

# China Analysis

## Les Nouvelles de Chine

n° 16, November-December 2007

<b>INTRODUCTION</b> .....	1
<b>DOMESTIC POLITICS</b>	
1. Democratic reform according to the 17 <sup>th</sup> Congress.....	2
2. The People's Liberation Army after the 17th Congress.....	4
3. Internal democracy tested against the institutional history of the Party .....	6
4. An embryonic participatory democracy in Gansu?.....	8
5. Chinese think-tanks and their status as privy councillors.....	9
<b>ECONOMY</b>	
6. The 17 <sup>th</sup> Congress: towards a new growth model? .....	12
7. The FDIs in China: a new approach by the central government? ...	14
8. The French role in the privatisation of water in China.....	15
<b>DIPLOMACY AND STRATEGIC AFFAIRS</b>	
9. Sino-French relations: a break... with Germany? .....	18
10. American realignments in the Middle East: a pragmatic policy at last .....	19
11. China-Russia-India: an equi-bilateral triangle .....	21
12. The joint manoeuvres of the Shanghai Cooperation Organisation .....	24
<b>TAIWAN</b>	
13. The 17 <sup>th</sup> Congress seen from Taiwan.....	26
14. Is a peace agreement with Taiwan a serious proposition ? .....	28
<b>THE PRESS REPORTED ON IN THIS ISSUE</b> .....	31



*China Analysis*, directed by François Godement and co-edited by Mathieu Duchâtel and Michal Meidan, is a bi-monthly, electronic bulletin on China produced by **Asia Centre**. *China Analysis* comments on current affairs in the Chinese world based on articles appearing in the Mandarin-language press. It is the only publication in Europe to rely exclusively on Chinese-language sources in order to provide the views of the People's Republic of China, Hong Kong and Taiwan on the political and economic scene in China, strategic issues in Asia and Taiwanese political and economic life.

## INTRODUCTION

*This current issue of China Analysis is the first to contain an analytical summary of the articles presented, and the second to have a full English translation – albeit with a slight time lag. Our journal will continue to evolve over the coming months for the pleasure and interest of readers without abandoning its core mission, which is to provide access to the important issues and analyses appearing in China and the Chinese world.*

*Two months after the end of the 17th Congress, the Chinese leadership is projecting the image of being reform-minded yet cautious, quietly proceeding to bring about an economic transformation of China. This indeed seems to be Hu Jintao's trademark. The 17th Congress applied the customary rules, allocating posts on the Central Committee to the various institutions, applying the age limit of 68 without fear or favour, and having the collective leadership itself select the Politburo and its Standing Committee. Ever since the 12th Congress (1982), each successive Congress has increasingly shown that it is driven by one ambition, that of compensating for the lack of any open or legal mechanism for appointments through an informal selection, one that is less arbitrary and more representative of the administrative and technological forces in play.*

*The increase in the excess number of candidates over the number of posts to be filled on the Central Committee, and the very long gestation period for the appointment of delegates to the Congress, thus go hand-in-hand with the utter opacity of the process for appointing the top twenty-five leaders. The system is evolving towards a consultative authoritarian mode, in which an aristocracy of technocrats (as there is a very great number of senior bureaucrats' sons) filters all political debate. An internal democracy or one restricted to certain predetermined subjects coexist with stronger tensions – for or against more formal democratic mechanisms.*

*What is extraordinary is the extent to which overseas China – once a spur to reform and occasionally to revolution – is today the first to defend a status quo deemed to be beneficial. Witness the "outburst" in the summer of 2007 by Donald Tsang, the Chief Executive of Hong Kong, against "democracy" assimilated to the ...Cultural Revolution and considered in any event to be ineffective – or the recent statements by Lee Kuan Yew, Singapore's Minister Mentor, calling for the regularisation and institutionalisation of the process of selecting or electing leaders by "the top crowd". This view of an institutionalisation without democracy is obviously one of the regime's goals, the other being a bolstering of formal electoral mechanisms.*

*It is very tempting to contrast this view of a Chinese curia taking a softly-softly approach to debate with the feverish reaction to Angela Merkel's hosting of a visit by the Dalai Lama, or, even more, with the refusal to allow the American aircraft-carrier Kitty Hawk access to Hong Kong. The to-ing and fro-ing of the Chinese government with regard to Germany – sanctions over the scheduled bilateral meetings until a statement by Prime Minister Wen put this difference of opinion into some perspective – and the crisis management of the Kitty Hawk affair give credence to the idea of some significant political tension since the 17th Congress. The extreme difficulty the recent Sino-European Summit had in producing a joint communiqué, something unprecedented, is also testimony in its way to the fact that no leader, even at the very top, has a completely free rein when it comes to foreign policy. Nothing of that of course filtered down during the 17th Congress, supposedly engaged in reflecting and managing the main thrust of the Party in power.*

**Mathieu Duchâtel and François Godement**

## Domestic policy

On the eve of the 17th Congress Hu Jintao seems to have consolidated his position within the leadership and the military apparatus. In the ambitious route map announced by President Hu, three points stand out: the insistence on a Chinese model of democratic reform, which is to be gradual, controlled, and aimed at greater citizen participation; a prioritisation of social action, and a "scientific" approach to public activity, i.e. the rationalisation of administrative, legislative, and decision-making procedures.

The press tells us that there is an internal democratic heritage passed down through the structure of the decision-making organs of the CCP, and the increasing resort to consultations with research centres appears to reinforce that trend. The institutionalisation of the armed forces' participation in politics gives support to the idea of a new way of governing. But the main question is still whether the leadership is able to put its aims into practice. Chinese analytical commentators have set out the numerous challenges it faces, but in practice, which is the ultimate test, there is a gap between declared intentions and facts on the ground, as is shown by the case of granting the citizens of Gansu the right to suggest laws to the provincial Assembly.

### 1. Democratic reform according to the 17th Congress

Critical summary by Michal Meidan of the following:

- Hu Shuli "A historic turning point for China", editorial in *Caijing*, October 29th 2007 (special 17th Congress issue).
- Yu Keping, "Breakthroughs in political reform", *Caijing*, October 29th, pp. 88-92.
- Chang Hongzhao, "Route map for progressive political reform", *Caijing*, October 29th 2007, p. 96.
- Yang Zheyu, "A summary of the 'debate on the third revolution'", *Caijing*, October 29th, p. 95.
- Ma Changbo, "The new political discourse", *Nanfang Zhoumou*, October 28th 2007.
- "Autocratic dictatorship can only lead to failure", *Nanfang Dushibao*, November 16th 2007.

The Seventeenth Congress of the Chinese Communist Party ended on Monday October 22nd with the public appearance of the new leadership. The nine new members of the politburo include the veteran members Hu Jintao, Wu Bangguo, Wen Jiabao, Jia Qinglin, and Li Changchun, who are joined by Xi Jinping, Li Keqiang, He Guoqiang, and Zhou Yongkang<sup>1</sup>. The foreign press has reported two major setbacks for Hu with regard to the makeup of the politburo, namely its continuing to consist of nine members, whereas he wished to reduce it to seven, and the promotion of Xi Jinping to a more senior

position than Li Keqiang<sup>2</sup>. But the liberal press in China has focused mainly on the route map outlined by the Chairman's closing address to the Congress.

The editorial by Hu Shuli strikes quite a favourable note with respect to the contents of Hu Jintao's speech to the Congress, emphasising that it comes at a critical moment in China's history (which, like the other contributors, he also compares with the 12th Congress). Hence, he emphasises the importance of Hu Jintao's declarations dealing with the direction in which the leadership wishes to guide the country, as well as the quality of the new team in power, and above all the challenges posed by the real situation outside the speechmaking. All of these writers highlight the Chairman's commitment to carrying the political reforms through, and to promoting the progressive democratisation of the Party. Yu Keping and Chang Hongzhao assert that "Political reform in China must go along with economic development and should follow its own pace in each different area". So at first the reforms will be focused on inner Party and grass roots democracy. Constitutional reform and setting up a state system based on the rule of law will also be among the early priorities announced by the Government. Similarly, checks and limits on the use of power are subjects of debate and are emphasised as the basis of democratic reform.

To achieve these goals, China published its first white paper on political reform in

<sup>1</sup> For further information on this succession, see the articles in *China Analysis* no. 15.

<sup>2</sup> Joseph Kahn, "Politburo Reshuffle is a Sign for China", *New York Times*, October 22nd 2007, and Kent Ewing, "China, where the Dull Lead the Dynamic", *Asia Times*, October 22nd 2007.

November. This white paper - which, as *Nanfang Dushibao* emphasises, is not in itself a new political initiative - sets out the various measures and practices whose goal is to enable improved co-ordination with the smaller democratic parties within the current political system, and to strengthen their supervisory and consultative role. While they should be able to exercise a function of opposition and constraint over the Communist Party, this will all take place within the ultimate purview of the Party, and at the moment no division of power between the parties is under consideration. Although the writer underlines the growing number of public figures originating from the democratic parties and holding positions of power at the highest levels of the central and local governments, he remains rather vague on the ways in which these parties might in time participate in the creation of new political structures. He seems to restrict these figures' field of action to playing a purely consultative role - and this seems to be at the behest of the ruling government and Party.

However, all these commentators, particularly Hu Shuli, draw attention to the balance and complementary qualities of the members of the present leadership, which is made up of better educated people than their predecessors, drawing on a wider range of skills and life experiences. And the foreign press points to the fairly balanced way in which they represent the three main factions in Chinese politics.

The route map set out by the new leadership promises economic development which will be both "swift and good" (又快又好, *youkuai youhao*). However, these writers note that it is no longer a matter of promoting "growth" but a form of "development" whose costs in terms of the exploitation of natural resources must be taken into account, and in which attention must be paid to economic disparities and social conflicts. Although these articles are concerned more with the political than the economic aspects, they note that the most important point is the promotion of technological innovation and changes to the pattern of economic growth. However, the lack of an adequate response to the need for a more level competitive playing field, and for reforms to the budgeting and financial systems, is emphasised by Yang Zheyu.

Yu Keping reviews the main areas demanding political change, which were set out by Hu Jintao in his speech on October 21st. He gives a list of the primary issues which, in his opinion, call for immediate attention:

### *1. Improvements to grass roots democracy and an increase in direct political participation.*

Increases in grass roots democracy would bring about greater awareness of the means and methods for democratic participation, and this is a guarantor of social stability. The questions which this poses are linked to the local cadres' ways of managing this democratisation, to their relations with the other social bodies, and to the relationship between people's rights and responsibilities. This also calls for a reduction in corrupt practices and the pressures brought to bear at the local elections, a heightening of the population's political consciousness, and an attention to the managerial structures of the local administrations.

### *2. Inner Party democracy*

While grass roots democracy allows the extension of democracy from the bottom up, inner party democracy enables the expansion of political participation outwards from the centre to the periphery. This reform is closely linked to the previous reforms to the voting system which came into force in electing members of the 17th Congress. These provided for a margin of 10% (that is to say, that there were 10% more candidates than places to fill, so that the election was by ballot, even though the candidate lists were not made public) and they also set out reforms to the procedures for decision-making, inspection, and control.

### *3. The legal system: establishing the rule of law*

Yu Keping argues that there are numerous deficiencies in the legal system. These include: excessive intervention in legal proceedings by certain "individuals", poor public awareness of the legal means available to them, unfair legal procedures linked to local protective practices, the low standards of members of the legal profession, and lastly, the tendency the "progressive legalisation" of the interests of particular ministries or administrative departments. Extending the reform of the legal system calls for strengthening the constitution and the authority of the legal profession, improving the system by making it more "scientific" and democratic, and guaranteeing its independence by reducing administrative interference.

#### 4. Reforming the decision-making process

"The rationality and transparency of the decision-making process affect not only government and its efficiency, but also social stability". There is an overwhelmingly haphazard nature (随意性, *suiyixing*) to the decision-making process, according to Yu Keping, which leads to mistakes and shifts in policy<sup>3</sup>. Apart from "the personal capacity of the decision-makers", he adds, improving the system requires making the decisions public, setting up a system of evaluation and consultation, as well as making the cadres more accountable and improving the co-ordination between the various departments and ministries. But Yu Keping's remarks do not appear *too* critical, since the Congress report itself stresses the need for transparency, openness, consultation, and communication.

#### 5. A system for oversight and popular intervention

The system for control and oversight is an important weapon for the elimination of corruption, but its current weakness in China leads to growing power in the hands of the cadres. In the West, the multi-party systems, the checks and balances, and the rule of law - all of which the Chinese Communist Party has clearly rejected (拒绝, *jujue*) - serve to protect against corruption. In China, it will be necessary to give the people, as well as the Party, a supervisory capacity to control the government<sup>4</sup>.

#### 6. Improving social management, and creating a harmonious society

Although there have been major advances in social management, social stability and cohesion need to be reinforced through a more effective system of social support, improvements to social security, and an increase in the role played by civic associations in social life. Local communities and labour organisations could also fill this gap and give a greater degree of self-management to the people.

#### 7. Government as a service provider

Lastly Yu Keping brings up the question of improving the efficiency of the public services, simplifying administrative procedures, and

<sup>3</sup> However, he gives no examples of these.

<sup>4</sup> Yu Keping does not develop his ideas on the control of the Party by itself.

holding cadres and officials to account, in order to rationalise the administrative system.

Although these points are the opening stages of the political reform identified by Yu Keping, he does not go very far in specifying the concrete measures which the Party might adopt, and perhaps he is merely reiterating the Congress report's own view of the essential elements of the CPC's political work in the years to come.

Nevertheless, the topics covered do show a greater concern with openness and transparent government, as well as a greater willingness to discuss problems and a restraint on the tendency to boast about achievements. But, as Hu Shuli says, the true test of the 17th Congress will be its ability to move beyond speeches into practical action.

## 2. The People's Liberation Army after the 17th Congress

Critical summary by Mathieu Duchâtel of the following:

- "A strong contingent of newcomers on the Central Committee: replacements reach 58%", *Yazhou Shibao (atchinese.com)*, October 22nd 2007.

- Ni Ershuo, "What needs to be known about the new members of the Central Military Commission", *Wenweibo*, November 1st 2007.

For Hu Jintao, the advent of the 17th Congress was an opportunity to strengthen his grip on the People's Liberation Army (PLA) through new senior appointments. Without any of these being officially announced, by September 2007 new commanders in chief had already taken up their posts in the seven military regions. In August or September, General Chen Bingde relinquished his position in charge of the General Logistics Department to take up his post as Chief of General Staff, and the heads of the navy (Wu Shengli) and the air force (Xu Qiliang) were appointed by Hu Jintao in August 2006 and September 2007 respectively. Although he had a reputation for weakness after his belated election to the Central Military Commission (CMC) in September 2004, Hu Jintao has managed to increase his support among the higher ranks of the armed forces through strategic appointments and promotions, with the result that he now appears as the uncontested boss of the PLA. The main part of this renovation of the top leadership of the military was achieved by 2006, and on the eve of the 2007 Congress it

appeared complete. This meant that the Congress provided the occasion for ratifying the political weight of the armed forces in the Central Committee and for electing a new CMC.

The election to the Central Committee of 41 members of the PLA, out of a total of 204, confirms the importance of the military in the current political system in China, and it shows how rapidly the military leadership has been renewed. With a fifth of the posts in its hands, the army retains its supervisory role (發言權, *fayanquan*) over the Party's policy decisions. Its relative weight remains stable (20.1%, as against 22.2% in the 16th Central Committee, which only had 198 members). The rate of new appointments from among the PLA is particularly high, standing at 58.5% of the delegates elected to the Central Committee. This confirms the trend of the 16th Central Committee, 56.8% of whose members were new staff officers. These high figures are due to the implementation of the legal age limitations without any exemptions. For example, the navy is not represented by its political commissar but by the assistant commissar, Hu Yanlin being 64 years old. Similarly, his age of 64 explains why Zhang Li is the only deputy chief of staff not to be included in the list of delegates to the Central Committee. Of course, the rapid turnover of staff officers is due to the mobile nature of careers in the military. Those positions among the forty which give access to the Central Committee are among the most highly prized. Generals only get appointed towards the end of their careers, and for a limited period. Because of this rapid turnover, the army exercises more power as an institution than through individuals with connections to people at the top of the Party.

The 17th Congress confirms that there is a trend towards the institutionalisation of posts offering access to the Central Committee. They are filled by the entire upper hierarchy of the army, with a few exceptions. In addition to the two vice-Chairmen of the CMC (Xu Caihou and Guo Boxiong), the list includes the heads of the four general departments and their deputies, the commanders-in-chief and their political commissars of the air force, the navy, the second artillery group, the People's armed police, and the seven military regions, in addition to the heads and political commissars of the National Defence University and the Institute of Military Science. Moreover, for the second time running, the political commissar for the army in the Xinjiang SAR, which is

under the Lanzhou military region, and the commander-in-chief of the Tibetan SAR, which is part of the Chengdu military region, have been elected to the Central Committee. This step makes clear that there is an effort to institutionalise the PLA's representation on that body, and that particular importance is given to the western regions within the new anti-terrorist priorities as they are defined by the PLA. Finally, it comes as no surprise that Liang Guanglie, who was due to replace Cao Guangchuan as Minister of Defence after the first plenary session of the 11th National People's Assembly, has retained his place on the Central Committee.

The 17th Congress was also the occasion for the election of the new Central Military Commission of the Chinese Communist Party. The CMC consists of eleven members, some of whom were replaced. Although it is still headed by Hu Jintao, he is exclusively surrounded by military men, which is a change from the makeup of the CMC from 1999 to 2004. At that time, Hu Jintao was its vice-Chairman, under the leadership of Jiang Zemin, which raised the number of civilians serving on the supreme controlling body of the PLA to two<sup>5</sup>. At present there is still some uncertainty surrounding the vice-Presidency of the CMC. While it is accepted that Generals Guo Boxiong and Xu Caihou will occupy two out of the three posts, if the basic information published in the *People's Daily* is to be believed, the appointment to the third post is not yet decided. Who will replace Cao Guangchuan? While Liang Guanglie will succeed him as head of the Defence Ministry, he has not been appointed as vice-Chairman of the CMC even though he was already a member in his capacity as chief of staff. So certain issues remain unresolved, because otherwise why delay the official appointment of the third vice-Chairman? Is it still possible to anticipate the appointment of a civilian vice-Chairman (either Xi Jinping or Li Keqiang) in preparation for the succession to Hu Jintao,

---

<sup>5</sup> From the 12th Congress in 1982 up until 1992, the CMC always had civilian vice-Chairmen: Yang Shangkun (1982-1992), followed by Zhao Ziyang after the 13th Congress until his dismissal after the events in Tian'anmen Square. From the 14th Congress up until the reshuffle in 1999 (with the appointment of Hu Jintao) Jiang Zemin as Chairman was surrounded exclusively by generals. For further information on the history of the CMC, see Nan Li, "The Central Military Commission and Military Policy in China", in James Mulvenon and Andrew Yang (eds.), *The People's Liberation Army as an Organisation*, RAND Corporation, 2002, pp. 45-94.

along the lines of the appointment of Zhao Ziyang in November 1987 or Hu Jintao himself in September 1999?

The article in *Wenweibo* does not raise these questions, restricting its comments to the three new appointments, which the writer interprets as positive signs of the modernisation process in the PLA. The three appointees are Wu Shengli as commander of the PLA navy, Chang Wanquan as director of the general armament department, and Xu Qiliang as commander of the PLA air force. The latter two are the first generals born after the founding of the People's Republic to be appointed to the CMC. They represent the arrival of a new generation to the leadership of the PLA.

As several commentators have stressed, these appointments reflect the priority being given to preparations for possible conflicts in the Taiwan straits<sup>6</sup>. In the 1990s Liang Guanglie and the new chief of staff, Chen Bingde, were both in turn commanders of the Nanjing military region which faces Taiwan. Wu Shengli commanded a naval base in Fujian before becoming second in command of the Eastern Fleet and then Commander-in-Chief of the Southern Fleet. Xu Qiliang was an air force commander in Shanghai. Four out of the ten generals sitting on the CMC have direct experience of the preparation and control over the military exercises based on scenarios of a conflict with Taiwan. This operational experience has given them close understanding of the PLA's strategic principles and tactical ideas concerning Taiwan. In a broader perspective, they are the cutting edge in the PLA's development into an army capable of mounting joint operations requiring a full understanding of modern information technology. A further noteworthy point is that Xu Qiliang was in charge of Chinese military units engaged in the Shanghai Co-operation Organisation's "2007 peace mission" joint exercises<sup>7</sup>. These military tests put the emphasis on offensive capability, the capacity to stage joint operations between land and air forces, and the ability to combat armed units in hostile terrain.

The *Wenweibo* article then went on to emphasise the high level of professionalism shown by the new members, underlining the

<sup>6</sup> See, for example, David Hague, "China Promotes Military Officers Experienced in Taiwan Affairs", *International Herald Tribune*, October 9th 2007.

<sup>7</sup> See in this current issue Mathieu Duchâtel, "The Shanghai Co-operation Organisation's joint manoeuvres".

growing separation between the political and military spheres, as attested by their appointment. The first evidence of this is that none of them belongs to a faction, neither to the Communist Youth League nor to the "young princelings" (the sons of leading Party members). They owe their promotion to nothing but their own merits.<sup>8</sup> Moreover, unlike the situation after the 16th Congress, none of the CMC generals will have a position on the Party secretariat, as was the case of Xu Caihou up until the 17th Congress. This position had forced him to spend at least one day a week on working and issuing joint statements with the other institutions at Zhongnanhai. Following the 17th Congress it was decided that the members of the CMC would no longer combine their task of military planning and practical application with any other government functions. The modernisation of the PLA goes hand in hand with a diminution of military intervention in political matters and of politics in military affairs. But the retention of the system of political commissars and the presence of staff officers on the Central Committee means that the political role of the army is still a characteristic of the Chinese political regime.

### 3. Internal democracy tested against the institutional history of the Party

Critical summary by Antoine Richard of:

- Zhang Ye, "Towards a historical overview of the changes within the central organs of the Chinese Communist Party (CCP)", *Nanfang Zhoumou*, October 11th 2007.

On the eve of the 17th Congress, Zhang Ye, a journalist with *Nanfang Zhoumou*, reviewed the changes over the years within the decision-making apparatus of the Chinese Communist Party. In order to establish (or re-establish) a historical link between these changes, he decided to interview three university experts. They were: Professor Shi Zhongguan, associate director of the historical research department of the CCP, Professor Zhang Shujun, director of the historical research institute on the history of the CCP at the Central Party School, and Professor Gao Xinming of the research centre on the history

<sup>8</sup> The assertion by *Wenweibo*, which may surprise some, that none of the generals appointed to the CMC belongs to a faction, can be explained by a specific detail: some commentators are said to have thought mistakenly that Xu Qiliang was the son of Xu Lefu, who was the assistant political commissar to the air force.

of the development of the CCP at the Central Party School.

To begin with, three points are worth noting. Firstly, the article seeks to provide a description of the nature of the main organs of the CCP (the General Secretary, the secretariat of the Central Committee, the Politburo, and the Congress), which raises the question as to whether the Chinese public is not well acquainted with the established power and its representative institutions. Secondly, in seeking to put the development of the organs of the CCP in their historical context, the journalist is trying to give them not only legitimacy but even a coherent continuity ... despite the confusions of Chinese history. Finally, he gives prominence to the function and the definition of the post of General Secretary, which is a significant way of handling the official history of the CCP and the issue of executive power in China. It is striking that in this article dealing with the major power institutions of the CCP, there is no mention of the Party's Central Military Commission, although this is an essential decision-making organ.

A reader of this article would also note the importance given to two other significant issues: the age limit fixed by Deng Xiaoping at the 12th Congress in 1982, and the question as to whether the Party's General Secretary should or should not be considered the most important star in the Chinese Communist galaxy.

This journalist from the *Nanfang Zhoumou* and two of the experts whom he interviews, insist on the importance of the age limit reform imposed by Deng in 1982. By fixing the limit at 68 years, this reform had led to a complete personnel change in the Chinese leadership in less than twenty-five years. At the Congress in 1982, 211 out of the 348 delegates were new appointees, among which were future leaders like Jiang Zemin, Li Peng, and also Hu Jintao who was 39 at the time. It was with this Congress in mind that Professor Shi Zhongguan confirmed, albeit using a somewhat strained logic, that there is indeed an inner Party democracy, "for, if there were not, what would be the use of gathering so many delegates together every five years?".

This article waxes eloquent on the function, powers, and relationship to other agencies, of the General Secretary of the CCP (总书记, *zongshuji*) as it addresses the following two questions: Why was the General Secretary

defined as the most powerful man in the organisation at the 1st Congress in 1921? Does that mean the post of Party Chairman (党中央主席, *dang zhongyang zhuxi*) has never been important?

In the first place, as Professor Gao Xinming points out, there were only twelve delegates to the 1st Party Congress in July 1921, and they represented fifty members scattered throughout China<sup>9</sup>. At that time, the decision was made to set up a political bureau, with Chen Duxiu as its first secretary, in order to facilitate the diffusion of communist doctrines. At the 2nd and 3rd Congresses a Central Committee was created, but as a consequence of Chen Duxiu's increasing skills and duties, it was decided to appoint him as "General Secretary of the CCP". The use of the term "secretary" (书记 *shuji*) - which at that time meant someone in a low position - was a conscious choice on the Party's part to designate its highest official, in order to express the leaders' intention to break with the existing attitudes and distinguish themselves from the Kuomintang (KMT).

As for the question of the relations between the General Secretary and the Party Chairman, the answers are rather vague on the historical side. Professor Shi maintains that the post of General Secretary has only been filled in two periods since the foundation of the People's Republic. Although these periods were unequal in duration and in terms of the powers given to the General Secretary, they nonetheless both show that the latter was not the most important figure in the Party, because he was second to the Chairman, the latter being the post held by Mao Zedong throughout his life. The first General Secretary of the CCP was Deng Xiaoping, who held that post from the time of its re-establishment at the 1st plenary session of the 8th Congress in 1956 until the launching of the Cultural Revolution in 1966. The second was Hu Yaobang, who became General Secretary in February 1980, following the 5th plenary session of the 11th Congress, and retained it until his dismissal in January 1987. After replacing Hua Guofang as Party Chairman in 1981, Hu Yaobang combined both roles, although it was Deng Xiaoping who steered through the reforms from his position as Chairman of the Central Military Commission. In 1982 the combination of the role of Chairman with that of General Secretary led to the current situation through the abolition

---

<sup>9</sup> As opposed to the 2,200 delegates nowadays, representing 73,363 members.

of the post of Chairman. But, Professor Shi argues, although the post of General Secretary is now the most powerful in the Party, it can only be held for two terms in office. So its power is undercut and that of the Congress - which is where internal Party democracy has its say - is thereby increased.

#### 4. An embryonic participatory democracy in Gansu?

Critical summary by Valérie Demeure-Vallée of the following:

- Han Yong, "Legislative initiatives in Gansu introduce a citizens' right to propose laws", *Zhongguo Xinwen Zhoukan*, October 19th 2007.

- "Zhang Youliang: the indirect experience of direct democracy", *Zhongguo Xinwen Zhoukan*, October 19th 2007.

In pursuit of the goals announced by the Hu-Wen team, to bring about a "harmonious society"<sup>10</sup> (和谐社会, *hexie shehui*), on September 27th 2007, a group of lawmakers attached to the Gansu Provincial Assembly introduced a bill on local legislation which would give ordinary citizens the right to propose new laws to the local legislative bodies. While the initiators of this bill may have thought that they were responding in their own manner to the intentions of the leadership by proposing greater "citizens' participation" in the legislative process<sup>11</sup>, the concrete realisation of their plans came up against ideological and practical considerations which reveal the weakness of their positions.

The originators of this proposal were two local figures: Xu Hui and Zhang Youliang. Mrs. Xu Hui, an economics professor at Lanzhou university, had become known to the Gansu provincial legislative offices in September 2002, when as a private citizen she responded to an appeal from the authorities who were drawing up a bill to prevent water pollution in the part of Gansu crossed by the Yellow River. Her suggestions had been appreciated and debated, but the financial and technical

constraints upon provincial resources had not enabled the law in question to be adopted.

Mr. Zhang, who lectures in law at the Lanzhou technological university, heads the team drawing up the legal bill. His research interests are concerned with citizens' participation. It was he who wished to include in the "bill on the rules concerning the legislative process" a provision allowing citizens to present their suggestions "directly" to the standing committee. In his view "the meaning which must be given to the concept of a harmonious society" is that it promotes "the spirit of citizens' participation" (公民参与的精神, *gongmin canyu de jingshen*).

In specific terms, this "bill concerning the governance of the legislative process of the Gansu provincial Assembly and its standing committee" provides, in article 4, that "the organisations, enterprises, communal groups, and private citizens may submit their suggestions concerning legislative matters to the standing representatives of the provincial Assembly, either directly or through the deputies who represent them, the panels of experts, or the working groups of the standing committee".

This would be the first time that such a "right of legislative suggestion" (立法建议的权力, *lifa jianyi de quanli*) to the standing committee of a provincial Assembly had been granted to ordinary citizens. Formerly, the latter only took part in the legislative process when they were requested. Yang Xingchang, head of the legislative office within the standing committee of the Gansu provincial Assembly, emphasises that it concerns only a right to make suggestions (提议权, *tiyiquan*) and not a "legal bill" (提案权, *ti'anquan*) which is subject to strict procedural rules. The latter bill can in fact only be proposed through the committee which presides over the provincial Assembly, by the standing committee of the Assembly, by a committee of experts, by the provincial government, by an official delegation, or by groups including more than ten deputies. Yang Xingchang believes that with this right of suggestion "the way to the expression of the citizens' will should become less constricted".

Zhang Youliang defends his proposal on the grounds that it has now become possible to give ordinary citizens the right to suggest laws, because two preconditions have already been met. Firstly, there is a "participatory consciousness among the ordinary citizens" which is being "continually re-awakened", and

<sup>10</sup> Cf. Michal Meidan, "Limit State control, but strengthen control mechanisms", *China Analysis* no 10, November 2006.

<sup>11</sup> At the 17th Congress of the CCP, Hu Jintao rejected the model of Western parliamentary democracy but called for an expansion of "socialist democracy" and a strengthening of "citizens' participation". That was not a new concept. Jiang Zemin had already called for "an expansion of citizens' orderly participation in politics".

secondly freer access to information is no longer "monopolised by the State" but is "shared by all".

Having set out these two points, Zhang nonetheless acknowledges that there are limits to his proposed law. Under present circumstances, the citizens' "right of suggestion" is necessarily "purely formal", since no decision has yet been made concerning its practical implementation, or in other words the concrete means of its expression (how it could be framed, in what form, and with what consequences). At present, private citizens are not allowed to attend the debates over any new laws under consideration. Mr. Zhang would therefore like to see the proposal being given a more specific content to take it beyond being a formal right. He also recognises that it is arousing strong opposition, and he believes that it "may not be adopted" by the national People's Congress whose "closed circuit" operations and lack of openness he deplors.

Although Yang Xingchang gave the proposal a favourable response, he raised questions over society's readiness for it. He wondered whether the citizens would greet it with "sufficient enthusiasm" and whether their suggestions would be of sufficient quality. That is why he recommended that "this route" towards citizens' participation be opened up, but "not too much".

This consideration shows the current gap between, on the one hand the effects brought about by an official announcement from a party which sees this opening towards "citizens' participation" as the way to regain its legitimacy and maintain a social stability battered by increasing problems (unemployment, pollution, corruption, and the living conditions of the peasantry), and on the other hand the difficulties which the concrete implementation of such a proposal could bring about. If it were really effective, it might lead to the CCP losing its control over society. So the difficulties underlying the implementation of this proposal are not surprising, and they illustrate in local terms the wider problem confronting the CCP. It needs to modernise its method of governing the country<sup>12</sup> while considering to what extent it can expand citizens' participation without risk to itself.

---

<sup>12</sup> See Benoît Vermander, *Chine brune, Chine verte? Les dilemmes de l'Etat-parti*, pp. 155-166.

## 5. Chinese think-tanks and their status as privy councillors

Critical summary by Michal Meidan of the following:

- Ma Changbo, "An enquiry into the official research centres in China", *Nanfang Zhoumou*, October 11th 2007.

This article was published in *Nanfang Zhoumou* on the eve of the 17th Chinese Communist Party Congress. Its aim is to throw light on the "well known and yet also obscure" world of official Chinese research centres and their influence on the nation's decision-making. In the overall context of the Chinese leadership's proclaimed intention to make their decisions more "scientific and democratic",<sup>13</sup> the enquiry by *Nanfang Zhoumou* gives a sharp insight into the relationship between the decision-makers and the world of research in China.

He describes the best known of the Chinese think tanks and identifies their means of interacting with the decision-makers, as well as the different outlets through which their opinions are conveyed: conferences, discussion meetings, reports, articles, and specially arranged meetings with leaders. Through the picture presented by this writer, the reader grasps the nature of a relationship which is as much a function of the status of the research institute as of the personal affinities between a particular leader and an expert.

Ma distinguishes between two types of research centre. The first of these is a place for training cadres, of which the best known are the Party School and the School of Administrative Studies, which serve as a platform for organising meetings and exchanges between experts and leaders from the different provinces.

As the Party School clearly functions as guide, adviser, and trainer in the ideological field, it is not surprising to see journalists crowding around those who teach there to gather their views, particularly at the time of Party Congresses or before major political announcements. The continual to-and-fro between the Party cadres and the lecturers at the School means that the latter, who often take part in drawing up statements, turn out to be reliable sources for the detection of future

---

<sup>13</sup> See Michal Meidan, "The democratic reform according to the 17th Congress" in this issue.

trends. A good example is the way in which the official Xinhua press agency emphasised the importance of Hu Jintao's speech to the Party School on June 25th 2007, as an indicator of the political line to be adopted at the 17th Congress<sup>14</sup>.

The School of Administrative Studies ( 国家行政学院, *guojia xingzheng xueyuan*) also participates in drawing up documents and conducting research in the important areas of political or economic reforms. For example, it has recently completed a study on the social security system which will be submitted to the State Council. On average, it produces two studies each year, which are the outcome of working group meetings involving ministers, vice-ministers, or local leaders concerned with the issue concerned. These working groups then send a report to the State Council, and this is followed by an informal discussion between State Council leaders and researchers to address the conclusions which they have reached. The State Council may then produce a statement on the question, and it is in light of the "spirit of this statement" and the conclusions of the working group that a ministerial group is formed in order to carry out improvements to the text of the statement. Finally, this text is submitted to the State Council for approval.

In 1998, the School of Administrative Studies completed some research projects on the reform and supervision of the banking system, and in 2000 their attention turned to the implementation of the policy of "developing the Big Western Region" (西部开发, *xibu kaifa*). This year the two meetings have been concerned with keeping social order and social security. The Party School is thought to be proceeding in the same general direction, but on different specific topics.

The research centres which are directly dependent upon the State Council, like the Chinese Academy of Sciences and the Chinese Academy of Social Sciences (CAS and CASS) or the powerful macroeconomic research centre of the National Development and Reform Commission (NDRC), produce between 300 and 400 studies per year. They are also involved in the research and compilation of texts for the five-year plans and for administrative regulations. They deal more with economic issues, whereas the schools

take part in writing Party Congress or plenary session speeches.

What are the channels of communication and influence?

The writer points to many kinds of communication between the institutions and the decision-makers, the first of which are studies "commissioned" by leaders, sometimes even on a paid basis. These reports may deal with cross-departmental subjects like macroeconomic controls or social management, or else more specific issues related to the field of the expert being consulted. The latter is sometimes brought into an enterprise to support the implementation of a policy initiative.

Most of these research projects are developed over a certain period of time, particularly those preparing for the five-year plans, which are undertaken by the NDRC. Others can be quite short-term or even urgent, as was the case at the time of the Asian economic crisis or the events of September 11th.

Another means of communication available to experts are "internal" publications. These reports are not necessarily commissioned by the authorities, but they are often read by leading politicians, and may have been undertaken as the outcome of a personal encounter with an expert. Similarly, this author reports that an official or his secretary sometimes takes a close interest in some researchers' work, and asks to receive an internal report as soon as it is published.

But the most direct channel of expert influence is still through personal encounters outside the main business of conferences and forums. These take the form of private conversations, or study sessions for politburo leaders during which experts are called to present their field of expertise.

The frequency of these exchanges, and the number of reports which the research centres are required to produce, have increased steadily since the beginning of the reforms and the opening up, but they have leaped ahead over the last decade as the questions demanding attention have become more complex and the leaders are becoming more willing to rationalise the decision-making procedures. There is a greater demand for experts and their advice gets more attention. Wen Jiabao himself has stated his view that no piece of expert advice could do him any harm.

---

<sup>14</sup> See Michal Meidan, "The democratic debate has not been stifled", *China Analysis* no. 14, July-August 2007.

It is worth noting, however, that no mention is made of the role and status of centres specialising in international affairs, or of university centres. And there is a noticeable paucity of details concerning the State Council's Centre for Research and Development, even though it is referred to in passing.

When expert influence is solicited, its status in the system remains ambiguous, and this writer reports a cautious tone in the way policy recommendations are formulated even when this is not explicitly called for ("*given the close relations between researchers and decision-makers, it may happen that a researcher influences political decisions by alluding to a particular recommendation*"). On the other hand, given the frequency of their interaction with the political leaders, experts who do not belong to official circles nonetheless tend to talk as though their views had official approval. For example, when China decided not to devalue the renmenbi in the face of the Asian crisis, one researcher was reported as recommending a degree of flexibility in the value of the national currency. The immediate result was a destabilisation of the Hong Kong markets. The situation was only rectified after the NDRC affirmed that there would be no change in the value of the currency.

There can be little doubt, however, that Chinese leaders are more inclined than they were to call upon experts over various questions, and that the latter, whether consciously or not, have a direct or indirect influence on the decisions made by the political leadership. Ma has the final word on this issue: "*The beginning of the reforms was the hour of the economists; after the 15th Congress it was the legal experts who were in greatest demand. Now it is the turn of the sociologists.*"

## ECONOMY

After the 16th Congress, the fourth generation of Chinese leaders tried to promote a more balanced pattern of growth. The 17th Congress ratified this new approach, seeing it as a smooth break with the past. While giving priority to the towns, growth must now be spread across the whole of the country, and particularly to the neglected areas of the countryside. This is the emphasis given by commentators on Hu Jintao's speech to the last congress, as they foresee a speed-up in the rural exodus. Another problem with current growth is that it is too dependent on foreign enterprises. It is in this context that a new guide on the Foreign Direct Investments has been published, and that certain sections of the press are expressing anxiety over the presence of foreign firms in the water distribution sector.

### 6. The 17th Congress: towards a new growth model?

Critical summary by Thibaud Voïta of the following

- Wang Mingfeng (ed.), "China: excellence and speed", collected papers on the 17th Congress, *Zhongguo Jingji Zhoukan*, October 22nd 2007.

Since October there has been an abundance of Chinese economic publications on the 17th Congress. Unsurprisingly, they have mostly echoed the propaganda surrounding the event. Even the liberal, and (moderately) iconoclastic *Caijing*, in a set of papers partly translated into English, strikes a very restrained note. Nevertheless, the subjects which it broaches are far from anodyne, covering financial and legal reforms, and local democracy. These are the kind of reforms traditionally called for in this publication, so it is no great surprise to find them in the October issue<sup>15</sup>.

Accompanying these papers, *Zhongguo Jingji Zhoukan* has devoted a preliminary dossier to Hu Jintao's speech. The greater part of the dossier consists of articles by eight high-ranking experts, giving their reactions to Hu's speech. These exegetical exercises allow us to form a clearer idea of the main topics dealt with in the course of the Congress, and of their probable repercussions on the measures to be taken in economic policy over the next five years.

In his introduction to the dossier, Wang Mingfeng, who seems to be responsible for the whole issue, invokes the need to move towards a new model of growth. His expression "转变经济发展的方式" (*zhuanbian*

<sup>15</sup> The issue in question is no. 197, for October 29th 2007; the papers are on pages 86-111. For the English version see: <http://www.caijing.com.cn/newtemplates/ens/am|1.shtml>

*jingji fazhan de fangshi*) recalls the "second transition" which certain researchers have been talking about recently<sup>16</sup>. Most of the articles repeat the idea of the need to harmonise the country. Bai Jinfu, a central government research worker, uses the term "harmonisation" or integration (一体化, *yitihua*)<sup>17</sup> four times and he also talks of "fusion" (融合, *ronghe*).

The different articles express concern over the problems affecting China, which arise from the underdevelopment of the Chinese countryside. Chinese rural society suffers from deficiencies in infrastructure, health care and education, social security, available employment, buying power etc. This backwardness in the countryside is the result - which is naturally not admitted in the papers - of the policies for growth in the 1980s and 1990s which gave priority to the big cities and the coastal regions. The papers state that until the countryside catches up with the towns, the nation will not have achieved its goal of modernisation.

The writers draw attention in general terms to the disparities between town and country. Rural society is backward; the countryside suffers from inadequate infrastructure, poor access to health care and education, and gaps in the jobs market.

Gu Kang, director of the Scientific Research Centre of the Ministry of Finance, dwells particularly on the problem of public finance. He emphasises three main problems: 1. Local governments are still quite ignorant in the area

<sup>16</sup> Marshall W. Meyer, "Notes on China's Second Economic Transition", a paper presented at the China Institute for Policy Studies, Beijing, January 27th 2007; and Peter Bottelier, "China's Economy in 2020: the Challenge of a Second Transition" in "Roundtable, China in the Year 2020", *Asia Policy* no. 4, July 2007.

<sup>17</sup> The term "harmonisation" seems to me the more appropriate in this case, but it is not the same expression as that used to describe the "harmonious society"..

of public finance; 2. In the Western regions, many of the lower ranking local administrations (from the district level down) are experiencing serious financial difficulties; 3. If the government does not officially permit the local administrations to get into debt, the latter find indirect ways of doing so.

Mei Xinyu, from the Research Centre of the Ministry of Trade, stresses that the regional development policies (the best known being the "development of the Great West", but there are similar plans for the Northeast and the Centre) have not reached the levels which the authorities had hoped for, but they are still absolutely necessary for the regions concerned.

The different writers insist on the need to set up better mechanisms of co-ordination to unite the country, following the logic of "scientific development" (科学发展, *kexue fazhan*).

Overall, there is a general willingness to bring the countryside to the towns. Bai Jinfu calls for a move away from agricultural to non-agricultural activities, for an increase in the flows between the countryside and the towns, for improved integration between the urban and rural sectors, for a unification of infrastructures, for a better utilisation of land, and for the development of suburban peripheries (泛城市化, *fanchengshihua*).

More concretely, Mei Xinyu wishes to see a system set up to promote better co-ordination between the provinces (协调互动机制, *xietiao hudong jizhi*). These would ensure respect for the workings of the market and would efface the administrative barriers between the regions. He also thinks that the different localities should acquire their own specialised activities. This last point is also put forward in an article edited by Jiang Jufeng, the governor of Sichuan. He concludes with a call for a Chinese road to development in the small provincial towns (中国特色的新城镇化道路, *zhongguo tese de xin chengzhenhua daolu*). The principles behind this "Chinese road" would be: "town and country planning, a rational apportionment of land use, economic use of agricultural land, bringing capacities to perfection, and the large taking responsibility for the small" (统筹城乡, 布局合理, 节约土地, 功能完善, 一大带小, *tongchou chengxian, buju heli, jieyu tudi, gongneng wanshan, yida daixiao*). The goal would be to achieve the harmonious development of towns of every size (促进大中小城市和小城镇协调发展,

*cujin dazhongxiao chengshi he xiao chengzhen xietiao fazhan*), and to foment development towards new levels of economic growth (培育新的经济增长极, *peiyu xin de jingji zengzhangji*), whose final shape would be a town for everyone (城市群, *chengshijun*).

These articles are lacking in concrete examples and precise information. Only the journalist Wang Minfeng does some investigation. He takes as his first example the school at Gushan in Sanjia township (Chengde district in Hebei province). It was built in this backward area in 2002, and it includes an information centre, an IT room and a media room. In 2006, the local government provided an annual grant of 225 yuan per pupil. Wang describes it as an experiment to give a boost to education in backward areas. As his second example, he takes a rapid look at an experiment in the health sector whereby Jiangsu province is to offer health coverage to 200,000 of its unemployed and juvenile inhabitants. But each year, the number of unemployed and rural inhabitants receiving aid is estimated at 170 million. The experience of Henan (Nanyang) and Hunan are also mentioned, but again without any precise details.

On reading these articles, one is forced to the conclusion that greater weight is given to rhetoric than to specific cases or proposals. There are countless key words or ideological expressions of intent (see the quotations above), but there is no sustained analysis of the situation in the countryside, nor are there any proposals on the policies to be adopted. Another glaring absence is any reference to the inflation affecting agricultural products, which is currently hitting the rural areas harder than the towns<sup>18</sup>. Lastly, while the rural exodus is presented as a rather miraculous quasi-solution, it should not be allowed to obscure the fact that increasing urbanisation in China is creating new problems in its turn (such as the ghettoisation of underprivileged populations, pollution, gridlocks etc.) as a result of inadequate infrastructures<sup>19</sup>.

<sup>18</sup> See Albert Keirdel, "China's Looming Crisis: Inflation Returns", *Policy Brief* no. 54, Carnegie Endowment for International Peace, September 2007.

<sup>19</sup> See "The irresistible rise of Chinese towns", *China Analysis* nos. 11-12, December 2006-February 2007.

## 7. The FDIs in China: a new approach by the Central Government?

Critical summary by Pierre Nordmann of the following:

- Wang Lou, "FDIs in China: the total amount falls by 4%, the proportion in fixed assets reaches 24%", *21 Shiji Jingji Baodao*, October 22nd 2007.

- Jia Zhenhua, "China will no longer encourage FDIs in some major mineral resources", *Shenyin Wangu Securities*<sup>20</sup>, November 8th 2007.

- Song Yanhua, "Why not permit capital outflows?", *Caijing*, October 23rd 2007.

On November 7th 2007, China published a new set of guidelines for Direct Foreign Investments (FDIs, 外商投资产业指导目录, *waijiao touzi chanye zhidao mubiao*). This will completely replace the previous one published in 2004, and will come into force on December 1st 2008.

As the United Nations conference on world trade and development published its annual report on world investment trends, *21 Shiji Jingji Baodao* commented on the recent changes affecting direct investments in China. Their first point is that over the last few years the amount of FDIs has settled at around **seventy billion dollars per year**. In addition, the proportion of such investments from Japan, Korea, and Taiwan fell in 2006 whereas, compared with 2005, the amounts from the USA and the EU rose by 114% and 30% respectively. As for the regions targeted by FDIs, the article celebrates the increase in the flow of investments to the Northeast and the Great Western region, whose development the government wishes to encourage.

A top official from the National Development and Reform Commission (NDRC), Kong Linglong, has also drawn attention to major changes in the sectors attracting FDIs. Whereas manufacturing industries received 70% in 2005, in the first eight months of this year they only received 54%. There has been a constant increase in investment in capital intensive projects, in research and development, and in the service sector. Kong Linglong explains this change as a result of the decreasing cost advantages offered by China in relation to other emerging Asian countries. Since 2006, several Chinese provinces, including Guangdong, have introduced a minimum wage and certain rules concerning

the use of land, which have increased the costs borne by the enterprises concerned. The increased investment in fixed assets is also a major change affecting FDIs. According to Ha Jiming, an economist at the China International Capital Co., the proportion of FDIs in fixed capital assets in the first six months of this year has reached 24%, which is double the amount for 2006.

In view of the new investment guidelines, Shenyin Wanguo Securities has analysed the effects of the policy of encouraging direct investment which has been in force since 2004. The article recognises that the policy of encouraging FDIs has brought several benefits. For example, since the FDIs are long-term investments, China has been able to take advantage of the capital inflow while avoiding the financial turbulence which short-term investment can bring. The FDIs have also contributed towards improving management methods, and raising the competitiveness and technological levels of Chinese firms.

Nonetheless, the FDIs have also been responsible for some negative aspects of Chinese growth. Foreign investment in China is mainly attracted by the low costs, mainly in labour and land. Consequently most of the investments are directed into low-technology industries. Another result of the attractiveness of the low costs offered by China is that the assembly sector has greatly benefited from the FDIs, and they in turn have provided the majority of exports, adding to the surplus in the trade balance.

In addition, since the local governments compete against each other to attract investment, they have provided many incentives: low taxation, weak environmental protection measures, better legal protection, cheap land etc. Because of this competition it has not been possible to guarantee the standard of the investments. These negative aspects have had their costs and, in the light of the current state of the Chinese economy changes to the policy of encouraging the FDIs have become a matter of urgency.

The new guidelines for FDIs in China are nicely timed to encourage rising standards in Chinese industrial production (中国的产业升级, *zhongguo de chanye shengji*). On the one hand they favour investment in industries with high added value, and in sectors where the quality of products is still inadequate. So, for example, they will encourage such investment

<sup>20</sup> One of the leading Chinese stock-broking firms

in the production of machinery<sup>21</sup>, new hi-tech plant, environmental protection, logistics, finance, and agriculture. On the other hand they restrict investment in industries which cause pollution or make heavy use of natural resources; thus FDIs in domestic electrical goods and traditional Chinese industries, certain sections of the chemical industry, and the exploitation of natural resources are to be discouraged.

According to Shenying Wanguo Securities these new provisions will certainly have an impact on the inflow of FDIs. On the other hand, they will have a very limited effect on the two problems currently affecting the Chinese economy, namely the trade surplus and the large increase in investments<sup>22</sup>. The effects on the balance of trade will only be seen over the long term, and, since the FDIs only represent 4% of overall investments, **the influence of the new guidelines on the general growth in investments will not be decisive.**

According to Ha Jiming, the FDIs are part of the problem of excessive liquidity. Indeed, even if the major part of the exchange reserves are a result of the surplus in the balance of trade<sup>23</sup>, the 70 billion dollars from the FDIs also contribute to the problem of excess capital which China has to deal with<sup>24</sup>. Nevertheless, Ha Jiming does not believe that this problem can be resolved by restricting the FDIs. What is needed is a more rapid appreciation of the yuan. Not only would a higher yuan favour a rise in the quality of industrial production, while reducing China's competitiveness in lower added value products, but it would also allow a reduction in the trade surplus and reduce the levels of available liquidity. In addition, only an appreciation in the value of the yuan could solve the problem of "hot money", that is, the influx of speculative funds betting on a short term rise in the value of the Chinese currency.

---

<sup>21</sup> The production of machinery (装备制造业, *zhuangbeizhizaoye*) is an official government category which covers such items as machine tools, hydroelectric plant and electricity distribution equipment, railway equipment, vehicles and spare parts, and mining machinery.

<sup>22</sup> An excess in liquidity is a worrying factor, because it brings poor investments with it, and when the period of easily available liquidity is over, these constitute a threat to the whole economy.

<sup>23</sup> In the first quarter of 2007, China's trade surplus amounted to 112 billion dollars.

<sup>24</sup> The increase in the exchange currency reserves automatically brings about an increase in the monetary base.

But Ha Jiming is of the firm opinion that a rapid revaluation of the yuan is not really on the cards. Given this constraint, he argues that there are two ways of controlling excess liquidity. The first of these is to make use of the instruments of monetary policy. On the one hand, taking money out of circulation allows for decreasing the size of the monetary base<sup>25</sup>, and on the other, increasing the rates of the legally held bank reserves permits a restriction on the multiplying effects of credit on the monetary base. But, despite these interventions, the amount of money in circulation is rapidly rising. That leaves the second approach, which is often used by the other countries with strong foreign exchange reserves, namely the encouragement of Chinese investments overseas. Whereas China has the largest foreign currency reserves in the world, its national capital fund is still much lower than that of Singapore or the Gulf States. **So it is necessary to increase the amounts generated by national Chinese capital.**

## 8. The French role in the privatisation of water in China

Critical summary by Thibaud Voïta of the following:

- Ren Po, "Firms willing to pay a high price for supplying water to the Chinese", *Caijing* no. 195, October 1st 2007, pp. 89-93.

- Hao Yuanchao, "Foreign investments get involved with Chinese water supplies: some reflections on the provision of water", *The China Commercial News*, November 4th 2007.

- Anonymous article, "Veolia 'gets into bed with local governments' and invests 2.5 billion dollars in China", *Diyicaijing*, November 9th 2007.

- Luo Yi, "The marks left by co-operation in the provision of water to Guangzhou: the profits and responsibilities of the PPP", *Shiji Jingji Baodao*, November 21st 2007.

With the increasing urbanisation of China, the question of water provision in the towns is becoming more and more acute. The main problem is that of financing the maintenance and extension of the pipe networks.

Foreign firms have therefore been asked to remedy the situation. Two French companies have managed to secure a share of the

---

<sup>25</sup> The monetary base corresponds to the currency in circulation and to the commercial banks' credit balances with the Central Bank.

market, the Franco-Belgian company Suez (through its Hong Kong joint venture, **Sino-French Water Development**), and **Veolia**. The latter in particular has drawn the attention of the Chinese press, with articles in *Caijing*, *Diyicaijing* (which carried an interview with its chairman, Henri Proglio), and the *China Commercial News*. This is quite a rare experience for a French firm; the *China Commercial News* even states that it is the most talked about French company in China, along with Danone (well known here for its differences with Wahaha).

Let us first give a brief historical account of the opening of this sector. During the 1980s, the water services were directly or indirectly run by the State. Thanks to government loans or international public finance initiatives, about a hundred water supply projects were launched. During the 1990s, with the increasing openness, foreign firms began to invest in the Chinese water supply. But these foreign investments were restricted to water treatment and were excluded from distribution. Schemes for BOT (build transfer, operate) remained a protected area.

In December 2002, the Ministry of Construction began a reform of the public services<sup>26</sup>. This was to encourage foreign and other private firms to invest in urban public services, and it set out plans for a mixed economy system. It was completed in March 2004 with the publication, by the same ministry, of the "directive on allowing the commercial management of urban public services"<sup>27</sup>. According to the *China Commercial News*, this was part of the second wave of the reforms. It was at that moment that foreign firms like Sino-French Water Development and Veolia formed joint venture arrangements with local Chinese water provision companies.

As a result, foreign firms then took over a good part of the water supply in the large towns, and this aroused the anxiety of some Chinese people. Hao Yuanchao and *Caijing* quote Fu Tao, director of the Centre for Policy Research at Tsinghua, as saying that the main feature of these reforms was the introduction of commercial policies into water management. For him it was a matter of a reform in the property laws, and the main problem was the issue of shares in the area of water

distribution: "The Ministry of Construction supports commercial management, but the reforms to the water supply in China's towns have meant that many projects no longer observe the terms of the commercial authorisations. Since most of the (Chinese) water companies have partially or totally given up their rights in the distribution network, in reality we have witnessed the emergence of monopolies".

Hao adds that this reform to China's urban water supplies has no basic principles or limitations, arguing that what is needed is a control over the profits to be made in that sector. He adds the further observation that the buying up of shares in water at inflated prices by foreign companies is now causing disquiet in the Association for Urban Water Supplies and Drainage. Last May, local representations by the latter led to an enquiry which concluded that the current situation constitutes a real risk. According to members of the Association, the results of the enquiry have been sent to the State Council, and the Ministry of Construction is studying a way of settling the problem.

Between now and 2010, China is reported to need investments in its water supplies amounting to 2,000 billion yuan. But these figures are not reflected in the call for tenders: on the one hand, foreign enterprises have no interest in keeping to the terms of the water reform policies, and on the other hand, local governments hope that they will not have to bear the costs themselves.

The criticisms and expressions of disquiet are also levelled more directly at the companies themselves. We have seen that the comparison between Veolia and Danone already bodes ill. *Caijing* criticises foreign companies for over-bidding in their tender applications in order to penetrate the market. This journal cites the call for tenders by a company in Jiangsu: Sino-French Water won the bid with an offer of 895 million yuan, which was far beyond the 398 million bid from Veolia. When there was a call for tenders to supply water to eastern Tianjin, Veolia offered 2.18 billion yuan, against 1.19 billion from Sino-French and 920 million from China Gas (Hong Kong).

Another example is that of Lanzhou, a town where Veolia spent 1.71 billion yuan - buying up shares with an estimated total value of 350 million - which was far in excess of the 450 million offered by Sino-French and the 280

<sup>26</sup> "Proposals for accelerating the privatisation of urban public services", 《关于加快市政公用行业市场化进程的意见》.

<sup>27</sup> 《市政公用事业特许经营管理办法》.

million bid by Beijing Capital Co. Ltd. Before that, Veolia had already acquired 50% of Shanghai Pudong Water Co. (for more than three times the value of the shares on offer) and a holding in Shenzhen Water Group (together with Capital Group) and a further holding in Haikou Water Group. Hao adds that in 2003, Veolia also planted its flag in the city of Qingdao. The article in *21 Shiji Jingji Baodao* gives the further example of the water distribution in Guangzhou, which is in the hands of Tyco Earth Tech Inc.

Hao does not mince his words in his criticism of Veolia, when he cites the example of an incident in Qingdao last July. The inhabitants of one city district were supplied with polluted water for twenty days because a valve with a diameter of 150 millimetres was fitted into a 250 millimetre pipe<sup>28</sup>. Hao then strikes a radical note. He argues that towns in China spend on average 0.8 yuan per ton of water. Currently, a ton of water in Qingdao fetches 2.8 yuan, 1 yuan having been spent on treatment costs. He calculates that Veolia can only make a profit through economies on water treatment. He adds that the fact that Qingdao is to host the sailing competitions for the 2008 Olympic Games increases the seriousness of the situation. His case is that the water supply systems are creating profits for both the companies and the local administrations, at the expense of the public.

*Caijing* acknowledges that the French firms are pinning their hopes on a rise in water prices in China, which are currently very low. This expected rise is their justification for heavy investments which in time should produce considerable profits. So it is in the end not so surprising that, at a time when there is a widespread call for limiting the country's dependence on foreign firms, some Chinese people should be protesting against the major presence of such firms in the water sector.

At the same time, *Diyicaijing* introduces a more moderate note, by giving space to Henri Proglio's statements and by presenting a very favourable picture of Veolia as a company which respects the directives of the 17th Congress on environmental protection. Whatever criticisms of foreign companies in this sector may be put forward by Chinese

commentators, China will need them to respond to its needs in the coming years<sup>29</sup>.

---

<sup>28</sup> This account was vigorously denied by a Veolia director in a personal interview. The conglomerate is said to have decided to sue the journal.

---

<sup>29</sup> See Thibaud Voïta, "Will Beijing be saved by the Grand Canal?", *China Analysis* no. 6, September 2006.

## DIPLOMACY AND STRATEGIC AFFAIRS

While Party Congresses are mainly a forum for managing the domestic political chessboard, Chinese foreign policy is continually being adapted in line with the need to take on the mantle of a "responsible power". Accordingly, China accepts, often with some reservation, to give due consideration to certain international matters, or at least to lend an ear to Western demands. However, its diplomacy continues to be driven primarily by a vision of national interest in terms of the country's rise as an economic, technological and military power. This leads China to play France off against Germany and take advantage of divisions within Europe to acquire strategic technologies and neutralise the value-based diplomacy advocated by Berlin. It also means it is seeking a stabilised Middle East, welcoming Washington's regained pragmatism, which it deems beneficial for the region. Finally, the journal *World Outlook* sketches the portrait, albeit incomplete, of a China whose relations with its Russian neighbour are guided by a sole imperative, that of modernising the People's Liberation Army.

### 9. Sino-French Relations: a break with... Germany?

Overview and commentary by Mathieu Duchâtel, based on:

- Luo Shaolan, "Sarkozy's Visit to China. A Trip Defining the Tone of Sino-French Relations", *Yazhou Shibao (atchinese.com)*, 26 November 2007.

- Luo Shaolan, "Are Sino-German Relations heading towards a cooling off?", *Yazhou Shibao (atchinese.com)*, 26 November 2007.

- Pan Xiaoshou, "The Meaning of giving Sarkozy permission to touch the terra cotta army", *Yazhou Shibao (atchinese.com)*, 27 November 2007.

President Sarkozy was received in China like no other head of state since President Clinton in 1998. Nearly 20 billion Euros worth of contracts, a dinner with Hu Jintao at which was served the best in French cuisine – and not Chinese delicacies as is usually the custom – and the permission, granted only in exceptional circumstances, to touch the precious terra cotta soldiers of the army of the Emperor Qin Shihuang in Xi'an. For Pan Xiaoshou, this was a clear intention on the part of Beijing to "allure" the French President. (刻意討好, *keyi taohao*). In 1998, Beijing needed to give a substantial boost to Sino-American relations. Today, with a considerable improvement in China's international standing and with Sino-French relations being far from in crisis, what interest does it have in giving Monsieur Sarkozy such special treatment?

First of all, there is a real complementarity of interests between the two countries. Paris needs large contracts to shore up the support given to the government by the major enterprises, as well as to improve France's trade balance and reduce public

deficit. It wants to continue to make economic cooperation and trade the driving force in bilateral relations, at the same time as maintaining a constructive and pragmatic approach and seeking to win over Beijing's cooperation on issues that are important for Paris, such as the fight against global warming. For its part, Beijing needs an ally within the European Union to defend Chinese interests there, in particular given the prospect of a future lifting of the embargo on arms' sales. Furthermore, China is always fond of technology transfer to make it capable, over time, of competing with the West, or at least of being less dependent on it. From this point of view, Sarkozy's staunch pro-Atlantic stance has had no impact at all on Sino-French relations. The honeymoon just carries on between Paris and Beijing.

There is, however, one new factor which explains the importance China places on France, and that is the about-face of Berlin, which has decided to harden its policy towards Beijing. In consequence, according to Pan Xiaoshou, it was vital for Beijing to compensate for the cooling in Sino-German relations by strengthening its friendship with France. China has thus put in place its time-honoured strategy of divide and rule, which has a dual purpose. The one is to secure a supplier of technology at a time when the United States, Japan and Germany are adopting a circumspect attitude regarding the relevance of technology transfers to a State whose intentions remain obscure. The other is to try to maintain the approach of "using Europe to counter the United States" (拉歐制美, *la'ou zhimei*), or, at least, to avoid the situation of the West adopting a common diplomatic front based on democracy and human rights. In this regard, France was the best target.

The fact is that Paris chose to go it alone in its China policy, without coordinating it with Germany, precisely when the German Christian-Democrats were putting the finishing touches to their own redefined Asian policy. On 26<sup>th</sup> October, Angela Merkel announced the new CDU Asian policy in a new White Paper<sup>30</sup>. This contains some significant changes, yet without undermining the need to have a close working partnership with China. For the Christian-Democrats, it is time to rebalance the German approach by giving proper recognition to the democratic states of the region, such as Japan, South Korea and India. The CDU believes that Berlin, blinded by the economic and trade opportunities of China's development, has hitherto not placed enough importance on the enormous challenge to the environment represented by the emergence of China; it similarly believes that Germany has not taken seriously enough the defence of the liberal democratic model around the world or respect for the rules of the market economy which should be an integral part of the development of this new Asian power. This change of political line has already been seen in action, with Mrs Merkel receiving the Dalai Lama in Beijing on 23<sup>rd</sup> September, something that caused outrage among the Chinese rulers. Luo Shaolan analyses the CDU's White Paper as a major comeback of ideology in Germany's foreign policy. Nor is this wave of cooling off by Germany with regard to China confined to the Federal authorities. It runs right across the society of Europe's most highly populated state. At the end of August, a special coverage by the weekly magazine *Der Spiegel*, in which it denounced systematic technological spying in Germany, orchestrated by China<sup>31</sup>, provoked an outcry tarnishing China's image and leading the Chinese communities to protest openly. This is seen by Luo Shaolan as a sign that the wind was changing, and that the era of harmonious relations had come to an end with the departure of Chancellor Schroeder.

<sup>30</sup> "Asia as a strategic challenge and opportunity for Germany and Europe". See also the analysis by Andreas Martin Fulda, "Germany's Ruling Party in Search of Strategic Answer to Asia's Rise. New symbolism, some substantive change, much continuity", *Commentary*, China Policy Institute, University of Nottingham.

<sup>31</sup> "Die Gelben Spione", *Der Spiegel*, no 35, 27 August 2007.

But while some observers foresaw a similar development in France, with a new President elected on a platform of a break with the past, who is openly pro-Atlantic and sensitive to the question of a diplomacy founded on values, nothing of the kind happened. At a time when the European Union is placing great hope in its relations with China, a divided Franco-German couple does not forebode well for the success of a common external policy in this part of the world.

## 10. American realignments in the Middle East: a pragmatic policy at last

Overview with commentary by Michal Meidan, from:

- Wang Honggang, "An assessment of Bush's new Middle East policy", *Xiandai guoji guanxi*, n°7, July 2007, p. 19-25.
- Yao Kuangyi, "The unfolding situation in the Middle East and the Bush administration's policy realignments", *Guoji wenti yanjiu*, n°4, August 2007, p. 43-48.
- Yuan Peng, "An expert on American issues. The report on the state of Iran's nuclear programme is a good thing for Bush", *Huanqiu shibao*, 7 December 2007.
- Tao Wenzhao, "Peace talks on an unstable footing", *The People's Daily*, 4 December 2007.

The international peace conference organised by the United States in Annapolis on 27th November, as well as the publication of a report by the American intelligence service in which it assessed that Iran had ceased all activity in its nuclear programme by 2003, are the latest twists in America's new Middle East policy. Concerning these two events, judged to be quite positive for American diplomacy, Chinese analysts give an assessment of Washington's policy in the Middle East since the war in Iraq.

Following an understanding that the Bush administration's Middle East policy has been a great failure – an understanding reached notably by the "pragmatic wing" of the administration represented by Condoleezza Rice and, subsequently, by Robert Gates - the United States has adjusted its regional policy in order to adapt to the challenges posed there. These are a growing

dissension with the Arab world, an unfavourable change in the balance of American interests in the region, a weakening of traditional alliances, the dangers of a rise in power of the radical and extremist elements and nuclear proliferation.

The writers identify four main American interests in the region: 1. The stability of oil and energy supplies<sup>32</sup>. 2. The fight against extremism, particularly post 9/11. 3. The prevention of nuclear proliferation. 4. Maintaining the geostrategic supremacy of the United States in the region. All these have been compromised since the war in Iraq, indeed even since the change of regime in Afghanistan, as the decline of both these regimes led to the removal of hurdles to the development of Iran's regional domination, which domination which can only cause harm to the American interests outlined above.

Iran in fact represents a dual challenge for the United States. For one thing, the ongoing development of nuclear technology (about which Wang Honggang does not express any doubts, moreover), jeopardises not only America's interests in the region but also the security of its ally, Israel, and the moderate Arab countries, thereby raising the risk of setting off a re-nuclearisation of the region. The other part of the problem is "ideological", as shown by Iran's active promotion of Shiite factions against the majority Sunni allies of the United States, the support given to extremist elements and the destabilisation of Iraq.

The present situation in Iran and the deterioration of the situation in Iraq are both harmful to all America's interests. The reworking of American policy thereby constitutes a correction, aimed at stabilising the region and reestablishing a more favourable balance of interests for Washington. This adjustment works in several ways: improving the situation in Iraq; adopting a new approach to the Iranian question, which consists in linking the instability in Iraq more closely to Teheran's pursuit of its nuclear programme for military purposes, seen as twin facets of the same problem posed by the Iranian regime;

---

<sup>32</sup> We note that the writers no longer talk about controlling energy resources in the Middle East, as was often the case in the past.

strengthening the alliance with the moderate Arab countries so as to form a common front against Iran; and, finally, going forward on the Israel-Palestine front in order to give the United States a more favourable image in the eyes of Arab countries.

These actions have, however, produced only mixed results. From a military point of view, stabilising Iraq requires training Iraqi troops and increasing the military presence in the major cities and other areas that are the most thwart with problems. This is particularly to prevent any Iranian or Syrian infiltration, given that the country is still racked by instability. Economically, the emphasis is on the oil industry becoming operational again, and on legislation enabling the return of relative stability, which is needed for further investment and economic and trade activity. However, as long as there is no fundamental improvement in the security situation, American policy is doomed to failure. Insecurity is harmful to economic progress and to the political gains already made, and remains the major weakness in Washington's new policy.

On the question of Iran, the American administration has devoted its efforts to exerting military and economic pressure and to promoting the threat of international sanctions. This is in addition to the work undertaken by American intelligence service units inside the country to support regime change, although the possibility of restoring dialogue between Iran and the United States has not been ruled out either. Whilst the articles quoted have implicitly discounted the possibility of military action, Yuan Peng even characterising such a course of action as "disastrous", the hardening of tone in the United States has been picked up in the Chinese press. However, the publication by the American intelligence services of a report on the halting of the Iranian nuclear programme in 2003 is perceived in China as a broadly positive development.

*"Although its consequence is a loss of face for President Bush", the new pragmatic and realist policy is such that "this humiliation is no more important than the need to recognise reality for what it is". This report could therefore be a good thing for the United States, which has been given the*

possibility of not committing “a major blunder”. Yet this still begs the question of stability for Iraq.

The third strand of this new policy is an alliance with the moderate regimes of the region like Saudi Arabia, Egypt and Jordan, in an attempt to involve them in regional developments and have them assume greater responsibility. Indeed, internationalising the question of regional security has allowed for a greater participation by the other countries in the region, which has in turn contributed to mellowing the poor image of the United States. However, this aspect of the new American policy reveals its second weak point, in so far as Washington’s moderate Muslim partners, fearing that better relations between the United States and Iran might harm their own strategic interests and lead to a weakening of their ties with the United States, are trying to balance this rapprochement between the US and Iran. The prospects for recreating a strong alliance with the moderate Arab countries consequently remain limited.

The final strand of this new strategy, closely related to the consolidation of an axis of the “moderate” countries in the region is the resumption of Israeli-Palestinian talks in the very broad context of the international peace conference held in Annapolis. The conference’s objectives, namely to improve Washington’s image in the region in order to create a “united front” against Iran and to record progress, even if only symbolic, on the Israel-Palestine problem before the end of the Presidential term, have, “in a certain sense”, been achieved, particularly given the support shown by the participants to the peace conference. However, the internal weakness, both of President Abbas and Prime Minister Olmert, raises doubts as to their ability to put into practice any agreement that might be negotiated.

Finally, the major success of the new American policy lies, according to the writers, in the abandonment of an ideological approach and of the US’s “grand Middle East” project. Its new, more moderate policy, “rational and pragmatic”, allows the United States to re-establish its dominant position in the Middle East, although this is something that it could have achieved in any

event, as “even if all the powers aspire to stability in the Middle East, none is ready to assume the role of overall authority and to replace the United States in that capacity”.

## 11. China-Russia-India: an equi-bilateral triangle

Overview and commentary by Michaël Andréi, from:

- Ling Yun, “Zero sum game or alliance”?, *Guoji Zhanwang (World Outlook)*, n°2007-16, p. 46-51.
- Zheng Tu, “India becomes Russia’s most important military partner”, *Guoji Zhanwang, (World Outlook)*, n°2007-16, p. 52-55.
- Gaoyi Geqiang, “Strengthening the Russian-Indian alliance”, *Guoji Zhanwang, (World Outlook)*, n°2007-16, p. 56-59.

This special report, which appeared in the Chinese-language journal *World Outlook*, describes the current turbulences within the international entity as they appear from time to time on the front page under the heading “China, Russia, India (strategic) triangle”. Beyond the interest of the commentary on the stated subject, these articles offer an opportunity to assess the editorial content of this new journal, as well as its sources and the questions it raises.

The three writers manage to avoid any excessive overlapping of their articles, without completely dividing up the subjects and despite the fact that they rely on the same source material. Nonetheless, the reader does have the impression that the amount of space devoted to the subject could have profitably been shortened by a good third.

The common sources of the three writers are, in order, *Hanhe Fangwu Pinglun*, a Canada-based bilingual website (also called *Kanwa*) specialising in defence questions in Asia; *Jane’s Defense Weekly*, a magazine specialising in defence matters no longer in the news; *Defense News*, and a few periodicals quoted on specific issues. Some other references are made to State-run media (Russian, in particular) and, less frequently, to the general press. As can be seen, the primary source is made up of

magazines devoted to questions of defence and, more especially, military hardware.

There is hence nothing surprising in the fact that the three writers confine themselves overwhelmingly to armament questions. This gives only a partial idea of the “China, Russia, India triangle”, in the sense that, in terms of military hardware, one of the three sides of the triangle is clearly missing.

Ling Yun firstly brings out the importance of Russian armaments for China’s defence “and, even more,” for India’s (“equipped by Russian hardware to the tune of 70%”), and stresses the fact that India has replaced China at the top rung of clients of the Russian military-industrial complex. It is this development which, in his view, is leading India to make its presence felt, in terms of the market, to persuade Russia to completely ban Beijing from re-exporting any RD-93 reactors, designed for the JF-17<sup>33</sup>. At the time this special report came out, there seemed to be complete suspense about this, particularly given the great assurance constantly being shown by the Indian military chiefs, as Ling Yun points out, as to the successful outcome of their lobbying in Moscow.

Ling Yun sees all the moves of a “zero sum game” in the way India has been behaving, and so he wonders about the possibility of any real synergy that would ensure mutual benefit for the three members of the triangle: “How, he asks, can an isosceles triangle be turned into an equilateral one?”. He sees one possibility through the sometime discussed project of the tripartite co-development of a fifth generation fighter plane<sup>34</sup>. However, the time scale makes this difficult to imagine on several counts. His theory is based on two allusions he makes to China’s possibly being invited to participate in this project. The first came from the Russian manufacturer Sukhoi (in 2002), the

---

<sup>33</sup> The JF-17, or FC-1, is a fighter plane jointly developed by China and Pakistan, and whose motorisation was to be guaranteed by this Russian reactor. India tried quite early on to get Russia to ban China from re-exporting it to a third country, which would have considerably reduced the chances of selling this machine. This matter is in fact the very reason for these three articles being written.

<sup>34</sup> For which the Russian firm Sukhoi anticipates a phase of R & D over the next seven years.

second from Russia’s Ambassador to India (in 2004). Ling Yun sees an increasing semi-official character in these statements (the first being a “private gesture”, the second a “non official commitment”), but he neglects to point out that the whole business of the RD-93 post-dates these promising declarations by some way, and that up to now there has been nothing that would appear to give credence to them. For two-thirds of the article, Ling Yun turns his attention away from the sources of the world of armaments to widen his net to take in security relations between the three countries. In this, he refers to the “strategic triangle” that was mentioned for the first time by Russian Minister Yevgeny Primakov in 1998 when he was on a visit to India. In the main, the article keeps to generalities, however, which do succeed in highlighting an important potential for the convergence of interests, linked to globalisation, and are in no way peculiar to the three countries under discussion (“transnational criminality”, “the fight against terrorism”). Although the writer recalls the “triple renunciation” in which the members of this furtive triangle are engaged (“not to become aligned”, “not to oppose one another” “not to form a league against a third party”), what is lacking in this analysis is some discussion of the plainly *neutralising* aspect of this triangle, which is its very principle. Yet the stated subject would have actually allowed for such a question to be broached (cf. *infra*). Thus missing the point of the particular nature of the Sino-Russian-Indian triangular relation, it is perfectly understandable that Ling Yun’s article concludes with a thumb-nail sketch of the three bilateral relations, showing that they in no way hinder the establishment of this “new axis juxtaposed to the American-European one”: he tries to come up with 3, by adding 2 + 2 + 2 together.

Zheng Tu’s article does not need any particular examination, as it is no more than a simple compilation of data collected from specialised sources referred to above. It deals purely and simply with the Russian aeronautical industry, the different versions of the RD-93 and AL-31 reactors, and the Indian facilities that would be capable of receiving them and for what cost. But, as we shall see below, this article may well be aimed at the heart of the readership of *World Outlook*.

The last writer, Gaoyi Geqiang, turns out to be the most interesting of the three. He concentrates on the Russian-Indian relationship and its dangers for China, without having recourse to the vagaries of peaceful coexistence. The spectacular transition he notices in their bilateral arms trade is (besides the fact that India has entered the top rank of Russia's clients) that from buyer to collaborator. And whereas Ling Yun brought out the greater technological independence of Chinese industry, allowing it to free itself from any dependence on Russia<sup>35</sup>, Gaoyi Geqiang emphasises the rapid progress of India's R & D capacity. He sees the co-development of the BrahMos cruise missile<sup>36</sup> as an example of what the two countries can achieve together (middle-range twenty-ton transport planes, fifth generation fighters), and this bolsters his argument much more effectively than references to joint exercises enabling both countries to "discover advanced operational concepts".

Far from being confined to the sole area of aeronautics, the writer points out the joint interest of the Russians and the Indians in space cooperation, which is said to come from India's desire to set up an "authority for space and air forces" as quickly as possible. Thus India's closer connection to the Glonass programme would optimise the modernisation programme of the Russian satellite navigation system.

Gaoyi Geqiang lastly deals with the strategic motives of the two states, without excluding the external players. He thus identifies "the American pressure put on Russia<sup>37</sup>" as the primary Russian motivating factor for establishing much closer ties with India. It is noticeable that this reading is quite different

---

<sup>35</sup> Ling Yun identifies one other "zero sum game" in the emerging technological balance between Russia and China, in which the Russians are caught in a bind: sell less and only spare parts or technologies, or accept to sell the most modern hardware with the risk of seeing China quickly reduplicate it.

<sup>36</sup> The Pakistani military asserts that this is in fact "a purely Russian missile with the Indian flag painted on it", an allegation which underscores the worrying nature of this type of cooperation for third countries.

<sup>37</sup> In his view, the American *containment* to which Russia is subject is a consequence of the latter's "return to life" (复苏), a remarkable expression in Chinese, as it could also be understood as meaning a "return to the Soviet Union"...

from Ling Yun's, who preferred to see in these closer relations primarily the effect of market forces all leading dynamically to such an outcome: the lifting of the embargo on American arms sales to Pakistan and the closer relations between Washington and New Dehli... On the Indian side, the motivation would appear to be more basic: a desire for hegemonic power over the medium term.

The conclusion drawn by this third article seems, however, to be rather cautious. Underlining the risks (in economic as well as security terms) to Russia of a production that is partially outsourced to India, Gaoyi Geqiang brings out the fact that the Russian-Indian armament links, whilst in no danger of slowing down, are nonetheless subject to competition from the United States by virtue of the "Indian policy of gradually diversifying arms purchases". Russian-Indian defence cooperation is thus "far from being settled once and for all".

After reading this special report, it would appear that *World Outlook* is aimed rather at those non-specialists who, mad keen on armaments, frequent the street stalls of China that are overflowing with journals on the subject<sup>38</sup>. This does not mean that there is no real consideration of it, although one may regret the complete absence here of any theoretical consideration of the "strategic triangle" under discussion. This does not prevent an understanding of its ultimate usefulness, that is, as an attempt to neutralise bilateral relations within this triangle much more than as an opposition to the United States and their attempts at instrumentalisation of triangular relations. In this sense, the initial three-pronged renunciation, referred to above, sheds light on the reasons for which this triangle can only exist through an eclipse<sup>39</sup>.

---

<sup>38</sup> To give a more precise definition, it should be observed that issue 2006-20 devoted its special report to the Chinese nuclear question, based exclusively on American sources.

<sup>39</sup> At the beginning of December, the sale of the RD-93 seemed to be in the bag for China, showing how vain India's efforts were.

## 12. The joint manoeuvres of the Shanghai Cooperation Organisation

Overview with commentary by Mathieu Duchâtel, from: "Towards a military alliance?", a special report by *Guoji Zhanwang*, n°570, 15 August 2007, p. 12-23.

From the 9th to the 17th of August 2007, the countries belonging to the Shanghai Cooperation Organisation (SCO) carried out joint anti-terrorism exercises, code-named "Peace Mission 2007", whose scope was the most significant in their history (和平使命, *heping shiming*)<sup>40</sup>. The report by *Guoji Zhanwang* took the opposite tack to that of Western analysts detailed in the first article. Several American think-tanks saw in these exercises the emergence of a Sino-Russian alliance including the countries of Central Asia, some even seeing in it the first stage of a new Eurasian "Warsaw Pact" designed to counterbalance the eastward expansion of NATO<sup>41</sup>. The article remains silent, however, on the perceptions and intentions of China and Russia. It prefers to base itself on Western sources for speculating on the American reaction that these exercises will provoke. It states that these anti-terrorist manoeuvres have increased Washington's level of interest in the ex-Soviet countries of Central Asia. While it is thought that the Americans are beginning to understand that their presence in the region is no longer indispensable for ensuring security, a strategic return in order to try to counterbalance the power of Russia and China is not to be excluded. This is all the more so in that the countries of the region continue to see the United States as a useful counterweight to these two powers, which opens up a window of opportunity for Washington, in the view of the writers.

The interest of this report, however, lies in the fact that it attaches but little importance

to the value and consequences of these exercises from a geopolitical perspective. It mentions neither Sino-Russian military cooperation nor the emergence of a regional security community. It passes over in silence the intention, with which China is often credited, to minimise Western influence in Central Asia and respond to NATO's expansion through a strategic alliance. In reading *Guoji Zhanwang*, one has the impression that the "Peace Mission" exercises are worthy of interest purely from the angle of a modernisation of the capability of the Chinese army to engage in forward theatre (战略投送能力, *zhanlüe tousong nengli*), and in particular the capacity of its forces to react quickly and conduct air operations against land targets<sup>42</sup>.

In this respect, *Guoji Zhanwang* hails a historic operation. The Chinese army had never before had to transport so many men or material over such a long distance, in the process overcoming all the logistical challenges involved in carrying out such an operation. Over more than 10 000 km by rail and 2 700 km by air as far as Chelyabinsk, the People's Liberation Army (PLA) moved 1 600 men<sup>43</sup>, 18 IL-76 transport planes, 32 helicopters, and 8 JH-7 fighter-bombers. The success of this exercise in the forward projection of forces is at least as important as the anti-terrorist exercises themselves, if not more so, both for the Chinese ground forces and for its air force, which thereby had the opportunity to test its in-flight refuelling capability. According to *Guoji Zhanwang*, the route chosen by the PLA, after Kazakhstan's refusal to grant China permission to cross its territory, was particularly arduous for the 16 Z-9W attack helicopters and the 16 MI-17 transport helicopters of the army's aviation corps: the difficult topographical (the Altai mountains, whose Friendship Peak reaches 4 300 m) and climatic conditions forced them to test their in-flight refuelling capacities (transport

<sup>40</sup> The countries involved being Russia (2 000 men), China (1 600), Kazakhstan (100), Tajikistan (100), Kyrgyzstan (30) and Uzbekistan (12).

<sup>41</sup> "SCO is Primed and Ready to Fire", *Asia Times online*, 4 August 2007. The English-language press points out, however, that the comparison with the Warsaw Pact rising up against NATO was originally put forward by the Russians. See "Eurasian Bloc Seeks World without West", *Asia Times online*, 17 August 2007.

<sup>42</sup> For a detailed description of the how the exercises were carried out, refer Roger McDermott, "The Rising Dragon: SCO Peace Mission 2007", Occasional Paper, The Jamestown Foundation, October 2007.

<sup>43</sup> One combat group from the army, another from the air force, and an integrated support group. The operational formations were composed of units of fighter-bombers, parachutists, transport planes, special forces, of aviation from the army and armour-plated cavalry.

of refuelling tanks). This is a proof that the PLA's central command was very keen to carry out this exercise in spite of its risks, and it rejected the Russian proposal to supply large carriers to transport Chinese helicopters to Chelyabinsk.

These manoeuvres were therefore an opportunity for China to test out certain parts of its rapid reaction forces, despite the noted absence of J-10 fighters (much anticipated by Westerners) and J-11s, as well as 99-type tanks, the most modern and costly the Chinese army has. At the forefront of these rapid reaction forces are type 92 (WZ 551) amphibious Armoured Vanguard Vehicles, which have come to be recognised as the fundamental armament system for anti-terrorist operations, by virtue of their particular features such as their lightness (important for transport by the IL-76), manoeuvrability and their adequate fire power. Furthermore, the use of combat helicopters in an anti-terrorist operation involving a forward deployment of forces over a long distance is presented as an important step forward, enabling less dependence on transport planes and rail roads. Finally, the "Peace Mission 2007" exercises provided the Chinese airborne troops with a unique training opportunity, as they parachuted light combat vehicles for the fight against terrorism (but not only, as these vehicles can be fitted out with anti-tank missiles). It goes without saying that the forward deployment of this battle equipment cannot be explained purely in terms of the terrorist threat facing China, whatever intensity this may have. Such an arsenal is especially aimed at armed groups which are organised but lack air power<sup>44</sup>. *Guoji Zhanwang* thus considers that China has sufficient capabilities to intervene in low level conflicts in a theatre relatively far removed from where its forces are concentrated.

---

<sup>44</sup> Despite its ambiguity, *Guoji Zhanwang's* analysis corroborates Roger McDermott's, who sees the scenario of joint exercises as having been modelled on the Andijan riots of May 2005 in Uzbekistan and that the participating countries had as their virtual target possible "colour revolutions" in the region. McDermott considers that these manoeuvres, by demonstrating China's capacity to combat a large-scale insurrection connected to radicals in Afghanistan, send a strong signal to the Uyghur independence fighters.

From this perspective air-to-surface combat and air cover for the movements of ground troops – presupposing air superiority – appear as vital missions. *Guoji Zhanwang* considers that the JH-7 fighter bomber is particularly adapted to conduct these two types of operation on steep terrain. The article concludes, however, by asking about the real intentions of the Chinese planners, as *Guoji Zhanwang* indicates that the JH-7 come from a regiment in southern China, without revealing the unit. This regiment, nicknamed the "crack attack troops" (先锋强击大队, *xianfeng qiangji dadui*), has been taking part in preparations for conflict with Taiwan since 1972, and participated in the March 1996 manoeuvres. The decision to deploy elements of this regiment illustrates a trend of building up rapid reaction forces capable of being mobilised for missions on various types of terrain. Whilst the message of this report can in no way be taken as a mere duplication of the thinking of those in charge of the operation, it is nonetheless designed for a readership that is very keen on having positive information about the development of the PLA's capabilities<sup>45</sup>. Its triumphant tone tends to give one the impression that China sees these joint exercises as part of the modernisation of the PLA, much more than as a stage in the creation of alliances. This in turn opens up another issue, that is, concerning the possibility that the PLA's culture could be an obstacle to China's conducting a strategy of military alliances.

---

<sup>45</sup> On the readership of *Guoji Zhanwang*, refer to Michael Andrei's analyses presented in this issue.

## TAIWAN

*In Taiwan, where the entire energy of the island is focused on the forthcoming elections, first for the Legislative Yuan on 12th January 2008 and then for the Presidency on 22nd March – the 17th Congress passed by practically without mention. Indeed, Chinese policy remains the business of well informed specialists. Their analyses comment on the gradual stabilisation of China's political system, by means of a growing institutionalisation, but one which is still inadequate for ensuring that the Communist party will never fall back into factional fighting. The notion of "stabilisation" also applies to its strategy towards Taiwan. Beijing sees the construction of a mode of negotiated peaceful interaction with the island as a priority in order to neutralise the pro-independence supporters at a time when their discourse has become commonplace. In a sophisticated mixture of flexibility, firmness and indirect strategic action – getting the support of the United States to dissuade pro-independence forces – Beijing is striving to keep open a space for dialogue, by gambling on a new government taking office in late spring 2008. It is doing so with a facade of unity, which for the time being is managing to silence those who think that Taiwan is going too far by putting its policy of joining the UN to a referendum. But by in fact respecting the exercise of the people's sovereignty over the island...*

### 13. The 17th Congress seen from Taiwan

Overview and commentary by Mathieu Duchâtel, from:

- Yang Kai-huang, "The 17th Congress. Implementing a flexible anti-independence stance", *Lienhebao*, 23 October 2007.
- Chao Chun-shan, "The changing of the guard in the Communist Party. A matter of science, not system", *Lienhebao*, 23 October 2007.

The 17th Congress passed by largely without comment in the Taiwanese media, which had been uninterested in China's domestic news for some time already. However, some connoisseurs of the Chinese system did publish analyses in the columns of the daily press. One of these, written by Lin Chong-pin<sup>46</sup>, an academic who was Deputy-Minister for Defence from 2003 to 2004, has even been translated into Chinese after first appearing in an abridged form in the *International Herald Tribune* and then in its full form in the *Taipei Times*<sup>47</sup>. In it, Lin Chong-pin states that Hu Jintao was conducting a strategy of containment of the centre by making use of the base. Without having complete control of

<sup>46</sup> Lin Chong-pin, "Hu Jintao feigns a concession all the better to achieve victory", *Zhongguo Shibao*, 23 October 2007.

<sup>47</sup> Lin Chong-pin, "PRC: Hu Gains Power in Substance", *Taipei Times*, 2 November 2007.

either the standing committee or the politburo, he had been extremely active in consolidating his power inside the army and in the local bureaucracies, which made him a strong leader.

Set alongside each other, the two selected analyses raise a fundamental issue. The 18th Congress in 2012 will choose the leaders to succeed Hu Jintao and Wen Jiabao, with Xi Jinping and Li Keqing being potentially in competition with each other for the post of secretary-general. Is it possible that the various arrangements and dealings that will inevitably take place in the lead-up to this election might see a return to instability of China's political system, in the form of a power struggle for the top job?

Yang Kai-huang tries at first to play down the question. The Communist Party is under no strong pressure that would put it in jeopardy of losing power. Discontent is being contained, and, to this extent, no ideological dissent is capable of bringing about a fracturing of the Party's unity. The supreme leader is therefore in a position to lay stress on a few points that constitute the core of his political agenda and his personal legacy for China, at the same time as remaining consistent with the model of development being followed. In Hu Jintao's case, there are three priority areas: encouraging innovation,

promoting social harmony by developing aspects of the welfare state, and introducing forms of democratisation.

Hu Jintao is not, however, strong enough to overcome the Party's force of inertia and impose his own successor. Yang Kai-huang highlights two failures. The one is Mr Hu's inability to build a real institutionalised system for the transfer of power; the other is his powerlessness to lead the Communist Youth League faction to total and absolute control over the Party and the State. Even if these failures need to be seen in a relative light, two problems flow from them, which are the return of a certain unpredictability regarding the question of succession and of conditions conducive to the emergence of a power struggle for control of the Party. In a worst case scenario, this would be bad news for the stability of China in the world.

Yang Kai-huang refuses to fall into despair, and moderates his analysis through an alternative theory. He observes that Mr Hu has distinguished himself through his ability to "bring together the five lakes and the four oceans" (團結五湖四海, *tuanjie wuhu sihai*), by relying on his resolve to strengthen China's institutions, and through his constant search for stability for the regime. Why then should we not believe that the arrangement between Xi Jinping and Li Keqiang is not a step forward in the system for selecting a new Chinese leadership team? In preparing for power, not a supreme leader but a tandem, Mr Hu is thought to be introducing a dose of stability at an opportune time, whereby no Chinese politician is any longer strong enough to choose his successor himself.

Yang Kai-huang is of the view that the institutionalisation of the politburo selection process is already in place. It takes the form of a balance in the allocation of seats between the central leaders of the Party, the People's Liberation Army, local leaders and government officials. On the other hand, the selection of the standing committee is less easy to predict. The drawing up

of selection criteria, such as personal morality, management abilities, eagerness for work, political results and integrity (德, 能, 勤, 績, 廉, *de, neng, qin, ji, lian*) is not yet guaranteed. While this analysis is undoubtedly referring to the fact that Jia Qinglin has been kept on the standing committee, Yang Kai-huang still sees in the development of China's domestic politics a general movement in the direction of a growing stability, and the gradual implementation of real political reform by Hu Jintao.

His analysis is consistent with that of Chao Chun-shan, who nonetheless adopts a different approach. As someone who is known for his view that the Chinese political system is following a linear development thought to give it a growing institutional dimension with increased stability, Chao Chun-shan feels it is time for Sinology to abandon "Beijingology" and give up analysing Chinese domestic politics in terms of power struggles. Mao Tse-Tung and Deng Xiaoping clearly gained power, which they were able to consolidate, after relentless struggle. On the other hand, Hu Jintao's power, like that of Jiang Zemin before him, has been the result of consultation and compromise. But neither compromise nor power struggles are relevant when it comes to describe how Hu Jintao's successor will be determined. This is due to the fact that, contrary to past practice, the next Chinese leader will not be appointed because he defends a correct political line acceptable to the Party, but because he will be at the service of the political line on which the Party will have already agreed. The time of strong men is over. China has entered the era of "bureaucrats with technical expertise responding to the demand of the political marketplace". For Chao Chun-shan, this means applying the theory of scientific development, dear to Hu Jintao, to the question of the transfer of power.

Henceforth, we should not expect any changes in political line on the part of Hu

Jintao's successor, as China's problems are primarily related to its political system, not to the personality of its leaders. By analogy, it could be said that Deng Xiaoping was convinced that the Cultural Revolution was not exclusively the work of Mao Tse-Tung, but rather that it was a function of the deficiencies of the Chinese political system. Since the reform era and the opening up of the system, Chinese political development has been entirely built on the desire to "turn disorder into order" (撥亂反正, *boluan fanzheng*), but this task, which assumes the creation of a system ensuring succession in the context of stability, is still far from being achieved. From this point of view, the transfer of power to take place at the 18th Congress will clearly be based on rational or "scientific" criteria, in terms of China's stability, but without any reliable guarantee that this will be so for all future Congresses.

#### 14. Is a peace agreement with Taiwan a serious proposition?

Overview with commentary by Hubert Kilian, from:

- Chao Tsung-hai, "The peace agreement is more than old wine in a new bottle", *Zhongguo Shibao*, 22 October 2007, editorial pages.
- Chiang Jin-ye, "Relying on the one-China principle for framing a peace agreement", *Xin Xinwen (The Journalist)*, n° 1077, 25-31 Oct. 2007, pp. 64-66.

In its coverage of the 17<sup>th</sup> Communist Party Congress (15-22 October 2007), the Taiwanese press seems to have focused on the Party's internal power struggles and the question of succession rather than on the peace proposal formulated by President Hu Jintao. Although this proposal was amply commented on in academic circles and in the corridors of power, both in Taipei and Washington, the island press paid limited attention to it, particularly as the Taiwanese government made it known that it was opposed to the proposal. Hu Jintao made the following statement: "We solemnly call for an end to

*hostilities via consultations to be carried out on the basis of a one-China policy, and for reaching peace and establishing a framework for settling the peaceful development [between the two parties]*". However, Chen Shui-bian, for his part, characterised the overture to an agreement as a capitulation<sup>48</sup>.

One main point emerges from the various analyses, and that is that Beijing's peaceful ambition vis-a-vis Taipei must not be reduced to the rhetorical formulation of a pre-determined political line, despite certain elements showing that Mr Hu's report to the Congress has not really altered the Chinese strategy for reunification.

The *Xin Xinwen* firstly recalls the consistency shown by Beijing in its resolve to have the one-China principle respected by the Taiwanese authorities. At the time of the 14<sup>th</sup> Congress, Beijing had declared its desire to "discuss everything governed by the one-China principle". At the 15<sup>th</sup> Congress, Beijing stated that "the pre-condition for beginning negotiations with a view to putting an end to the state of war in the Strait was Taipei's recognition of the one-China principle". The report of the 16<sup>th</sup> Congress mentioned three concrete issues which could be the subject of negotiations, amongst which was "an official end to cross-Strait hostilities, Taiwan's status and international identity". On the occasion of the 17<sup>th</sup> Congress, there was a reaffirmation of the one-China principle as the basis for any possible peace agreement. The article points out that Chinese academics, who are behind the idea of such an agreement, have once again thought about what China could give up without really considering what the Taiwanese could accept. The article also states that this proposal for a peace agreement is perfectly in line with Hu Jintao's "four points"<sup>49</sup>, as well as the

<sup>48</sup>"Chen slams peace overture as akin to treaty of surrender", *Taipei Times*, 20 October 2007.

<sup>49</sup>"President Hu's 'four-point' speech shows utmost sincerity toward Taiwan", *People's Daily*, 8 March 2005. "As long as the Taiwan authorities recognize the '1992 Consensus' and the one-China principle, cross-Strait talks and

anti-secession law<sup>50</sup> and Mr Hu's declarations in the spring of 2005 at the time of Lien Chan's visit to China<sup>51</sup>. This means therefore that on Beijing's side it is more about a subtle evolution than any radical change in its policy towards Taiwan.

To bear this out, Chao Tsung-hai proceeded to make a detailed study of the semantics of Hu Jintao's statement. He noted that at no time since 1949 had Beijing formally used the word "peace" in the context of any proposal put to Taipei, be it Jiang Zemin's eight points<sup>52</sup> or the

---

*negotiations can be immediately resumed, and whatever problems can be discussed, and the topics for discussion can be diversified, not only a formal end to the state of cross-Strait hostility and the building of military mutual trust can be discussed, but also the Taiwan authorities' political status and Taiwan's international living space, as well as all problems needing solutions in the process of realization of peaceful reunification can be discussed. These expressions of "can" show more flexibility and feasibility in relations to cross-Strait relations."*

<sup>50</sup> Adopted on March 14 2005, the anti-secession law is intended "to safeguard Chinese unity by peaceful means" and by recognising certain rights and special features on Taiwan (an autonomous province). It provides a new legal basis for using "non peaceful means" in certain circumstances, which include any declaration of independence.

<sup>51</sup> On 29 April 2005, Hu Jintao received in Beijing Lien Chan, the President of the Kuomintang. Following this historic visit, Hu Jintao declared that the "1992 consensus" could serve as the basis for an agreement between the two parties.

<sup>52</sup> The eight points were announced on 30 January 1995 and given the name Continue to Promote the Unification of the Motherland. They were communicated in the form of a speech on the occasion of the centenary of the treaty of Shimonoseki. Besides an acceptance of the "one-China" principle, the opposition to a "two Chinas" or a "one China, one Taiwan", as well as the expansion of "Taiwan's international living space", and the refusal to abandon the use of force, other points were proposed, such as a negotiation on the protection of Taiwanese investments and the possibility to continue unofficial economic and cultural relations with third countries. Lastly, the likelihood of signing an agreement for ending hostilities in exchange for an assurance that Taiwan would not declare its independence was raised. In order to do

report of the 15<sup>th</sup> Congress of the Communist Party in 1997. He stressed that the whole of Beijing's proposals for an overture were built around the same approach: "to take the first step so that under the stricture of the one-China principle, both parties officially agree to put an end to cross-Strait hostilities, begin negotiations and sign an agreement." The choice of the term "agreement" (協議, *xieyi*) is carefully chosen here as it avoids a reference to two states, as would be supposed by the terms "*xieding*" (協定) and "*tiaoyue*" (條約). The vocabulary employed by Hu Jintao thus picks up on that used in the ten consensus points arrived at by the CCP and the Kuomintang at the time of Lien Chan's historic visit to the Mainland. With regard to this visit every joint document mentioned the prospect of a "peace agreement" (和平協議, *heping xieyi*).

It is by virtue of this context that the two articles are as one in assigning a new political value to the formulation by Hu Jintao of a proposal for a "peace agreement" on the occasion of this 17<sup>th</sup> Congress.

For Chao Tsung-hai, this peace agreement proposal is not "warmed up" there. According to him, Hu Jintao admits that the nature of cross-Strait relations and Taiwan's status can only be defined following a process of negotiation, and believes that peace cannot bypass such negotiations. This is the point which, in the writer's view, warrants the greatest attention. By abandoning the rhetorical formulae which had hitherto been the norm, Mr Hu is no longer putting the emphasis on the final objective of his strategy – the unification of the two territories – but on the process by which he thinks he can achieve it. For this reason, the use of the term "peace agreement" in his report to the Congress has a political significance to which no one will have been deaf and reveals the likely orientation of Beijing's

---

this, the possibility of conducting negotiations on the transfer of sovereignty under the auspices of the one-China principle was proposed.

Taiwanese policy over the next five years.

Even more, however, according to the *Xin Xinwen*, the Chinese President chose the term “agreement” to improve China’s image abroad. In the eyes of the international community, this term does indeed conjure up a cross-Strait consensus, which shows a certain softening of approach on the part of Beijing. On this point Chao Tsung-hai concurs with the *Xin Xinwen*, which cites (anonymously) a Chinese bureaucrat, according to whom it is unlikely that the unilateral authoritarianism normally shown by Beijing will accompany the resolution of the Taiwan question. One factor helping to explain this softening of approach has to do with the fact that Hu Jintao, like the new generation of leaders more generally, does not have the same historical feeling with respect to the question of Taiwan as the previous generation, which made it a matter of principle. Moderation and pragmatism should therefore be uppermost in the management of cross-Strait relations.

Secondly, however, *Xin Xinwen* develops an analysis aimed at dampening any excessive optimism. According to another Chinese academic, whilst Hu Jintao has built up a reputation as a gentle and moderate man, the way in which he repressed the Tibetan demonstrations when he was Party Chief of the Tibet Autonomous Region should not be forgotten<sup>53</sup>. Similarly, it can be thought that the President has never formally excluded the possibility of employing force against Taiwan, something to which he has even given a new legal base by having the anti-secession law adopted in March 2005.

For another expert on mainland China, the Chinese policy towards Taiwan has gained momentum since the 2004 Presidential election in Taiwan. The positions taken by the Taiwanese political parties and the government’s decisions are no longer of interest to

Beijing, which is today developing its reunification policy without bothering about political developments on Taiwan, all the more in that the recent moves by the Kuomintang in favour of the Chinese Republic’s return to the UNO gives comfort to Beijing’s certainty about this<sup>54</sup>.

Finally, the article cites other Chinese academics, who, going back over Deng Xiaoping’s proposal for “one country, two systems”, consider that Deng deliberately left the definition of the formula vague in order to leave it up to the Taiwanese to negotiate its content. According to these scholars, the idea of this peace agreement would take up the spirit of Deng Xiaoping’s proposal – and the Taiwanese should make the most of it.

Both articles seem to be in agreement in concluding that China’s reunification policy is tending increasingly to foster stabilisation. This is a policy which, in essence, is also delivering the message that as long as Taipei does not cross the red line drawn by the anti-secession law, the peaceful development of cross-Strait relations will be considered a priority. In other words, whilst the wine may be new, Beijing has been having some trouble finding a brand new bottle.

---

<sup>53</sup> Hu Jintao was based in the Autonomous Region of Tibet from 1988 to 1992.

---

<sup>54</sup> See Hubert Kilian, “Ma Ying-jeou lets Beijing down”, *China Analysis-Les Nouvelles de Chine*, No. 15, September-October 2007.

## The press reported on in this issue

21 世纪经济报道, *21 Shiji jingji baodao*. A Canton daily belonging to the press conglomerate Nanfang. Since its introduction at the start of the new century, it has been regarded as one of the best newspapers for Chinese economic matters. Following political pressure, it is seen to have somewhat lost its independence.

财经, *Caijing*. A bi-monthly economic and financial journal based in Beijing, *Caijing* takes a liberal approach to major questions of economic and financial news.

第一财经, *Diyi caijing-China Business News* was launched in 2004 and became famous for revealing a scandal implicating the Taiwanese firm Foxconn. Some people consider it to be the Chinese newspaper with the greatest critical edge. In this regard, it took up the flame of the *21 Shiji jingji baodao*.

国际问题研究, *Guoji wenti yanjiu*. A bi-monthly academic journal of the Chinese Institute for International Studies (CIIS), published under the auspices of the Ministry for Foreign Affairs. It provides background articles on international issues and Chinese foreign policy.

国际展望, *Guoji zhanwang-World Outlook*. A bi-monthly publication of the Shanghai Institute for International Studies (SIIS), devoted to strategic questions. It offers its readers technical viewpoints on international relations and weapon systems, at the same time as regularly taking up strategic analyses published in the American press.

环球时报, *Huanqiu shibao-Global Times*. This daily published in Beijing belongs to the same press conglomerate as *The People's Daily*. It is well informed on international questions and provides original analyses.

聯合報, *Lienhebao-United Daily*. Founded in 1951, this is one of the four biggest dailies in Taiwan by size of circulation. It takes a pro-Kuomintang political stance in an elegant and occasionally mannered style.

南方都市报, *Nanfang dushibao*. A Canton daily from the Nanfang conglomerate, which gives importance to local news, as well as commenting on international events.

南方周末, *Nanfang zhoumo*. A Canton weekly which gained considerable notoriety in the 1990s through its denunciation of

corruption scandals. In spite of a certain crackdown by the Chinese authorities, it preserves some freedom of tone.

文匯報, *Wenweibo*. This is one of the principal propaganda organs of the regime in Hong Kong, whose editor-in-chief, Zhang Guoliang, is a former secretary-general of the Xinhua agency and a member of the Consultative Commission of the Chinese People.

现代国际关系, *Xiandai guoji guanxi*. A monthly academic journal of the Chinese Institute for Contemporary International Relations (CICIR) which is devoted to strategic and international affairs.

新新聞, *Xin xinwen-The Journalist*. This Taiwanese weekly has been positioning itself as a bastion of liberalism since its creation in 1987. It first supported the Progressive Democratic Party (PDP) before criticising the Chen Shui-bian government after a democratic change of government in 2000.

亞洲時報在線, *Yazhou shibao zaixian*. This is the Chinese-language version of the now famous *Asia Times online*. Based in Hong Kong, it is a purely on-line publication completely independent of its English version, publishing only original analyses.

中国经济周刊, *Zhongguo jingji zhoukan*. This is an economic weekly put out by the official press conglomerate of the *People's Daily*, which tries to "provide the information decision-makers need to have".

中國時報, *Zhongguo shibao - China Post*. Founded in 1950, this is one of the top four Taiwanese dailies by size of circulation. Its stance puts it in the centre of the political chessboard, but it remains closer to the Kuomintang than to the government.

中国新闻周刊, *Zhongguo xinwen houkan*. This weekly published in Beijing is part of the stable of the press conglomerate Xinhua.

中国证券网, *Zhongguo zhengquan wang*. This electronic version of the daily 上海证券报, *Shanghai zhengquan bao - Shanghai Security News*, specialises in financial matters. It is published by the agency Xinhua, with on-line distribution.

**China Analysis - Les Nouvelles de  
Chine**

A bi-monthly electronic Bulletin  
published by **Asia Centre**  
27, rue Damesme, 75013 Paris  
[chinaanalysis@centreasia.org](mailto:chinaanalysis@centreasia.org)

**Director of publication**  
François Godement

**Editors**  
Mathieu Duchâtel, Michal Meidan

**Sub-editors**  
Domestic politics: Michal Meidan  
Economy: Thibaud Voïta  
Diplomacy and strategic affairs;  
Taiwan: Mathieu Duchâtel

**Contributing authors for this issue:**  
Michael Andreï, Valérie Demeure-  
Vallée, Hubert Kilian, Pierre Nordmann,  
Antoine Richard

**Translators**  
Peter Brown, Jonathan Hall

**Proofreader**  
Laurent Kahane

**Distribution**  
Rozenn Jouannigot

**Acknowledgements**  
Françoise Nicolas, CEFC Hong Kong.