored markets in Latin America and Africa, will increase China's legitimacy and reputation in the world. China continues to increase its participation in international organizations and multi-lateral agreements. As the Chinese culture is projected to the rest of the world, influence abroad is gained. Influence across the globe will give China soft power. Consequently, as China gains soft power, American influence and power once again decreases.

RELATIONS WITH RUSSIA

Editor's Note: Relations between China and Russia have run on two tracks. On the one hand, there is a shared commitment to socialism, despite their differences in the interpretation of the concept. On the other hand, there is a philosophical divide, with Russia believing that it is a European entity, while China is firmly convinced of its Asian identity. The 5000 years of Chinese thought, when compared to a much younger Russian civilization, adds to their relative differences. Cementing over those differences however is their common desire to see a decline in the current uni-polar hegemony of the United States.

Introduction

Over the past two decades Sino-Russian relations have improved tremendously and have begun an era of a “convenience relationship” aimed at counterbalancing the hegemony of the United States.

As Boris Yeltsin stated back in 1995, “China is a very important state for us. It is a neighbor, with which we share the longest border in the world and with which we are destined to work and live side by side forever. Russia’s future depends on the success of cooperation with China. We can rest on the Chinese shoulder in our relation with the West. In that case, the West will treat Russia more respectfully.”

The way they look at each other

Russia is China’s largest neighbor, while China is the world’s most populated country. After years of being closed off to the rest of the world, China is becoming an emerging economy with diversified partner countries.

While relations between Russia and China today are fairly close, yet one can argue that Russian’s behavior is often contradictory and ambiguous towards its Chinese neighbor, while China holds a somewhat dismissive view of its Russian counterpart.

This is mainly due to historical grievances and prejudices against one another. Part of this may be because Russia is never quite sure whether it is a European or an Asian country, while China is quite sure that it is almost a continent in itself.

What then unifies them? Their cooperation is based on a shared common agenda to counter the United States global leadership, protect their common border and keep the West out of their sphere of interest. It is not a question of ideology but one of interest.

Historical Background

Sino-Russian relations first begin to strengthen under Tsar Alexander III who decided to build a railway through the northern part of Manchuria at the end of the 19th Century to expand its influence in the Far East.

The Soviet Union was the first country to enter into diplomatic relations with the People's Republic of China in 1949. The two nations also decide to renegotiate an earlier 1945 Sino-Soviet treaty which permitted Soviet presence in the Manchuria region and the protection of China against any countries allied with Japan.

In the 1950s, the Soviet Union and the People's Republic of China were having ideological differences over Mao's "lean to one side" foreign policy, which meant that you could not have a peaceful coexistence between capitalist and socialist countries. The mere fact that the Soviet Union wanted a rapprochement with the United States, that it did not want to help China in its 1962 war with India and that there were disagreements over how Albania and Yugoslavia should be ruled, made them suspend their relations by 1962.

New Partnership

The fall of the Soviet Union put an end to the frosty relations between the two countries and in 1996 Boris Yeltsin and Jiang Zemin signed a document establishing a new "strategic partnership".

Russian's foreign policy is built on Russia's imperial tradition and the recent memory of Soviet superpower, even if it does not project as much power and influence as before. Moscow assigns most of its resources to the members of the European Union, such as Germany, and to the countries of the former Soviet Union.

China is more focused on “engagement” with the United States, the European Union, and countries in South-East Asia, Africa, and Latin America. Its foreign policy is “inward looking,” to create favorable external conditions for domestic modernization. China wants to maximize its access to overseas markets, energy sources and other raw materials to sustain growth.

The Sino-Russian relationship is therefore, according to some experts, an “axis of convenience directed more at containing undesirable developments than creating new structures and mechanism for cooperation”.²⁹² It is not a relationship led by ideology but by interest. These two nations have decided to focus on what unites them rather than divide them.

“The rationale of the Sino-Russian axis of convenience is often tactical and instrumental, and expediency and opportunism are more relevant considerations than an often illusory like-mindedness”.²⁹³

They do have a common agenda in which they want to protect their common borders, resist the influence of “alien Western values,” emasculate United Nations actions in regards to the perceived enemies of United States interests, as well as excluding or weakening an outside presence in Central Asia. Both want to “restrain” the hegemonic power of the United States.

On July 16th, 2001, Jiang Zemin of China and Vladimir Putin of Russia signed a twenty year strategic treaty: the “Treaty of Good Neighborliness and Friendly Cooperation,” which aims to serve as a basis for peaceful relations, economic cooperation and a diplomatic geopolitical alliance to counter what they see as over-reaching American global leadership.

The two parties are to develop a strategic cooperative partnership of good-neighborliness, friendship and cooperation and equality and trust from a long term view and in a comprehensive manner.²⁹⁴

The treaty lays out standard positions and policies in regard to: mutual non aggression; “One China”; the abandonment of territorial claims against each other; confidence-building measures

²⁹² Ibid, page 4-5

²⁹³ “Axis of Convenience: Moscow, Beijing and the new geopolitics” by Bobo Lo, page 3, Brookings Institution Press, 2008

²⁹⁴ Ibid, page 42

along their common border; preserving strategic stability in nuclear weapons; support for the central role of the UN in handling international affairs; cooperation in various fields: the economy trade, “military-know-how,” science and technology, energy resources; and active cooperation in “cracking down on terrorists and extremists.”²⁹⁵

Russia wants to be a “civilizational bridge between the East and the West and possibly even the third pole” alongside China and the United States.²⁹⁶

Its motto is to “keep your friends close, keep your enemies even closer. Let us not forget that China is the number one customer for Russian arms, which has saved Russia’s military-industrial complex from extinction, and made it possible for Russia to be part of the developing Asian energy markets with China.

For Putin, it is certain that Russia is a great power like the United States, and China has to be seen with a “superior and dismissive eye.” Russia can never accept itself as “junior partner” to China.

If there were a way to define their relationship, one can say that China is passively welcoming and Russia is actively confrontational.

One clear example of such behavior can be seen back in 2008, when Beijing hosted the Olympic Games, while Russia decided to intervene physically in Georgia.

China is, therefore, not interested in having a relationship with Russia that could imperil its relations with other key players including the United States.

Beijing is committed to portray its relationship with Moscow in a positive manner as a “supplement not an alternative to its burgeoning ties with the United States and Europe.”²⁹⁷

A good bilateral relationship is, however, crucial to both of them, to benefit security interests, even though they might differ somewhat since one of Moscow’s priorities lies in securing the Russian Far East from a potential Chinese demographic, military or economic threat.

²⁹⁵ Ibid, page 42

²⁹⁶ Ibid, page 44

²⁹⁷ Ibid, page 46

China, on its part, wants to retain a stable frontier, not because it is threatened by a possible Russian attack, but because it wants to concentrate its efforts on economic transformation and territorial unification. Their security relationship is much closer when dealing with the Central Asian States (Kazakhstan, Kyrgyzstan, and Tajikistan).

Trade interests

China has been far more successful than Russia in reaching out to the United States, the European Union and to South Korea. Its export share to Russia comes fourth, far behind the United States, Japan, and South Korea, whereas China is Russia's second main export country after Germany, followed by the United States and Japan in third and fourth place.²⁹⁸

As for imports, China favors Japan, South Korea and the United States over Russia, while Russia places Chinese imports second after German goods.²⁹⁹

China needs energy. It is the world second largest oil consumer behind the United States, and the world third largest importer after the United States and Japan.³⁰⁰

Oil and Gas

Its crude oil imports from Russia, which holds the world's sixth largest crude oil reserves, have greatly risen from 1995 when they barely existed. By 2006 it was importing almost 350,000 barrels per day from Russia,³⁰¹ partly because of its geographical proximity, which makes for simple cross-border deliveries of energy without third country interference. Despite that, Russia is not China's main supplier (only 10%). Iran surpasses it with 11%, as well as the countries from the Persian Gulf (46%), and Africa (31%). Russia's main exports of crude oil are directed towards Western and Eastern Europe. and China only represents 4% of the pic.³⁰²

China's demand for natural gas has also tripled between 1997 and 2007. Russia has the world's largest natural gas resources and is the world's largest natural gas producer and exporter.

²⁹⁸ "The Future of China-Russia Relations" Page 99, Edited by James Bellacqua, The University Press of Kentucky

²⁹⁹ Ibid, page 100

³⁰⁰ Ibid, page 148

³⁰¹ Ibid, page 148

³⁰² Ibid, page 149

In 2009, a new pipeline was unveiled, stretching from the Russian Island of Sakhalin to Khabarovsk and the far eastern port of Vladivostok. This pipeline is designed to bring gas to China, Japan and the Republic of Korea. Khabarovsk is the second biggest city of Russia and is located only 30 kilometers from the Chinese border.

It should be noted that oil and gas account for over 60 percent of Russia's exports and over half of its federal budget revenue.³⁰³ Russia would like to diversify its energy exports away from Europe, which constitutes 83% of its crude oil export (Eastern and Western Europe combined)³⁰⁴ because it expects China's demand for oil and gas to grow more quickly than that of Europe. Energy security to Russia means "security of demand" and to China "security of supply."

Natural gas represents only 3% of Chinese energy consumption today and might probably only increase to 8% by 2020,³⁰⁵ unfortunately for Russia who would like to sell China more natural gas through its largest company Gazprom. China is pressing Russia to increase its oil exports instead.

China's main objective is to maximize and diversify its imports of crude oil, pipelined gas and liquefied natural gas in order to sustain its domestic transformation. Gazprom was disappointed over China's decision to have 2.91 million tons (85%) of its liquefied natural gas imported from Australia's northwest shelf back in 2007.³⁰⁶ China, however, does not see Russia as "its principal strategic energy partner, but as only one of a growing number of suppliers that services its needs".³⁰⁷

Armaments

China is a "pivotal customer" for the Russian arm industry. However China's interest has shifted from military hardware to technology design. Russia has also been a privileged partner since the United Kingdom, France and the United States have maintained an embargo on sales to China since the Tiananmen Square uprising.

³⁰³ Ibid, page 133

³⁰⁴ "The Future of China-Russia Relations" Page 149, Edited by James Bellacqua, The University Press of Kentucky

³⁰⁵ "Natural Gas in Asia: the challenges of growth in China, India, Japan and Korea" by David Fridley, page 59 edited by Jonathan Stern and Ian Vybrew-Bond (Oxford Institute of Energy Studies, 2008)

³⁰⁶ http://www.gasandoil.com/news/south_east_asia/b54c6bf97be1e422f04489c0788a63be

³⁰⁷ "Axis of Convenience: Moscow, Beijing and the new geopolitics" by Bobo Lo, page 141, Brookings Institution Press, 2008

The current arm embargo might not last for much longer. The European Union (EU) almost lifted the sanctions back in 2005 but finally decided not to do so in response to the “anti-secession law” which was passed by the China in March 2005, which stipulates that the possibility of the “use of non-peaceful means against the Taiwan independence movement in the event of a declaration of Taiwan independence”.³⁰⁸ However, as China becomes more modern, and its economy gets more and more integrated into the global system, the EU might soon change its mind about arms sales to Chinese.

It is also important to note the big difference between the gross domestic product between Russia and China. It clearly demonstrates that China wants to be a “world class post-modern economy.” It has the largest GDP after the EU and the US according to the International Monetary Fund while Russia lags far behind in eleventh place stuck between India and Spain.³⁰⁹

The Russian Far East and “illegal immigration”

The issue of the “illegal Chinese immigration” in the Russian Far East has been used by Russian politicians to fuel anxiety among some part of the Russian population who suffer from Sino-phobia. It is estimated that the Chinese permanent population in Russia was between 150,000 and 200,000. Others judge it at between 250,000 and 400,000.³¹⁰ This latest figure certainly included students and short-term residents. Mr. Mikhail Alexseev, an expert in Chinese presence in Russia says “the number of settled migrants is statistically insignificant”.³¹¹ Other experts on the matters have commented that the majority of Chinese migrants enter Russia legally, and that such “migration is not big enough to cause panic, let alone speak of a Chinese demographic expansion”.³¹²

Experts agree that the majority of Chinese who travel or work in China are not interested in staying on. They only want to earn money before returning home to China, or in very rare instances moving to the West.

³⁰⁸ http://en.wikipedia.org/wiki/Anti-Secession_Law

³⁰⁹ [http://en.wikipedia.org/wiki/List_of_countries_by_GDP_\(nominal\)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal))

³¹⁰ “Axis of Convenience: Moscow, Beijing and the new geopolitics” by Bobo Lo, page 60, Brookings Institution Press, 2008

³¹¹ *Ibid*, page 60

³¹² *Ibid*, page 60

Migration and cross-border tourism has slowed down recently due to a Chinese passport law of 2006 requiring its citizens to have a valid external passport when traveling abroad.³¹³ It was common before then to cross the border for the day and to go gamble at the local Russian casinos.

The Russian population has clearly misinterpreted the threat of illegal Chinese migration. They think the Chinese would annex the Russian Far East. What might be seen more of a threat to Russia is that this region may become more part of the East Asian influence than remaining under a Russian zone.

The issue of “illegal immigration” is clearly not an issue anymore since the growth of interregional trade and political contacts between provincial administrations on both sides of the border are more frequent and cordial than ever before.

Cooperation and competition in Central Asia

The region assumed great tactical importance after September 11th, 2001 when the former Soviet Republics offered to host American troops in their respective countries. The US presence in the region became the means to find a solution to defeat the Taliban in Afghanistan and reinforce the stability in the Central Asian region.

Unfortunately for Russia, its relation with the United States deteriorated late in 2002 due to changes underway in Georgia. China saw that change as an opportunity to gain power in the region.

In 2005, Russia begins to see the United States as an interfering power, when it has not left the region yet and starts promoting a democratic agenda throughout the region with the revolutions in Georgia, Ukraine and Kyrgyzstan.

China’s interests in Central Asia, are based on geographical proximity, historical antecedents and security imperatives, but this does conflict with Russian views of the region. Russia sees its place in the region as hegemonic, and has sought to hide its discomfort with China’s involvement in Central Asian Affairs by playing on the local fear of Chinese economic domination.

It should also be said that Russia has raised its trade exchanges with its Central Asian partners between 1994 and 2007 with Kazakhstan being the major benefactor. China has followed the

³¹³ www.bjreview.com.cn/document/txt/2006-12/14/content_50706.htm

same pathway by a significant increase in trade flows with the five former Soviet satellite states of Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan.

This significant increase might also be seen as part of the 1996 Shanghai Five mechanism, which created the Shanghai Cooperation Organization. The “Shanghai spirit,” as it is called, is based on “mutual trust, mutual benefit, equality, consultations, respect for diversity of culture and an aspiration towards common development”.³¹⁴ Many might see it as an organization with an anti-western agenda with “its *raison d’être*” to undermine the American presence in the region.

One of the objectives of the Shanghai Cooperation Agreement is to fight against terrorism, separatism and extremism: a real problem plaguing the Chinese authorities especially since the early 1990’s. They have been fighting against the Uighur activists whose sole objective is to obtain an independent state in the northwestern province of Xinjiang, which they call “Eastern Turkestan.”

According to Chinese authorities, these activists are trained in Pakistan and have received their combat experience in Chechnya and Afghanistan. This Muslim minority has become more violent since 1991 perhaps because of the independence of the five former Soviet satellite states. The East Turkestan Movement is not only seen as a terrorist movement by the Chinese Government itself but also by the United Nations and the United States as well.

It is certain that the Sino-Russian relationship in Central Asia is competitive and that the only common factor binding them is the United States presence in the region: “they are two powers divided by a common purpose: to be the leading power in the region.”³¹⁵

Russia also has strong relations with Mongolia, as it seeks to counter China’s influence in the region, and has renewed its bilateral treaty under Putin. Russia has lowered its oil and energy prices to increase cross-border trade.

³¹⁴<http://www.finance-ol.com/2011/06/sco-heads-of-state-signed-the-tenth-anniversary-of-the-sco-astana-declaration/>

³¹⁵Axis of Convenience: Moscow, Beijing and the new geopolitics” by Bobo Lo, page 114, Brookings Institution Press, 2008

However since 2004, Mongolia has strengthened its cooperation with China because it wants China to build new roads and railways and to attract mining firms as well. Mongolia can also supply China with enough coal for few years to come and Chinese companies are keen to establish themselves in Mongolia. It is to be noted that Mongolia also gained observer status in the Shanghai Cooperation Organisation since 2004.

Conclusion

China and Russia have established a “convenience relationship” to defend their national security interests and to maintain their position on the world stage. They do not want to be embroiled in each other’s crises, like Taiwan or Georgia.

Russia depends on China for its economic survival in areas such as providing weaponry, while China’s efforts are concentrated in continuing to develop itself as a nation to cooperate with all nations on the basis of shared interests and not shared values.

This relationship will continue to co-exist, particularly to counter Western influence in Central Asia, as they each compete to be the leading power in the region. It is clear China and Russia tends to pay far more attention to the West than to each other in the end. What has shifted over the years, though, is the fact that Russia has become a limited partner of China, whereas the United States has become a key to China’s future.

RELATIONS WITH NORTH KOREA

Editor's Note: The relationship between China and North Korea (DPRK) is being slowly transformed. The close-knit socialist feelings of the past are being eroded by a more flexible policy regarding the Korean peninsula, growing relations with South Korea (ROK), and deep worries about the strategic impact that nuclear proliferation could have on other states in the region, particularly Japan. In brief, North Korea is a problem ally for China.

Introduction

Traditionally, the Chinese have had a tremendous cultural influence on the Korean people. In particular, Buddhist beliefs and Confucian ideals that originated from China were, and still are, deeply entrenched in both cultures. In addition to the cultural and social influences, China also has had a significant military influence on Korea. During the Korean War, the Chinese supported the North Korean leaders who endorsed Communist principles. China provided abundant human resources and heavy military assistance to the North. China's People's Liberation Army came to the rescue of North Korea when U.S. General Douglas MacArthur pushed up to the Yalu River with the intention of unifying the peninsula under American rule. China continued to fight in the War alongside the North Koreans until an armistice was signed in 1953. The two countries maintained their military relationship; indeed, until the 1980s, China was a major weapons supplier to North Korea. During the Cold War, China and North Korea, together with the Soviet Union, shared strong political ties and military cooperation and formed a Communist block against the capitalist states, notably the US and South Korea.

Recently, the relations between China and North Korea extended from military and political ties to economic exchanges as well. Unilaterally, China provides a significant source of economic transfers to the declining North Korean economy. Economic mismanagement by the North Korean government, coupled with unfavourable weather changes, had maimed the industrial base and

left many North Koreans short of food. North Korea's economy continued to decline, and its real GDP growth is estimated to have fallen from 3.7% in 2001 to 1.2% in 2002, and then to -2.5% in 2003. In 2004, it is projected to be -4%. Facing starvation, countless people escape and illegally enter China in search of food. In the northeast region of China, near the border between North Korea, numerous refugees receive help from the Chinese and nongovernmental organizations.³¹⁶

The Current Logic of the Relationship

China is North Korea's closest ally, largest provider of food, fuel, and industrial machinery, and arguably the country that is most able to wield influence in Pyongyang. This close bilateral relationship is of interest to U.S. policymakers because China plays a pivotal role in the success of U.S. efforts to halt the DPRK's nuclear weapons and ballistic missile programs, to prevent nuclear proliferation, to enforce economic sanctions, to keep the peace on the Korean Peninsula, and to ensure that North Korean refugees that cross into China receive humane treatment. As North Korea's main trading partner and benefactor, China can play the role as an intermediary or may even exercise leverage with Pyongyang in times of crisis, particularly following a military provocation by North Korea when the United States or South Korea have little direct communication with DPRK leaders.

China's actions are also key in reforming the DPRK's dysfunctional economy and meeting the basic human needs of the North Korean people. China hosts the Six Party Talks on denuclearization, and is able to provide credible advice to Pyongyang on issues such as economic reform, and plays an important role on the United Nations Security Council as well as other international organizations that deal with the DPRK.

Although China is prominent in U.S. policy toward North Korea, North Korea is only one of numerous items on the Sino-U.S. agenda. China's primary interest of stability on the Korean peninsula is often at odds with U.S. interest in denuclearization and the provision of basic human rights for the North Korean people

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From Beijing's perspective, the logic of the relationship with the DPRK is tied intimately to the more than half century of battlefield cooperation and shared socialist ideology.

U.S. government officials generally praise the PRC for its role as an active member in multilateral efforts to address and halt North Korea's nuclear weapons program. But the exact nature of China's security concerns, its political objectives, and the extent of its influence on North Korean actions has remained elusive to many observers of PRC-North Korean relations. Much of the reportage on PRC-North Korea interaction has appeared contradictory. On the one hand, PRC officials often put the lion's share of the responsibility on the United States to be "flexible" and "patient" with North Korea. On the other hand, China has declared North Korea to be in breach of U.N. nuclear safeguards and has been willing to be critical of North Korean pronouncements and actions that it finds unacceptable. Beijing has permitted harsh criticisms of North Korea in authoritative journals and newspapers that would not have been permitted in the past.³¹⁷

Nuclear Security Issues

While the Chinese leaders sympathize with North Korea's demand for an American pledge of non-aggression, they also are deeply concerned about North Korea's credibility or the lack thereof. They are almost as upset with Kim's nuclear program as are the Americans because nuclear proliferation in North Korea upsets the peace balance in Northeast Asia. The possibility of North Korea becoming a declared nuclear state is worrisome because it spreads fear in the region and may engender nuclear proliferation in other countries like Japan and South Korea.

The capital city of South Korea, Seoul, is within 50 miles of the demilitarized zone. In the case of an attack or an outbreak of war, the heavily populated city and the surrounding region will be seriously hurt. If North Korea brandishes nuclear weapons, South Korea, which once explored nuclear proliferation, may resume such activities.

³¹⁷ China and North Korea : from Comrades-in-Arms to Allies at Arm's Length, By Andrew Scobell

A nuclear North Korea will also probably lead to a nuclear Japan, and this is China's strategic nightmare. As it stands, North Korea already possesses long-range missiles. Frighteningly, in 1998, North Korea tested its missiles over the Japanese mainland. If North Korea builds nuclear weapons to place atop these missiles, Japan will almost certainly have to develop a nuclear capability for itself. Such an arms spiral poses a great threat to China and the rest of the world, thus justifying proactive measures to curb North Korean proliferation before it gets out of control.³¹⁸

As geopolitical realities generally dictate, China is more important to the DPRK than the DPRK is to China. Mao Zedong once described the Sino-DPRK relationship to be as close as "lips and teeth," but in many ways North Korea has become more of a thorn in the side of China than a reliable ally. In recent years, China also has had to respond to the same DPRK policy cycle of provocations, diplomacy, and back to. China, however, is usually not the direct target of the DPRK's provocative actions as such actions are generally aimed at the United States, South Korea, or Japan. However, Beijing has to face the fact that Pyongyang regularly has ignored its advice not to proceed with provocative actions, which, once taken, leave China to fend off hostile reactions by other countries in order to maintain stability on the peninsula.

Chinese Regional Goals

By the fits and starts, Beijing's Korea policy has evolved through several phases, from the familiar "one-Korea" (pro-Pyongyang) policy, to a "one-Korea de jure/two-Koreas de facto" policy, and finally to a policy of "two-Koreas de facto and de jure".

The decision to normalize relations with South Korea, finalized in August 1992, was the culmination of a process of balancing and adjusting post-Mao foreign policy to the logic of changing domestic, relational, and global situations. The decision did not, however, imply a sudden end to the question of how China would relate to North Korea, the one and only country with which Beijing maintains its Cold War alliance pact in name and in practice. Rather, it marked the beginning of a process of implementing the two Koreas decision on a variety of issues over time. Since 1992, the main overall challenge has remained the same: how to translate

³¹⁸ http://www.stanford.edu/group/sjir/6.1.02_koo.html

China's preference for status-quo-cum-stability in the peninsula by maintaining a "special relationship" with Pyongyang while at the same time promoting and expanding "normal state relations" with Seoul.

In the early 1990s, when South Korea (ROK) and China were realizing that they had more in common than they thought, Pyongyang was more or less sidelined. The odd man out, it was all too preoccupied in the 1980s and 1990 with the first-ever socialist dynastic succession at home.

China's Regional Security Interests and Territorial Integrity

Another logical policy goal for Beijing is the assurance of regional stability and China's own territorial integrity. Leaders in Beijing are aware that a nuclear armed North Korea could lead to decisions by Japan, South Korea, and possibly Taiwan and other Asian neighbours to develop their own nuclear deterrents and ballistic missile capabilities. China may also fear that the North Korean nuclear program could spur a significant Japanese conventional rearmament. In keeping with Beijing's own domestic policy priorities, its emphasis on social stability, and its ambition to regional dominance, it can be argued that nothing is more to be avoided than the proliferation around China's periphery of nuclear-armed governments.

Beijing probably anticipates that the U.S. response to more robust security programs in the region would include an accelerated missile defence program for U.S. friends and allies. Such an enhanced missile defence capability would undermine the effectiveness of Beijing's missile deployment threat opposite the Taiwan coast, aimed at keeping Taiwan from acting on its independence aspirations. North Korea is thus linked to China's primary core interest of assuring its "territorial integrity," which in Beijing's definition includes Taiwan.

At the same time, Beijing also realizes that the U.S. focus on the North Korean military threat generates a hook that keeps U.S. forces tied down on the Korean peninsula and looking north toward the DPRK rather than looking south and showing more concern over possible hostilities across the Taiwan Strait.³¹⁹

³¹⁹ China-North Korea Relations, By Dick k. Nanto and Mark E. Manyin (December 28, 2010)

Diplomatic Relations

While diplomatic relations are cordial on the surface, the ties between Beijing and Pyongyang have shown some strains since China's rapprochement with Seoul in the late 1980s.

From North Korea's perspective, its relationship with China has long been fraught with ambivalence. While China has been Pyongyang's most reliable source of economic and diplomatic backing for nearly two decades, its periodic willingness to go along with sanctions efforts in the U.N. Security Council have made North Korea wary of becoming overly dependent on Beijing, or on any other outside power.³²⁰

In 1961, the two countries signed the Sino-North Korean Mutual Aid and Cooperation Friendship Treaty, whereby China pledged to immediately render military and other assistance by all means to its ally against any outside attack. This treaty was prolonged twice, in 1981 and 2001, with a validity till 2021.

Economic Relations

China, with its huge economy and rapid rate of growth, is the lifeline that keeps the DPRK economy alive. China not only provides needed food, equipment, and consumer goods, but it stands as a model of how a backwards, command-type economy can develop without compromising its socialist ideals. For several years, Beijing has been trying to induce the DPRK to undertake economic reforms similar to those pursued by China over the past quarter century. The rise of markets and other "reforms" that have occurred in North Korea, however, have resulted primarily from a "bottom up" process and from necessity as the central government faltered on its ability to deliver food and living essentials through its distribution system. Still, inflows of consumer goods from China and an increasing number of cooperative industrial projects, primarily in the Northern Korean provinces, have created a market-based means of generating income and distributing goods to families.

China has become the key to North Korea's economic relations with the outside world. Not only is the PRC the main trading partner of the DPRK, but China has become a critical player in the implementation of economic sanctions on the DPRK. In 2009, China provided about half of all North Korean imports and received

³²⁰ China and North Korea: From Comrades-in-Arms to Allies At Arm's Length

a quarter of its exports. North Korea's trade with South Korea also had been significant until almost all intra-Korean trade was blocked following the sinking of the Choenan naval ship. Prior to this cessation of trade, much of the intra-Korean trade could be attributed to South Korean firms that sent items to be sewn or assembled on consignment or shipped raw materials and components to their subsidiaries in the Kaesong Industrial Complex in North Korea, and then sent the final products back to South Korea.³²¹

Armaments

North Korea has been one of China's steady arms customers over the years and transfers continued into the early 1990s. Although the volume has not been enormous, it is significant because North Korea continues to threaten the forces of the United States and its South Korea ally. Transfers since 1980 have included Romeo class submarines, F-6 fighters, HY-2 silkworm anti-shiping missiles, HN-5A man-portable surface-to-air missiles, and multiple launch rocket systems. Arms sales have been one way of ensuring this influence. Although no new arms deals between China and North Korea have apparently been concluded recently, this may be a result of Pyongyang's inability to pay for additional armaments rather than Beijing's unwillingness to continue to supply arms to North Korea.

North Korea has purchased Chinese weapons primarily because China and the Soviet bloc have been the only two sources available to it. Although the majority of North Korea's arms in the 1980s and 1990s were from Russia, probably because these soviet arms sales were made at subsidized rates, the North Korean leadership has also attempted to play Beijing and Moscow off against each other to maximize its leverage with both. This explains why Pyongyang purchased Chinese weapons as well. Pyongyang has signed virtually no new weapons agreements with any country since the late 1980s, although in the early 1990s it continued to receive deliveries of Russian and Chinese systems for which it had previously contracted. Pyongyang will probably prefer to purchase Chinese and Russian systems in the future because of their compatibility with its

³²¹ China-North Korea Relations, By Dick k. Nanto and Mark E. Manyin (December 28, 2010)

existing inventory, its desperate economic straits and lack of foreign exchange leave it unable to pay for these weapons.³²²

Analysis

The relationship between China and North Korea surely ranks as one of world's strangest. While on the surface, it might not seem surprising to have a formal military alliance between two communist neighbours that has endured more than four decades, the China-North Korea relationship is an important factor that affects the peace and stability of Northeast Asia and the world.

While their armed forces fought shoulder-to-shoulder in the Korean War 50 years ago, their ties have weakened considerably over time. China now has much better and stronger relations with the free market democracy of South Korea than it does with the totalitarian, centrally planned economy of North Korea. In many ways Pyongyang has thus become a Cold War relic, strategic liability, and monumental headache for Beijing.

Nevertheless, the China-North Korea alliance remains formally in effect, and Beijing continues to provide vital supplies of food and fuel to the Pyongyang regime. Since the ongoing nuclear crisis on the Korean Peninsula, the United States and other countries have pinned high hopes on Chinese efforts to moderate and reason with North Korea. Beijing's initiative to bring Pyongyang to the table in the so-called Six-Party Talks and host them seems to substantiate these hopes. Yet, it would be unrealistic to raise one's expectations over what China might accomplish vis-à-vis North Korea. Beijing plays a useful and important role on the Korean Peninsula, but there are significant limitations on China's influence both in terms of what actions Beijing would be prepared to take and what impact this pressure can have.

Beijing is facing a major challenge in carrying out this status quo centred guidance which is defined by two key elements: a North Korea free of nuclear weapons and a US refraining itself from launching any regime change war against Pyongyang.

As the only country to have working diplomatic relations with North Korea, China has an ostensible responsibility to promote positive developments. China can utilize its already established ties

³²² China's Arms Sales: Motivations and Implications, By, Daniel Byman, Roger Cliff, Project Air Force(U.S) United stated.

not only with North Korea but with other nations in the region to facilitate the non proliferation process and also bring much needed economic reforms in North Korea. In effect, the strained yet extending relationship between China and North Korea can potentially play a crucial role in ensuring peace and stability in the Korean peninsula, and further, in the greater East Asian region.

The burden now lies on China's shoulders. The intensity of China's involvement in non-proliferation endeavours depends on several factors. The first consideration is the objective of the Chinese government. China has made enormous economic progress, and will want to continue to foster its economic interests, more so than its security concerns. For instance, the Chinese government may want to concentrate on growing its trade relations, inviting foreign investments, encouraging consumer markets and increasing production capacities. Furthermore, other domestic concerns may also be of more importance than international interests. Secondly, other countries' political recognition of China's engagements also may direct its level of involvement. In particular, how the US perceives and promotes the role of China will influence China's actions. Third and finally, how China perceives the efficacy of its attempts will affect the intensity of its engagements. If China realizes the fruits of its efforts, it will be encouraged to act further.

All of these factors will shape China's course of action but ultimately, the decision lies with the Chinese leaders who will weigh the costs and benefits of maintaining or challenging the status quo. How influential their decisions will be to the regional stability and peace has yet to be determined.

China aims to nurture a Korea that would accommodate China on major issues, maintain friendly bilateral relations, refrain from disapproved security cooperation with China's adversaries, and contribute to China's economic growth. Beijing and Seoul enjoy warming relations and great potential for economic cooperation. Based on current trends, the Chinese have reason to hope that in the long term Seoul will have a closer and stronger relationship with China than with the United States.

Pyongyang thus remains a troublesome ally for China, refusing Chinese advice to commit itself to the Chinese model of economic liberalization and integration with the global economy, and

seeking improved security through risky confrontational tactics such as developing a nuclear weapons program.

Chinese strategists are more amenable than in the past to the idea of a united Korea under Seoul's control. The satisfactory and improving relationship with South Korea partly accounts for this, as does the growing conviction that China no longer needs a buffer state. Nevertheless, the Chinese generally fear the risks and uncertainties of the transition to a united Korea and are not inclined to campaign for a dramatic change in the status quo. Since the beginning of the North Korean nuclear crisis, Beijing has moved from a passive to an active and constructive role and has increased pressure on Pyongyang to reach a settlement with the United States.

China's position is not identical to Washington's and never will be. The consensus in the Chinese leadership is still opposed to overthrowing the Kim government. Publicly, Beijing does not support economic sanctions against North Korea and insists on concessions from the United States to address Pyongyang's security concerns. Beyond the crisis, China could accept a reforming Kim regime in North Korea indefinitely, and will not permanently acquiesce to U.S. troops based on the Peninsula.

A greater worry for China is the potential effect of the fall of the ruling Korean Workers Party on the strategic balance in East Asia - and even its effect on the Chinese Communist Party's own future. The Brussels-based International Crisis Group concluded in a report that China continues to act in ways that shield North Korea from more punitive measures, including stronger economic sanctions. "Beijing's overriding policy priority on the Korean Peninsula is to prevent political change or economic collapse in North Korea, given the potential consequences for China's social and economic stability" the report said.

A strengthened China-DPRK friendship is vital to the economic and social development of both countries in the 21st Century. China needs peace and stability along its border, in order to ensure its rapid modernizations. Likewise, the DPRK needs China's cooperation, in order to press ahead with its socialist construction. Therefore, the China-North Korea relationship will remain an enduring, uninterrupted bilateral friendship for both the People's Republic of China and Democratic People's Republic of Korea.

RELATIONS WITH AFRICA

Editor's Note: The depth of China's relations with Africa have been explained as a simple evidence of its search for raw materials and energy resources. This belies the fact of the major economic developments that have taken place on that continent as a consequence of massive Chinese investments. Despite those positive results for both sides, there is however an African perception that their local corrupt practices have prevented the trickling down of the economic improvements that should have accrued to the people, rather than to their leaders.

Introduction:

Contemporary economic, political, social, historical, cultural and military relations between China and Africa, began during the Mao era and developed between the 1950's and the 1970's. During this shaping period for the African continent, Africa was able to obtain much aid from China. From economic development ventures to infrastructure developments- such as the famous Tanzania-Zambia railway built in the early 1970s,³²³ China was able to offer Africa a chance for modernization due to their investments, mostly motivated by a common concern for freedom from political issues such as colonial influences and Cold War contentions.

Around the 1980's, China began its fast economic expansion. As a result, it realized that it was then crucial to re-identify its political and ideological binds with Africa and change them with real economic and trade related ties, particularly after the 1971 vote of the African nations for the transfer of the Chinese seat from Taiwan to the People's Republic of China in the United Nations Security Council.³²⁴

China had for many years sponsored political impartiality as a norm, and upheld state sovereignty, making it a point to show a

³²³ Ali Askouri-African Perspectives on China in Africa, 2007.

³²⁴ un.org/ods

willingness to invest but not to interfere with African internal affairs. At the same time, many of Africa's nations wanted to benefit from their under-exploited natural resources. The help provided by China allowed Africa to progress, one developing nation helping another developing continent, offering the latter a chance to rightfully thrive both economically and politically.

However, despite China financial influx in Africa, important and essential to the development and modernization of the continent as it is, the lack of transparency of the financial aspects of these investments combined with the lax infrastructures in Africa in regards to accountability has allowed corruption to thrive.

China's Africa Policy

In 2006, China published a formal document on its African Policy which describes its political and economic bilateral goals and relations in Africa.³²⁵ This document has guided China in its relations with Africa.

China has received much criticism, such as being accused of providing help to Africa for the sole reason of securing natural resources. It is common knowledge that China is not able to produce all of the resources it needs in order to serve the needs of its population. By sustaining an average of 9% growth for the past 20 years, it has been estimated that China's oil import alone will be of 13 million barrels per day in 2030.³²⁶ These cannot be met without deep relations with African producers.

In 2007, trade between Africa and China was estimated at USD 73 billion. China is now the third largest trader with Africa, after the United States and France.

On 28 April 2011, China issued the first report on foreign aid strategy, uncovering its aid policy and presenting an official report on the management and allocation of Chinese assistance.³²⁷ Based on the report, between 2004 and 2009, China's funds for foreign aid increased by an estimated 30% per year.³²⁸ Between 1950 and 2000, China has spent about USD 38 billions in foreign aid, with about USD 15 billions on grants such as scholarship, awards and

³²⁵ fmprc.gov.cn/eng

³²⁶ cfr.org/china-africa-oil, statistics calculated China's oil import at 3.5 million barrel per day in 2006.

³²⁷ guardian.co.uk/global-development/2011/apr/28/china-foreign-aid-policy

³²⁸ cfr.org/china-africa-oil

endowments, and USD 23 billions on interest-free concessional loans, typically with long grace periods that are easily extended on conditions definitely more generous than market loans.

According to the report, State finances provide for Chinese loans and grants. However, concessional loans are fuelled on the market by the Export-Import Bank of China.³²⁹

Chinese foreign aid projects are different and stand out from the other nations of the world. While most assistance donor countries provide aid through established development organizations or verified bureau such as the United States Agency for International Development, foreign aid projects from China are administered and synchronized through its consulates and embassies, and a government agency providing economic and humanitarian assistance worldwide for more than 40 years.³³⁰

China's foreign aid is negotiated in a bilateral manner. By the beginning of 2010, China had provided financial assistance to 161 nations and more than 30 international and regional organizations.³³¹ Its generosity extended to expunging old debts estimated at USD 3 billions, giving many countries a chance to start anew.

The issue of the foreign aid report was an attempt from by China to show its guiltless reasons for its help toward Africa. Most of its concessional loans have been invested toward the improvement and implantation of infrastructures such as communications, electricity and transportation, using some local work forces but working under the supervision of Chinese workers.

The report further stated that about 60% of Chinese assistance was reserved for the least developed countries of the world and that countries in both Africa and Asia alone benefited from 80% of the total.³³² However, as the report did not provide numbers for each nation receiving Chinese foreign aid, the incentives for China in providing the report backfired and raised many questions on the motivation for China to remain so secretive.

In short, while the report was published in order to shed some light on China's foreign aid activities, it did not diminish the uncomfortable perceptions about the lack of transparency.

329 Ibid

330 usaid.gov

331 usaid.gov

332 Ibid

Africa's need for China

In 2006, it has been estimated that China has invested more than USD 55 billion into Africa. As such, these financial investments allowed for most of Africa's countries GDP growth to go from the negative to a somewhat constant increase of 5% since the late 1990's. It is important to point out that China's own GDP was estimated to have been maintained at a constant 10% for the past several years.³³³

Such growth, for a nation the size of China, implies a deep need for energy resources. In 2003, China became the second largest consumer of oil in the world.

China's need for Africa

China has on several occasions declared its goal to increase the size of its economy to four times its current state by the year 2020. In order for China to reach its goal, energy consumption will inevitably rise, thus will increase the needs and demands of China for energy and resources.

Today China faces the exhaustion of its arable land, caused by its need for development to sustain its large population. It is a necessity for the nation to find suppliers and alternative energy sources other than coal and oil. This is the reason why it is widely believed that China is reaching out to Africa, with the primary goal to have access and use of Africa's abundant resources. However, China vehemently denies this fact.

It is important to note that Africa as a whole is developing and is therefore becoming a secure consumer market for China. Africa is not victim of exploitation in the literal sense of the word. While China is ensuring peaceful diplomatic relations with Africa in order to let its trade and investments continue to be both fruitful and welcome on the African continent, it insists on letting African nations walk their respective developmental ways, according to each country's particular needs, the same way as it does for itself.

Impact of China's assistance

It is crucial to note that China has given Africa a chance to flourish and participate in the rush for development and modernization like no other country had ever done before. The West clearly has sucked out as much as it could from Africa through colonialism in the past and exploitation today. China, on the other

333 cfr.org/china

hand, has held it by its hands and allowed it to walk on its own. However, the wish of China to not get involved in the political aspects of African societies has had its negative impact, long lasting effects and caused some permanent damage.

Much skepticism has been raised on how African stakeholders are represented by their respective governments. Many wonder if African leaders are able to negotiate with Chinese representatives to their best possible advantages. China has always respected the state sovereignty of Africans nations. They have invested tremendous amounts of money into a still developing continent and anyone can witness the extent of these investments. Unfortunately, many Africans are taking advantage of these investments for their own benefit. It is a sad reality to see how corruption is deeply affecting Africa's development today.

It is important to define corruption in the context of China's foreign relations with Africa because of the misunderstanding of traditional customs along with conventions of African societies, where it is often customary to offer gifts to a tiers person for service rendered and also as a sign of appreciation and respect. However, in many western societies, such actions are deemed unacceptable and unethical especially in the economical and political realms.

There are two main type of corruption in Africa: bureaucratic corruption, like bribery, when pressure is put in order to influence the outcome of a particular situation and political corruption, when public resources are rerouted for one own purpose.³³⁴ In the case of Africa, corruption can be seen and expressed through nepotism, showing impartiality to relations or acquaintances, abuse of public authority, receiving payments and/or favors, transparent theft, fraud or requisition of state owned land³³⁵.

As a result of these practices, China is able to obtain and maintain a monopoly in certain trade aspects of many African societies. Once the funds needed to secure their positions are obtained, African elites lobby to control legislation as well as decisions making. These bribes from China often help supply the low income of many Africans, or permits many to live grandly, while the real victims are the poorer people of the African societies.

China's investments not only allow Africa to be able to

334 Modest Mero. *Current Issues in Africa*, 2011.

335 fraudwatch.org

exploit its resources, it also provides China with a market in which they can sell their manufactured goods. However, China's ability to produce larger quantities of goods at a faster pace, and its capability to sell them at lower prices, has greatly affected many businesses in Africa. Small businesses especially have been affected. Africans have difficulties competing with China. This leads to loss of businesses, increased unemployment rates, and deferred dreams for many of the local population, as they are unable to make the profits necessary to stay in business and live the lives they want for themselves and their family.

China approach with Africa is surprisingly straightforward. Free of "fine prints", China usually approaches and negotiates with respective African nations by means of investments, cheap credit, technical expertise, hands-on training, cash, infrastructures constructions and debts relief. As Africa provides materials, China brought in the tools needed. As of today, more than 800 Chinese companies are operating in 49 African countries.³³⁶ As a result of good relationships maintained between high ranking officials and stakeholders, oil is able to be drilled in nations such as Chad, Mauritania, Ethiopia and Nigeria to name a few. Sudan sells about 65% of its total oil production to China, while Angola produces 50% of the total amount of oil China obtains from Africa. Because of tremendous amount of fossil fuels Angola was providing, China promised Angola a USD 2 billion³³⁷ line of credit and a promise to invest in the nation. Keeping their word, China contributed to the building of schools, hospitals, bridges, housing, roads, training programmes and even helped for the installation of fiber optic cable, allowing for internet access and capabilities. Equatorial Guinea, Cameroon and Gabon provide large supplies of timber while Zimbabwe, the Democratic Republic of the Congo and Mozambique are able to provide China with nickel, coal and aluminum.

Criticisms against China

China has repeatedly been accused of paying bribes in Africa. While, of course, such accusations remain vehemently denied, the Chinese nation ranked as the second most likely country in the world to endorse and perform such practices.³³⁸

336 usaid.org

337 Ibid

338 fraudwatch.org

While China has been positively trying to help Africa, the latter has not been able to fully benefit from it to the best of its ability. The financial resources have been placed at the disposition of governments for policies and planning. However, the lack of structures to ensure for accountability, transparency and ethical transactions such as corruption then contributes to political instability on the Africa front.

Conclusion

To conclude, China's contribution to political instability in Africa is based on the simple fact that its money, and more importantly its bottomless supplies of manufactured weapons, have found their way to today's eager despots as in Libya or Sudan or Zimbabwe. As Africa's third largest arms supplier, China provides 9% of Africa's military purchases. However, casualty reports and numbers of armed conflicts show that these weapons are not only used for the defence of state sovereignty. Without proper governance, better funds managements and transparency in Africa, it becomes harder to hold both China and Africa accountable for their collaboration.

Today, it is up to the peoples of Africa to empower themselves and take initiative in order to hold their respective country representatives and officials, and well as China, accountable. But, as of now, their voices are not being heard, or ignored, or silenced by bribery.

RELATIONS WITH LATIN AMERICA

Editor's Note: China's economic and commercial expansion into Latin America is evolving with the same intensity as in Africa and in other parts of the world. It forms an obvious part of a strategy to diversify sources of supply for essential raw materials, while at the same time ensuring access to markets for its production of goods. The significant difference in Latin America lies in the manner in which this is effort displacing the region's erstwhile relationship with the United States.

Introduction:

The rapid awakening of China, after three decades of reforms, is without doubt one of the greatest events of the 21st Century. After centuries of dormancy, China has today increased its presence and participation in the international arena. This awakening comes with repercussions that are transforming our current world. Today, China not only has one of the world's most powerful economies, but it is also emerging as a great military power. In addition, its status as a Permanent Member of the Security Council at the United Nations makes it a major world power.

China is a unique nation, and the current position and role that it plays in the world is not a product of chance but of long-term strategic planning. It is most conscious that for maintaining its current economic growth rate it must open to the world. Therefore, Latin America is one of those regions where China is expanding, both economically and commercially.

The systematic implementation of reforms and openness policies in China allowed for a constant economic growth of at least 10%, even during periods of financial crisis. For this reason, the Chinese economy is considered to be one of the main sponsors of global growth. The steady growth of China has driven the nation to seek new sources of raw materials. Consequently, the relations with Latin America, which were almost zero during the 90s, have become one of the most important ones for China. The importance is such that Latin America has become the third commercial partner of

China; with the possibility of overtaking the European Union as number two in the line of commercial partners.

However, it was not until 2008 that the Chinese government defined, for the very first time, its policy and objectives in the relationship with Latin America. This has been known as the “China’s Policy Paper on Latin America and the Caribbean”.

The New Actor

The commercial relations between China and Latin America date back to 1560 AD when the silk trade was established; between the Chinese coasts and Acapulco through Manila.

According to a 2010 Report from the Secretary-General of the United Nations, China is one of the fastest growing economies in the world.³³⁹ This economic growth could be tracked to 1978 when the nation started a new and reformed economic program. Moreover, as it should be expected, this growth has had repercussions, which are transforming our current world. However, the scarcity of natural resources makes it hard for China to fulfill its demand for essential commodities.

As a result, China has turned to Latin America, with two different main objectives: to fulfill these demands in order to maintain its fast-paced economic growth, and to find new markets for its industrial goods.³⁴⁰ This interest in the Latin American region could be easily observed in the constant visits of high level officials of the Chinese government, especially since 2004.

This new boom in the bilateral relations between China and the Latin American states is not only encompassed in the economic area. Given the fact that China possess a growing military weapons industry and a permanent seat in the Security Council of the United Nations, it is no surprise that China has evolved into a very important player on the international scene.

According to the Economic Commission for Latin America, China has contributed significantly to the recent increases in growth rates in those Latin American states that have been engaging in bilateral trade relations with China.

339 Ban Ki-Moon. “Hailing China as World’s Fastest Growing Economy, Secretary-General Urges Chinese Government to Put Together Emphasis on Social Equality, Environmental Sustainability”. United Nations Secretary-General Bureau. SG/SM/13219.

340 Ferchen, Matt. “China–Latin America Relations: Long-term Boon or Short-term Boom?.” Chinese Journal of International Politics 4.1 (2011): 56-86. Web. 16 Jul 2011.

As is widely known, the Andean region of the Latin American continent possesses vast reservoirs of mineral and energetic resources; for this reason it was easy for China to conclude that Latin America could be a great market to invest in.

The Impact on the United States

Furthermore, one may wonder where does all this new relationship between Latin America and China mean for the United States. China is conscious that the United States still plays and will play an important and prominent role in the area. Latin America is after all seen by the United States as its own backyard, as was claimed by the Monroe Doctrine.

According to Henry Kissinger, Chinese foreign policy has carefully avoided any dramatic moves that could compromise the future of the growing nation.

China tries to maintain a peaceful environment in the international arena so that it could secure stable access to raw materials in order to maintain its fast-paced economic growth. However, Kissinger says, China has continuously maintained a special interest in the developing world; which is a legacy of Mao's Three Worlds Theory.³⁴¹

The White Paper

This Chinese foreign policy towards Latin America is particularly explained in the *China's Policy Paper on Latin America and the Caribbean (2008)*, which describes the relationship of the two regions as one of friendly cooperation, featuring equality, mutual benefits, and development. According to China, Latin America is the perfect place to invest due to common goals: development, economic growth and stability, among others.³⁴²

In the preface of the White Paper, we can find the principles established by the Chinese government, which are set as the pillars for peace and development, the recognition of the progress of a multipolar world and a globalized economy.

In addition, it explains that the foundation of Chinese foreign policy is based on "The Five Principles of Peaceful Coexistence": the mutual respect for sovereignty and territorial

³⁴¹ Henry Kissinger. *On China*. 2011.

³⁴² People's Republic of China. *China's Policy Paper on Latin America and the Caribbean*. Beijing: 2008. Web. 16 Jul 2011.

integrity, mutual nonaggression, noninterference in internal affairs, equality and mutual benefit, and peaceful coexistence.

Moreover, there are four main objectives in the Chinese policy towards the region: to promote the mutual respect and an open dialogue, along with an increase in the political trust, aimed at allowing a common strategy for developing mutual trust and the expansion of common ground; to deepen the cooperation for achieving mutually beneficial results; to leverage the strengths of each in order to promote the common progress; and to enhance exchanges and the recognition of one China.

With regards to the last point, the United Nations has recognized China as the only legal representative of the Chinese people. In this sense, it becomes essential to break official relations with Taiwan when relations with China are started. This reciprocal policy was evident in the case of Dominica, when in 2004, it broke relations with the island; and later, in 2007, with Costa Rica. It is an almost sacred mission for China to resolve the conflict with Taiwan and to achieve a national reunification. Consequently, China has insistently worked on this matter, asking for a peaceful reunification, and a country with two systems.

The Beijing Consensus

It may seem awkward that Latin American countries became the number one trade partner of China when they were used to following the guidelines of the 1989 Washington Consensus. However, it is in fact because of the many years that these nations followed the Washington Consensus that they were unable to grow and develop their countries and societies. Under the Washington Consensus the total opposite happened: the external debt increased, the national industries became more vulnerable, and the nations became almost servants and dependants of the United States for whom they were the number one trade partners. The fact that Latin America got displaced, by other key actors in the American foreign policy agenda – Afghanistan and Iraq, for example – represents another important reason for the decline on the United States-Latin America relations.³⁴³

343 Arrighi, Giovanni, and Lu Zhang. "Beyond the Washington Consensus: A New Bandung?" Johns Hopkins University. Johns Hopkins University, 16 Mar 2009. Web. 16 Jul 2011.

On the other hand, China proposed the Beijing Consensus in 2010, which was widely praised by many Latin American countries. The reason, simple: China is one of the few nations that have been able to endure the current global economic crisis. The Chinese economic model represents a new hope for those countries – like the Latin American ones – which aim to grow and achieve new goals through development.³⁴⁴ In sum, this new set of guidelines tries to find the means necessary to achieve sustainable growth – creating an equilibrium between the duties and responsibilities of the main key actors: government, private sector, and society.

Impact of China's Foreign Policy

It is possible to identify some of the Latin American countries that have become major economic trade partners with China. Among these, one can mention Brazil and Chile, for whom China is now their main trading partner. Also, Argentina, Colombia, Peru and Venezuela, for whom China is now their second trading partner.³⁴⁵

However, some analysts question whether this relationship is to bring the two regions closer or further apart. Juxtaposing, it will be interesting to have a clear assessment of whether or not the China-Latin America relationship is symmetrically or asymmetrically favoring the Asian nation.

In the first place, as was mentioned earlier, Brazil is one of the Latin American nations that has made China its number one trade partner. This represents an important disruption of the earlier trade relationship between the United States and Brazil, which dates back to the 1930s, and under which it was the United States that was its number one trading partner. In 2009, when China became Brazil's biggest trading partner, the bilateral trade between the two nations reached almost \$40 billion. Among the main sectors of Chinese investment in Brazil are soya beans, iron ore, cellulose, fuel, and most recently the technology sector with a \$4.5 billion investment – this in order to balance Brazil's economy.³⁴⁶

344 Castillo, Antonio. "Latin America welcomes 'Beijing Consensus'." *China Daily US Edition* 19 Mar 2010. Web. 16 Jul 2011.

345 Ghione, Leonard. "View Points: China in Latin America." *Foreign Policy Association*. N.p., 14 Jul 2011. Web. 16 Jul 2011.

346 Moore, Malcom. "China Overtakes the US as Brazil's Largest Trading Partner." *Telegraph* 09 May 2009, Web. 16 Jul 2011.

The relationship that has grown between China and Brazil could be described as one of complementarities. Brazil is rich in natural resources, therefore, exports raw materials and agricultural products. On the other hand, China imports these goods to satisfy the increase on demand due to its expanded involvement on global markets.

No official trade agreement has been signed yet between the two nations given the fact that Brazil is a member of the Mercosur, which complicates the signing of such an agreement. Instead, several cooperation agreements have been signed in order to increase trade, investment, and economic cooperation between the two nations.

However, not everyone believes that the alliance Brazil-China is one where both countries are being equally favored. According to a study by De Castro Neves, the trade agreements between China and Brazil tend to favor the former, rather than both countries.³⁴⁷ The entire region's exports are mainly of raw materials, which are mostly purchased by China.

This has created a sort of dependence on China, and with the Yuan strengthening more and more every day; the Asian nation is definitely executing some dominance over the Latin American region. This is not to mention the Latin American manufacturing industries that are collapsing due to their inability to compete, both domestically and in foreign markets, with the Chinese low prices of products.

In the second place, another big partner of China in Latin America is Chile. The Asian nation looked at Chile for the same reasons that it had looked to Brazil: energetic and agricultural resources to satisfy a continuous increase in demand. Chile became one of the main suppliers of copper to China.

In fact, the economic relations between the two nations were growing at such a fast pace that in late 2006 an Economic Free Trade Agreement was signed between the two nations.³⁴⁸ In 2009, the bilateral trade between China and Chile reached the \$17.4 billion, positioning Chile in the second place among China's trade partners in the region.

347 De Castro Neves, Joao Augusto. "Brazil and China: South-South Partnership or North-South Competition?." *Foreign Policy* Mar 2011. Web. 16 Jul 2011.

348 "China and Chile Sign Trade Deal." *BBC News* 22 Aug 2006, Web. 16 Jul 2011.

Peru was then the second country in the region to sign a Free Trade Agreement in 2007, followed by Costa Rica in 2010.

Among the various goods that benefited from the FTA it can be mentioned the following ones: Chile exports raw materials, and agricultural products such as vegetables, fruits, and poultry, among others to China. China mostly exports manufactured goods and machinery to Chile. Furthermore, investment of China in Chile is generally in areas like agriculture, science and technology, mineral development, light industry, household appliances, machinery, and most recently in the banking and telecommunications sector.³⁴⁹

In the third place, Venezuela is also one of the big economic partners of China in Latin America. In 2009, the bilateral trade between the two nations reached nearly \$10 billion, making China the second economic trade partner of Venezuela. The South American nation is widely known not only in the region, but also in the world, as one of the biggest and most important oil producers; hence, there is no doubt that this would be the main commodity that China seeks to import from this nation.

In exchange, China has invested in the Venezuelan telecommunications market (helping in the creation of the first Venezuelan-produced cell phone), the infrastructure market (helping in the construction of railway and several social homes), and the science and technology market (helping in the launch of the first Venezuelan satellite)³⁵⁰.

On the other hand, China's main exports to Venezuela are textiles, technology, and machineries. As it can be seen, the trade relation between the two nations is much diversified, even though the greatest commodity on which revolves the trade relies on the energy area.

More recently China just won a bid to exploit some oilfields in the Orinoco River Basin; while Venezuela plans to jointly open a refinery in China in order to process the Venezuelan crude on Chinese soil.³⁵¹ Some other trade agreements are to be executed in the health sector, aimed to guarantee the medical demands of the social mission of the Venezuelan government.

349 "Stronger Ties With Chile." *Beijing Review* 14 Jul 2011

350 "China-Venezuela Relation Keep Growing." *Correo del Orinoco* 17 Jun 2011

351 "Venezuela: China Secures Long-Term Oil Supply, Chavez Secures Finance." *Petroleum Economist* 04 May 2010

Conclusion

In conclusion, it can be said that the new Chinese foreign policies towards Latin America are definitely trying to help these developing nations to reach new goals. However, it is necessary to understand that the Latin American governments must find the perfect balance in order to achieve a harmonious developing economy; a hard task after being following the earlier catastrophic neo-liberalistic policies. The Chinese politics towards Latin America have had coherence and success thanks to the China's Policy Paper on Latin America and the Caribbean. The result should be very different for each Latin American nation, as each one of them is different. Each Latin American nation is trying to pursue one same goal, to develop, but not all of them are at the same point in the journey.

As it has previously been discussed, there are three well-defined Chinese trading partners in Latin America. First, Brazil, which is an important market for the Chinese goods, and also a great source of commodities for China. Also, the fact that both Brazil and China are members of BRIC, a developing nations association, gives the nation some priority, both politically and economically. Moreover, Chile, which is the world's number one producer of copper, a mineral definitely needed in the Chinese growing nation. Lastly, Venezuela, which is China's third provider of crude, needed to fuel the different Chinese industries.

The greatest interest of China is to secure sources of raw material, which are extremely needed for sustaining their economy and their growth. In addition, it has been known that in recent years their influence has not only been through direct inversions but, also through direct financing, which means that the ties between Latin America and China will, undoubtedly, narrow even more.

Many observers feel that the rising presence of China in the international arena is feared by the United States. What intrigues them even more is the fact that China keeps growing, economically, even during a recession from which the United States has been unable to recuperate; as a matter of fact it keeps sinking. This should indicate that the United States should review its own economic model – as it is failing – and propose new mechanisms of relationships between nations, especially the Latin American ones, which may no longer be willing to be just a “back yard”. Finally, the

era of the neo-liberalism and the unipolarity has collapsed; it is time for plurality, joint economic integration, social justice, and equality between Latin America peoples.

Finally, it can be said that one thing is clear: Latin American nations have become China's number two trading partners after the United States. Even though China has tried to maintain an integral relation with Latin America these relations remain mostly in the economic area. Perhaps these will soon be followed by closer political and social relations also.

Relations with Latin America

Arline Diaz