

# China Analysis

## Les Nouvelles de Chine

n° 17, January-February 2008

<b>INTRODUCING CHINA ANALYSIS</b> .....	1
<b>A BI-MONTHLY SURVEY OF CHINESE NEWS AND DEBATE</b> .....	2
<b>DOMESTIC POLITICS</b>	
1. Re-launching political liberalisation?.....	5
2. Singapore, governance without democracy?.....	7
3. Will a Minister of energy bring greater cohesion to that sector? .....	9
<b>THE ECONOMY</b>	
4. Price controls or loss of control in Chinese economic policy.....	12
5. Economic publications attack a "French style" labour law.....	14
6. Local people should assess the way cadres manage environmental issues.....	17
<b>DIPLOMACY AND STRATEGIC AFFAIRS</b>	
7. 2008, a complicated year for Chinese diplomacy .....	19
8. Should the European Union be taken seriously? .....	21
9. Africa caught up in AFRICOM, the new US military command .....	24
<b>TAIWAN</b>	
10. The legislative elections, first round of the presidential contest? .....	27
11. The economic program of the presidential candidates.....	29
<b>THE PRESS IN THIS ISSUE</b> .....	33



*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 from the People's Republic of China, Hong Kong and Taiwan, reflecting the debate about the political and economic scene in China, strategic issues in Asia and Taiwanese political and economic life.



## Introducing *China Analysis*

Starting with this issue, the European Council on Foreign Relations has the pleasure of introducing *China Analysis* to a new readership. This is a bi-monthly analytical survey of Chinese news and debate, written by fellows of ECFR Asia Centre at Sciences Po in Paris. A French edition of *China Analysis* has been available since 2005.

China is now one of the European Union's two main external partners, second only to the United States. Its economy is growing faster than India's or Brazil's. Evaluating developments in China and Chinese thinking remains difficult. It is easy for Europeans to follow U.S. news and domestic debates, and almost as easy to pick up news and trends from India's academic journals and vibrant domestic press, much of which is published in English. There is substantial news coverage of China, but it relies almost exclusively on English language sources such as foreign media or official Chinese publications aimed at foreign audiences.

*China Analysis* offers a different perspective, as it is based on news, opinion pieces and debate found in Chinese language journals and media. The aim is to showcase domestic and international events or trends as they are seen *within* China. *China Analysis* is not predicated on the idea that Chinese language publications are more truthful. Censorship and distortion remain all too common in China's heavily-controlled media. To cite recent examples, neither the arrest of Hu Jia, a prominent AIDS activist, nor the short-term arbitrary detention of Teng Biao, a Beijing-based human rights lawyer, were reported in the Chinese mainland press.

Yet there is much to learn from Chinese professional journals and media and their reporting, which sometimes tests the limits of official propaganda guidance. Their news and analysis help to understand how China's leadership views domestic and foreign policy issues and reflect the lively debates inside China's hyperactive expert and think tank world. The need to analyse the phenomenal dynamism of the market economy has led to an improvement in the quality of public debate about economics, which is now as sophisticated as that found in the West. As understanding the world and geopolitics is a long-standing Chinese obsession, international relations, foreign policy issues and strategic concepts are also widely discussed. While *China Analysis* draws mostly on Chinese mainland sources, the bulletin also keeps abreast of trends in Chinese language publications from Hong Kong and Taiwan. Hong Kong's Special Administrative Region continues to function as a rumour-mill about politics in the PRC. While not always accurate, reports from Hong Kong tend to reflect the diversity of Chinese thinking while the Taiwanese press has freedom of expression not available in either Hong Kong or the mainland.

Each issue of *China Analysis* will carry a leader summarising the events and trends of the past two months as seen through Chinese sources. We will give particular attention to issues where European interests are directly concerned and to strategic debates within China -- an emerging power with an increasingly global reach. We will analyse the repercussions of China's slow transition to the rule of law and continued breathtaking economic growth. We will follow the debate on reform and report on tensions within China's fragmented society.

**François Godement,**  
ECFR – Asia Centre at Sciences Po, Director

**Mark Leonard**  
ECFR, Director

## **A Bi-monthly Survey of Chinese News and Debate**

In this issue, *China Analysis* has identified six trends affecting China and Europe:

**Government and Political News.** Political liberalization and the need to reform China's top-level bureaucracy -- in particular whether to create an overarching energy and environment ministry -- were the main issues debated ahead of this year's session of the Chinese parliament, the National People's Congress (NPC). While our sources show that many subjects are discussed more freely than before, Beijing set limits to the debate with the arrests of the two prominent human rights activists Hu Jia and Teng Biao (who was later released). International news stories about a report from the Chinese Communist Party's Central School - a locus of frequent debate at the core of China's political system - said to advocate democracy turned out to be misleading. Rather than full-blown democracy, the Central Party School advocated a much more limited but nonetheless significant reform: the switch to a Singapore-style "one party democracy", where public criticism mainly serves to encourage the party in power, and keep it as free of corruption as possible. The government and its supporters are sending out mixed messages, at once demonstrating a softer public line and delivering an unmistakable warning to potential public dissenters ahead of this summer's Olympics. Striking an appropriate balance between encouragement and skepticism will be a challenge for European policy.

### **Reforming Energy Policy.**

The current session of the NPC has proposed the creation of five "superministries", which reflect new growth and social balancing priorities: Industry and Information, Transportation, Human Resources and Social Security, Housing and Urban-Rural Protection, Environment. It is a measure of the sensitivity of energy policy that an Energy Commission (and not a Ministry, although the proposition had been widely advocated as our sources reveal) has been announced. Meanwhile, China's environment agency, SEPA, will be elevated to a ministry, and a new Energy Bureau will coordinate the Energy Commission and the National Development and Reform Commission, China's top-level economic institution. The Energy Leading Group, a recent creation of the State Council, will disappear: possibly because its goals have been fulfilled, but more likely because the disconnect between lofty policy aims and the difficulties of implementation rendered it largely useless.

As the price of imported oil rises and concerns about pollution increase, energy and environment concerns are paramount. But China has shied away from naming an energy czar who would perhaps have been alienated from other top-level policy institutions. Nevertheless, stated policy goals come close to meeting the demands of the outside world and there are plans to act on improving energy efficiency, contain environmental damage, and develop a socially responsive policy mix.

### **Runaway GDP and Foreign Trade.**

China has boomed again in 2007. Economic growth was 11.4% while exports grew by nearly 30 %. Buoyed by the strong euro, its trade surplus with Europe for the year is estimated to have been €170 billion, overtaking the surplus with the United States. China's currency reserves surged by 43 % in 2007, flooding the Chinese economy with often unwanted liquidity. China's overall trade surplus stands at 11 % of GDP, another exceptional figure. But Chinese experts talk guardedly about a "complexified international situation": inflation is surging at 7.5 %, largely because of rising prices for imported energy, raw material, and food; the fallout from the American subprime and credit crunch has suddenly slowed exports (year

on year growth towards the United States was a "mere" 8% in January 2008 though goods and services destined for the EU were still up 30% on a year earlier).

China has made tackling inflation a top priority, which will require further action to restrict the liquidity growth that is overwhelming the economy. Yet published Chinese sources show that the global economic slow-down is cited as a reason for not allowing the yuan to appreciate too quickly. Indeed, China has a good track record of avoiding hard landings. Premier Wen Jiabao is the only world leader who promises, year after year, *slower* economic growth (of 8 %). This year's pledge to the National Assembly is to be taken more seriously than before. China's growth may have reached at least a temporary climax.

### **Investment Trends.**

FDI to China reached \$74 billion in 2007, and \$19 billion in January-February 2008 alone. Almost of all of this investment is for new production capacity, rather than mergers and acquisitions; the anticipated reevaluation of the yuan is undoubtedly contributing to this continued surge. China can only balance its current account surplus by reinvesting capital abroad. But this is a politically loaded situation. China's Development Bank has desisted from acquiring a stake into troubled CITI Bank, and Huawei, China's leading IT company (with military connections) has had to give up the purchase of 3G, a leading U.S. telecom company.

Our sources reveal a public debate in China about the privatization of new railway infrastructure, which resembles similar discussions in Europe about public service, the sharing of costs between firms, and the public budget. It also appears, perhaps surprisingly, that the Chinese administration does not have the \$20 billion necessary to build a Beijing-Shanghai high speed rail line even though billions have been allotted, and perhaps misappropriated, for railway development by Chinese firms in the Philippines. Future investment in and out of China is a key issue for the European Union. If we want to avoid the trap of a liberal-protectionist debate, we must both gain further access to Chinese firms in order to tap China's growth, and find ways to welcome Chinese investment in the European economy without compromising security or the competitive edge of our firms. It is telling that Trade Commissioner Peter Mandelson's opening trip to Beijing as part of a planned High Level Trade and Economic Dialogue included a high profile visit to Lu Jiwei, the chairman of the CIC, China's new sovereign fund.

### **Foreign Policy and Views of the European Union.**

The current NPC session is keeping up with tradition in some areas: the government announced another double digit increase to China's military budget, which will increase by 17% in 2008. As the official \$58.8 billion budget is clearly underestimated, the political message to the US, Taiwan and the world lies precisely in the announced growth rate: China is determined to become a world-class military power able to project forces abroad, deter Taiwan's independence, and safeguard China's economic security against potential threats. On the positive side, the NPC has also heard an unusually strong call from Vice Minister for Foreign Affairs Wu Dawei for China to behave as a "responsible great power". Our sources reveal a prudent and objective approach to Africom, the new U.S. military command announced for Africa.

The most important implications of the NPC are in fact for Europe. Premier Wen Jiabao only mentioned the trade surplus with the United States, ignoring the larger surplus with Europe and its political implications. Our sources reveal a fatalist approach to Europe. One scholar emphasizes that with the ratification of the new institutional treaty, Europe will develop a

stronger foreign policy, potentially negative for EU-China relations since it could lead to more confrontations. Meanwhile, a seasoned Chinese observer of Europe mentions the continued need for unanimity over too many issues, the ineffectual attempts by Europeans to “change” Russia, and their uncoordinated demands on China. These are reasons to doubt that Europe will be able to prod China into unwanted policy changes.

#### **A new Democratic Power Transfer in Taiwan.**

KMT candidate Ma Ying-jeou is expected to win forthcoming presidential elections, even though his lead over his opponent is narrowing. The independence movement has never seemed so weak: Chen Shui-bian’s provocative rhetoric has proven counter-productive. Even the DPP presidential candidate, Frank Hsieh, promises a cooperative stance towards China. Whoever wins the presidential contest, Taiwan’s new leadership will prioritize stability in cross-strait relations and economic growth at home, as indicated in *China Analysis*. Europe should value Taiwan’s democratic achievement, not least because the Taiwanese experience is the main lens through which the Chinese leadership perceives democracy, but also because the presidential election creates conditions for a cooperative relationship between the two sides of the strait.

**François Godement and the China Analysis team headed by Mathieu Duchâtel**

## Domestic politics

### 1. Re-launching political liberalisation?

An analysis by Michal Meidan, based on:  
- Shen Liang, "Some Chinese intellectuals call for a revision of the constitutional status of 're-education through labour'", *Nanfang zhoumo*, December 6th 2008.  
- Lin Chufang, "Chinese decision makers emphasise the 'liberalisation of thinking'", *Nanfang Zhoumo*, January 10th 2008.

Will the next session of the National People's Congress be the occasion for a new series of political and legal reforms in China? Relying on recent declarations by Hu Jintao and some local leaders, as well as on calls from some Chinese intellectuals for the closure of re-education through labour camps, the liberal press is again announcing a deepening of the reforms in the legal, and even the political systems.

Focusing mainly on the wishes for 2008 expressed by the Chinese President, as he marked the 30th anniversary of the beginning of the reforms and the opening up, *Nanfang Zhoumo* reads between the lines of his speech. As Lin Chufang argues, political trends can be detected as much by what is said or commemorated as by what is not. Seen in that light, Hu Jintao's speech becomes very revealing. By quoting the statements in which Deng Xiaoping three decades ago identified the main reasons for the reforms and the opening of the country, namely "*the political and economic disorder*" of the ten years of the Cultural Revolution and China's technological backwardness in relation to the rest of the world<sup>1</sup>, Hu Jintao

---

<sup>1</sup> This section is not included in the English version of Hu Jintao's speech, "President Hu Jintao Delivers New Year Message", *Xinhua*, December 31st 2007. [http://www.chinadaily.com.cn/china/2007-12/31/content\\_6361877.htm](http://www.chinadaily.com.cn/china/2007-12/31/content_6361877.htm). In Chinese: "Persevere with the great task of reforms and development", January 1st 2008,

could be announcing a similar "*change in the political climate*".

In 2006, the insistence on pursuing the programme of reforms and opening up was different, being essentially a reaction against the calls from the conservatives in the leadership ("the new left") for them to be slowed down, but now, at least in Lin's opinion, the new boost to the reforms and "freedom of thought"<sup>2</sup> marks the beginning of a new period of political reform. He adds that to quote Deng Xiaoping's words to the 3rd plenary session of the 11th Central Committee in 1978, when he criticised the Cultural Revolution and encouraged "freedom of thought", shows the extent of the deadlock now obstructing the reforms, and the consequent need to reinvigorate them. In his view, the debates at the top of the political hierarchy are over, and the neo-liberals have won. Hu Jintao's speech confirms the positions which he took at the 17th Party Congress, and they serve to bolster his pursuit of the reform programme, while also clearly identifying him as the inheritor of Deng Xiaoping's legacy<sup>3</sup>.

The call for "freedom of thought" has been taken up outside Beijing. Wang Yang, the Party Secretary for Guangdong, repeated this call, saying that although it requires "courage and intelligence" a new wave of

---

[http://news.xinhuanet.com/politics/2008-01/01/content\\_7347157.htm](http://news.xinhuanet.com/politics/2008-01/01/content_7347157.htm)

<sup>2</sup> In July, after Hu Jintao's speech to the Central Party School, the term "freedom of thought" in the context of the ongoing ideological debates was analysed in a leading article in the liberal Beijing journal *Caijing*: Hu Shuli, "Understanding 'Freedom of thought'", *Caijing*, July 7th 2007, available at <http://www.caijing.com.cn/home/todayspec/2007-07-07/24084.shtml>

<sup>3</sup> For these debates at the top of the political apparatus, see Joseph Fewsmith, "The 17th Party Congress: Informal Politics and Formal Institutions", *China Leadership Monitor*, no. 23, available at <http://media.hoover.org/documents/CLM23JF.pdf>

freedom was necessary to give a boost to development in the southern provinces of China, allowing them to be ranked with Singapore and South Korea. For him "freedom of thought" is just a component of "scientific development". The Party Secretaries for Shanghai and Shenzhen have made similar calls.

In the legal field, *Nanfang Zhoumo* has also foreseen major steps forward which may be announced at the meeting of the National People's Congress.

A request for a revision of the law on the system of "re-education through labour" (劳教制度, *laojiaozhidu*) has been put forward in a letter signed by 69 well known Chinese legal experts and economists, including Mao Yushi, an economist and legal expert at the prestigious Academy of Social Sciences, He Weifang, a professor of law at Beijing University, and Li Fangping, a legal expert active in the defence of human rights who is about to be a member of the standing committee of the National People's Congress. These signatories believe that the *laojiao* system is "unconstitutional", depriving the accused of "all due process, a public hearing, and the right of appeal". For these reasons, they say, this system "goes against current trends and constitutes a serious obstacle to the improvement of the legal system". Therefore these intellectuals call upon the standing committee of the NPC to exercise their legislative power to revise this purely administrative measure.

Formerly the *laojiao* was a political instrument for the reform of "counter-revolutionaries" (even so, it was not as crude as the "centres of reform through labour", the *laogai*), but in the course of time it has become a prison factory system. In the 1980s, the *laojiao* was a form of administrative punishment for the "reform and rehabilitation" of delinquents, petty thieves, prostitutes, drug addicts, or simply those "disturbers of the social

order"<sup>4</sup> who were not covered by the penal code. Paradoxically, the people incarcerated under this provision were not the ones who challenged the regime but young workers and migrants driven into criminality.

However, this system rests upon the arbitrary decisions of the local *laojiao* committees, outside all legal processes, and it can lead to "infringements of individual freedom" for between one to three years. The signatories of this letter argue that the *laojiao* is illegal under the provisions of both the Chinese criminal code and the Constitution<sup>5</sup>, as well as violating the international agreements signed by China. Moreover, the very existence of the *laojiao* system threatens to undermine the country's legal system. While the proposal for purely administrative measures to combat petty crime, outside the criminal justice system, may well lead to low figures for officially reported crime, it prevents the proper development of China's legal system.

The need to abolish this system has unanimous support, and it formed part of the calls at the 2007 meeting of the National People's Congress for "a replacement of the system of re-education through labour", which were reported in the *China Daily*. A year ago, legal experts were already expressing their certainty that Beijing was ready to replace the *laojiao* system with something "less harsh", such as "special schools for first-time offenders"<sup>6</sup>. However, the replacement of

---

<sup>4</sup> Fu Hualing, "Re-education through labour in Historical Perspective", *China Quarterly*, no. 184, 2005, pp. 811-830.

<sup>5</sup> Article 37 of the Chinese Constitution states: "No citizen may be arrested except with the approval or by decision of a people's procuratorate or by decision of a people's court, and arrests must be made by a public security organ. Unlawful deprivation or restriction of citizens' freedom of person by detention or other means is prohibited; and unlawful search of the person of citizens is prohibited."

<sup>6</sup> Pascale Nivellet, "La Chine veut réformer ses camps de rééducation", *Libération*, March 2nd 2007.

the *laojiao* system has given rise to further debate: should new administrative measures be introduced, or should the offences they cover now be a matter for legal proceedings? The divergent points of view on these questions bode ill for reforms to the "re-education through labour" system.

This raises the question as to whether March 5th will really introduce "a *change in the political climate*", or whether this year will bring yet another formal announcement.

## 2. Singapore: governance without democracy

An analysis by Mathieu Duchâtel based on:

- Party School study group on a visit to Singapore, "The party political system in Singapore", *Xuexi shibao (Study Times)* no. 420, January 14th 2008.

- Party School study group on a visit to Singapore, "The available means for fighting corruption in Singapore", *Xuexi shibao (Study Times)*, no. 422, January 28th 2008.

In the imagination of the Chinese leadership, Singapore summons up an idyllic world. It is a very rich city state. It is constantly inventing new strategies to give a further boost to its economic growth, which is rare among developed countries. Social order is fully established there. The future looks bright for the People's Action Party, which has ruled Singapore since its independence in 1965. There appears to be no credible threat which might even dent its monopoly hold on power. Often claiming to believe that the very Chineseness of China invalidates any comparison with other states, the Communist Party prefers to look exclusively to the Chinese world, affecting open contempt for the alleged deficiencies and stagnation of democracy in Taiwan, while showing a definite interest in the Singaporean way of governing.

The study group sent to Singapore from the Central Party School<sup>7</sup>, which has reported on its findings in the School's weekly publication, can scarcely contain its admiration for that city state. From their reflections two underlying recommendations for political reform in China clearly emerge. Firstly, the procedures for elections without democracy can be a way of increasing political stability, if all the parties are brought into the system. And secondly, the fight against corruption can be made effective, without the checks provided in the West by the voting booth and the freedom of the press.

According to the Party School, the Singaporeans have grasped the fact that Western multi-party democracy, which allows for shifts in power, is a destabilising factor incompatible with Chinese "*national characteristics*" (国情, *guoqing*). Their city state has therefore set up a state where "*one party holds power over the long term, and many parties coexist*" (一党长期执政, 多党并存, *yidang changqi zhizheng, duodang bingcun*). Unlike what happens in Western countries, this enables it to prevent "*extremists in social provision, or opportunists, from coming to power*". It seems to them that China, where eight small democratic parties<sup>8</sup> coexist on the periphery of the Chinese Communist Party (CCP), has already set up such a system. In theory the satellite parties around the CCP could play a crucial role, by lending support to China's definition of itself and its regime as a

<sup>7</sup> The Central Party School, which was headed by Hu Jintao from 1993 to 2002, trains the Party cadres in the middle of their career to prepare them for further promotion. It enrolls about 1,600 students every year. Its influence on the government is a matter for debate. On the one hand, it has forged key ideas, like that of peaceful emergence. But on the other hand, its sometimes liberal and provocative stances, occasionally expressed in *Xuexi shibao*, can in no way be taken as a reliable guide to the Party's future ideological development.

<sup>8</sup> Michal Meidan, "Petits partis démocratiques: l'éternel retour", *China Analysis*, nos. 11-12, December 2006-January 2007.

"system of democratic centralism" (民主集中制, *minzhu jizhongzhi*). In reality, however, they serve as a smokescreen and make very little contribution either to the image of the CCP or to the formulation of its public policies. From this point of view, the party system in Singapore is more sophisticated and works better<sup>9</sup>.

The primary reason for this is that the recurrent elections "reconfirm" (确认, *queren*) the People's Action Party in power, thus increasing its legitimacy. The Party School's report certainly does not trouble to underline the methods used by the Singaporean government to keep itself in power, for these make the city state a case of "illiberal democracy"<sup>10</sup>. But it does observe that the People's Action Party "makes considerable use of State resources to consolidate its power", even though that is not its main point. For the Chinese delegation, the important thing is the process of reconfirmation which "provides a rational basis for the legitimacy" (合法合理性, *hefahelixing*) of the People's Action Party.

The Party School sees in Singapore's party system an acceptable model for a limited separation of powers, in which the smaller parties provide a counter-weight to the dominant party without endangering it. The smaller Singaporean parties allow for "the satisfaction of the population's wish to exercise a certain control over the major party's use of power, by creating a channel through which the population can express its dissatisfactions with the majority party, thus diminishing its anger towards that party." In the final analysis, this system puts effective limits on the People's Action Party, by making it prudent and respectful of popular interests. In return, its perennial hold on power is reconfirmed. This kind of argument

---

<sup>9</sup> The law in Singapore allows the creation of political parties, and twenty-one have been registered.

<sup>10</sup> Fareed Zakaria, "The Rise of Illiberal Democracies", *Foreign Affairs*, November-December 2007.

suggests that the Chinese delegation is inclined to see in the democratic process more than just a guarantee of the legitimacy of the dominant party. It allows for long term stability in the relationships within the political system, and it exerts additional pressure on the majority party never to forget its need to serve the general prosperity of the nation.

From this standpoint, the CCP has more options for implementing reforms than it thinks. The alternatives do not boil down to a choice between Western democracy or the gradual implanting of more democratic procedures within the Party itself. The Party School study group notes the need to be rid of certain mistaken theoretical beliefs: electoral procedures do not imply democracy, and multi-party governance does not necessarily lead to shifts in power. In their view, China has already established a system where "one party has a long term monopoly on power, and numerous parties coexist". But this must be strengthened in order to set up a system, as in Singapore, of a real "government by the elite" (精英治国制度, *jingying zhiguo zhidu*), reminiscent of Plato's *Republic*.

Another specific feature of the Singaporean political system which pleased the Party School, is that it has resolved the problem of official corruption without relying on democracy (involving the risk of the corrupt party losing power) or on the press as a watchdog to scent out every corruption scandal. In this respect, the example of Singapore allows for a counter-argument to the views often advanced in Taiwan, that democracy and freedom of the press are the best guardians against corruption. Their argument is that, without any need for fundamental political reforms, and by means of purely administrative reforms, the Party could improve its struggle against the corruption which is endemic in China, by turning to the experience of Singapore.

Singapore demonstrates to China that the fight against corruption can be conducted

successfully by a strong State. The Party School study group believes that the Singaporean system has three features which are applicable to China. In the first place, there is the Corrupt Practices Investigation Bureau (贪污调查局, *tanwu diaochaju*) which has extensive powers. Responsible directly to the Prime Minister, it has the legal right to use any method of surveillance or enquiry, such as tracking suspects' movements, wiretapping, secret photography, or the infiltration of informers. Its powers are only "counter-balanced" by the fact that its operations are under the control of the Ministry of the Interior, and that it does not have the right to initiate legal proceedings, which remain in the power of the courts. In the second place, there is a civil service with officials whose probity is supported by high salaries, not because comfortable levels of remuneration necessarily "guarantee honesty" (养廉, *yanglian*) but rather because they enable the State to "select valuable people" (抢贤, *qiangxian*). Lastly, Singapore actively relies on public announcements to educate the population and the officials about the legal risks incurred by corruption. If they were applied in China, these methods would pave the way to a similarly successful outcome, without violent disruptions but rather like "a gentle shower which quietly waters the ground" (细雨润无声, *xiyu run wusheng*).

### 3. Will a Minister of Energy bring greater cohesion to that sector?

An analysis by Michal Meidan based on:

- Zhao Jianfei, "The re-establishment of the 'Ministry of Energy' is almost certain", *Caijing*, no. 198, November 27th 2007.
- "In March, China will set up a Ministry of Energy; the Environmental Protection Agency will be promoted to the level of Ministry", *Chongqing shangbao*, January 6th 2008.
- An analysis of the re-establishment of a Ministry of Energy", *Zhongguo jingji shibao*, February 1st 2008.
- "A blacklist for polluters", *Zhongguo qingnian bao*, January 10th 2008.

There is no longer any doubt that the national energy sector needs a new approach. To move towards this, on March 5th the National People's Congress (NPC) is due to pass a series of measures aimed at improving the management of the country's natural resources.

Firstly, an "energy bill" is being drafted. If it is passed into law at the NPC session in March, it will not only provide the overall legal dispensations for the energy sector, but also the basis for reintroducing a Ministry of Energy. This will be put in charge of setting prices, and of establishing the strategies for handling consumption and transport, as well as introducing new technologies and exploiting the country's natural resources. During the course of this session, the NPC may also approve a new environmental tax and strengthen the protection of the environment by promoting the State Environmental Protection Agency to make it a Ministry.

Are these measures a sufficient answer to China's energy and environmental problems? The analysts cited above all agree that an adequate response to these questions would require better management of the energy sector, and that organisations with sufficient powers could make up for many deficiencies in the present system.

The researchers at the University of Oil quoted in *Zhongguo jingji shibao*, explain that a Ministry of Energy would improve the country's ability to meet the challenges to its "energy security". A single central organisation, in charge of drawing up a national diplomatic approach to oil issues and backing up China's position on the international markets, could enable the achievement of the lofty strategic goals which the current structure cannot bring about. The current failure to create a strategic oil reserve is a case in point. The Energy Minister would represent China at international forums and demonstrate that "there is one person, able to speak consistently on China's behalf". In his previous post, Zhang Guobao was supposed to fulfil this role, but at the same time he was in charge of "re-invigorating the North-East" along with certain aspects of transport policy. So it is hardly surprising, say these writers, that Chinese oil companies compete fiercely against each other abroad, and that in so doing, despite their drive to maximise profits, they only succeed in driving down their prices. For the same reasons, faced with the growing tendency of the producing countries to nationalise their energy resources, an Energy Ministry would at last be able to give effective and timely support to the interests of Chinese companies<sup>11</sup>.

It could also remedy the lack of cohesion in the development of the domestic energy sector, by providing an overall vision of its needs in terms of finance and technology,

---

<sup>11</sup> These statements may surprise some readers, because we tend to believe that China is a country with a coherent diplomatic approach to oil, that Chinese oil companies are extensions of the government, and that the goal of Chinese diplomacy is to support Chinese companies in their conquest of foreign markets. See Hongyi Harry Lai, "China's Oil Diplomacy: is it a Global Security Threat?", *Third World Quarterly*, Vol. 28, no. 3, 2007, pp. 519-537; David Zweig, Bi Jianhai, "China's Global Hunt for Energy", *Foreign Affairs*, September-October 2005; and Michal Meidan (ed.), *Shaping China's Energy Security: The Inside Perspective*, Asia Centre, Paris, forthcoming.

along with an integrated developmental strategy which would allow it to overcome the current fragmentation of the sector. The example of coal clearly illustrates this lack of cohesion. The overall regulations are in the hands of the National Development and Reform Commission (NDRC), and the operational management is in the hands of the companies, but the management of coal deposits and their exploitation is under the Ministry of Natural Resources<sup>12</sup>. Likewise, the needs for energy conservation and the introduction of renewable energy - both of which are proclaimed goals of the government - go beyond the boundaries set by the current organisation into different sectors. They require an overall view and, above all, an institution with sufficient powers to impose its authority on the other players.

As we have seen, the re-establishment of the Ministry of Energy has been welcomed by expert analysts. Granting it the status of a ministry in charge of environmental protection also ought to give it the clout which it has lacked up till now. But will it be enough? While *Zhongguo jingji shibao* lists all the conditions required for the effective running of the ministry, the journal *Caijing* carries reports referring to the provisions in the bill to set it up, and these show, paradoxically, that the reality is very far from the picture conveyed by *Zhongguo jingji shibao*.

Ideally, what is required is the creation of an independent regulatory body, alongside the Ministry, and a careful delimitation of their respective functions. In addition all decision-making powers should be taken away from the other Ministries or offices which currently take decisions on behalf of the energy sector, or at least they should be put firmly under the authority of the Ministry of Energy. The

---

<sup>12</sup> However, Willy Lam observes that the new Ministry of Environment and Construction will take over the Ministry of Natural Resources; see Willy Lam, "Beijing Unveils Plan for Super Ministries", *China Brief*, vol. 8, no.1, January 4th 2008.

latter should be concerned with strategic planning, and it should have a macroeconomic overview of the country's needs with regard to the development of energy resources, the introduction of new technologies, and the management of the industry, but without intervening in operational matters on a daily basis. For its part, the new regulatory body should take care of organising the market and overseeing the implementation of the strategies drawn up by the Ministry. The bill is currently under consideration by the organisations concerned. According to *Caijing*, the discussion is focused on the nature and functions of the regulatory body. Will it be independent? Xiao Guoxing, who took part in drafting the bill, believes that it will be difficult to get a truly independent regulatory body accepted, given the current state of the market and the existing balance between bureaucratic interests, and that it should therefore be placed under the supervision of the Ministry. Nonetheless, the bill clearly lays out the different responsibilities of the Ministry and the regulatory body, placing the latter under the supervision of the Ministry but giving it a certain latitude for independent action.

Is this a sufficient guarantee of its autonomy? When interviewed, the representative of a State oil enterprise seemed to think not. It will only introduce another *mother-in-law* into the partnership, leading to further complications in the approval processes, which are already slow and inefficient. But the nub of the question is the real power of the Ministry. In the proposed bill, it would be in charge of formulating policy and drawing up strategic plans, but approval for the exploitation of natural resources would remain in the hands of the Ministry of Natural Resources. Similarly, will the NDRC give up its power to set prices?

We should also note that these writers make no reference to the role to be played within the new set-up by the current regulatory bodies, namely the NDRC energy bureau and the group of leaders in

charge of energy issues. So there are ongoing negotiations between the thirteen ministries with decision-making powers in the energy sector. If the energy bill is passed into law, with all that it entails - powerful new ministries and new fiscal instruments - that will show the ability of the present leadership to take hold of the reins of power in the energy sector. But only the outcome of March 5th will show whether the Chinese leaders manage to get this reform through, or whether yet another layer of bureaucracy will insert itself into the complex and inefficient set-up which exists at present under the all-powerful National Development and Reform Commission.

## THE ECONOMY

### 4. Price controls or the lack of control in Chinese economic policy.

An analysis by Thibaud Voïta based on:

- Unsigned articles: "The NDRC decides to intervene on prices", followed by "A leading NDRC official replies to our questions about their intervention to control prices", *Diyi caijing-China Business News*, January 16th 2008.
- Unsigned article, "The NDRC takes steps to intervene on prices", *21 Shiji Jingji baodao*, January 17th 2008.
- Xu Xiaonian, "The government must not impose price controls but manage the growing signs of inflation"; followed by Lu Lei, "The choice of a counter-cyclical policy", *Caijing*, January 21st 2008.

The inflationary tendencies which were noted<sup>13</sup> during the summer of 2007 were far from dissipating by the end of the year. By last November, consumer goods prices had risen by 6.9%. Among these, the cost of food had risen by 18.2%, and housing by 6%. Cooking oil had risen by 35%, meat by 38.8% (56% in the case of pork), and fresh vegetables by 28.6%.

The situation was serious enough for the authorities to decide on drastic measures. On January 15th the NDRC (the National Development and Reform Commission, which oversees the implementation of the five-year plans) sent out a circular announcing its intervention to control prices. Most of the press, including the most critical papers, gave it accurate coverage. Although the measures did not receive wide support, only *Caijing* expressed a critical opinion.

In general terms, *21 Jingji baodao* and *Diyi caijing* described the intervention as "rational" (合理性, *helixing* - a term which recurs throughout these articles). In

---

<sup>13</sup> Thibaud Voïta, "The revaluation of the yuan, a last hope for avoiding the crisis?", *China Analysis* no. 15, September-October 2007.

addition, there is a palpable sense in these newspapers of a desire to assess these measures in terms of their legality<sup>14</sup>. The measures provide for two different procedures: declarations (申报, *shenbao*) and adjustments (调价, *tiaojia*). The first are intended to ensure that the new fixed price is justified, and the second to enable these price alterations to be "rationalised". The declarations are managed by the provincial administration and are directed mainly at the producers, while the allowances for adjustments are managed mainly at the district and township level, and are aimed at the retail outlets.

The rules governing the producers' declarations provide that any price changes must be declared ten working days in advance to the competent authorities. If the latter believe that the change is not "rational", they must send back a report within seven working days of receiving the request. Any silence on the part of the administration means that the change has been accepted.

In the case of the retail adjustments, the retailers must report a 4% price rise within 24 hours, a 6% rise within ten days, and a 10% rise within 30 days. The authorities then have three working days, either to demand its cancellation or a smaller rise. The retail enterprise has the right of appeal, but infractions incur penalties.

What is the justification for these measures? In an interview in *Diyi caijing*, an unidentified official from the NDRC puts forward three reasons for them: firstly, they help to combat inflation; secondly, they obstruct the practices of certain speculators who would take advantage of the inflation to raise their prices even

---

<sup>14</sup> These articles merely reiterate the positions of the government, which is surprising in the case of supposedly "critical" publications like *Diyi caijing* and *21 Shiji jingji baodao*. There is the same tone in all the other papers, which merely repeat the pronouncement of the NDRC (cf. especially *sina.com.cn* : "The NDRC takes measures to control the prices of oil and grain products", January 16th 2008).

further (a point which he repeats several times); and thirdly, of course, he gets round to the need to maintain "social harmony" or "social stability" (社会的安定, *shehui anding*). In addition, he emphatically repeats that the measures are both rational and legal<sup>15</sup>. He states explicitly that the measures are temporary, and in no way represent a loss of independence on the part of the enterprises affected by them. It is simply a matter of a price freeze, and the intervention by the authorities includes compensation for losses.

At the other extreme, Xu Xiaonian<sup>16</sup> condemns these interventions and, to no-one's surprise, he proposes a strictly monetarist approach. He considers inflation to be a monetary problem which calls for monetary solutions. Unlike the NDRC, Xu is not bothered by social considerations. Of course, he acknowledges that speculation on the part of the private companies is to blame, but there are no legal grounds for condemning them. In this respect he compares two kinds of speculation: that which is aimed at basic foodstuffs, and that which operates with stocks and shares. Moreover, it is futile to try to control such behaviour. On the contrary, control mechanisms encourage the development of a black market and can lead to situations of genuine hardship.

Whenever sharp differences between wages and prices appear, he argues, there should be a restriction on the money supply to send a clear message to the market. The key to economic policy is not to struggle against an ongoing inflation but to anticipate it and manage it in advance.

---

<sup>15</sup> Article 30 of the law relating to the stability of prices, which allows any level of the government to intervene in the event of excessive price rises; and article 32, which states that such intervention must end when the prices have been stabilised.

<sup>16</sup> Xu Xiaonian is a professor at the China Europa International Business School (CEIBS) who contributes regularly to the columns of *Caijing*. He is a monetarist and admirer of Milton Friedman.

He pushes this argument to extremes, even going so far as to see a link between Taoism and monetarism. According to this, one must "govern without acting" (无为而治, *wuwei er zhi*). High prices serve to bring about a redistribution of resources between the enterprises and the population, a search for alternative goods, a more efficient use of energy, and a lower level of dependence on oil and grain. In short, the current situation is actually very favourable.

Finally, Lu Lei's article gives a more nuanced assessment, although he too condemns controls imposed by the NDRC as an infringement of "the natural law of the market economy" (市场经济中的天赋权利, *shichang Jingjizhong de tianfu quanli*). Still, some action had to be taken, but what? In his view the focus should not have been on prices, but on wages. During the third quarter of 2007, compared with the same period of the previous year, wages had risen by 18.8% in the cities, as compared with 14.8% in the countryside. At the same time, company profits rose on average by 30%, reaching 100% in some sectors.

In his view, the ideal would be to give support to the consumption of meat, but it is impossible to set up credits for such a purpose. Therefore wages should be increased to compensate for rising costs. In 2007, overall national income rose to 6 trillion yuan. If between 200 and 300 billion of that sum (i.e. roughly the equivalent of the registration tax on stocks and shares) were redistributed to the lowest paid in the form of subsidies, it would be possible to avoid price controls while providing help to the most disadvantaged.

What conclusions can be drawn from these debates? Firstly, given the current state of economic policy, the proposals put forward by *Caijing* seem unrealistic, and even undesirable. In addition, the repeated condemnations of the speculative companies held responsible for the price rises seem to arise from the

need to find a scapegoat. Yet the statements from the NDRC officials insist that these measures do not amount to a return to the planned economy<sup>17</sup>. They stress the legality and the provisional nature of these measures, which still preserve the companies' autonomy. In addition, these steps seem to have been taken as a last resort, which was not necessarily the case of the controls imposed on the overheating sectors in 2004<sup>18</sup>. Does that mean that the NDRC is beginning to acquire a market awareness? It is too early to draw such a conclusion. For the time being, the NDRC is still under Party control, playing its allotted role as a planning committee.

##### 5. Economic publications attack a "French style" labour law.

An analysis by Camille Bondonis based on:  
- Xiao Hua, "Dong Baohua: the Huawei affair is the first case of a twin failure of the law", *Nanfang zhoumo*, November 22nd 2007.  
- "The Huawei sackings: a chronological account of the events", *Nanfang zhoumo*, January 12th 2008.  
- Wang Dongjing, "Raising the wages of company employees: the State must lower taxes by a moderate amount", *21 Shiji jingji baodao*, January 16th 2008.

The labour reforms are taking place amid company abuses, stagnant wage levels and workers' discontent on the one hand, and the need to stimulate domestic consumption on the other. The government's first response was to draw up a bill on labour contracts which became law on January 1st 2008. Their second response, which is still far off and rather hypothetical, is to increase wage levels. Somewhere between proposals for the future and the present discontent, the

<sup>17</sup> Cai, Jane, "Price controls 'not a return to planned economy'", *South China Morning Post*, January 26th 2008.

<sup>18</sup> We are grateful to Pierre Nordmann for bringing this fact to our notice.

labour reforms are taking their first hesitant steps.

Through an interview with Dong Baohua, *Nanfang zhoumo* takes a look at the ability of the new law on labour contracts to respond to real social needs. At the same time, *21 shiji jingji baodao* adopts a similar approach by publishing a contribution from Wang Dongjing, director of the economics department in the Party School, in order to examine the possibility of raising workers' wages in the private enterprises. The two experts agree that labour reform must be based on a serious consideration of the situation of the workers (the manual labourers, or *mingong*). But, according to Dong Baohua<sup>19</sup>, that does not mean "over-protecting" the employees, because its effect would be to cut off the hand to cure the foot!

The stakes in the labour reforms are considerable. The main problem is to calm down the agitated social situation by regulating the workers' conditions of employment. In recent years, protests by workers and young people have grown louder, putting the central government in a difficult situation<sup>20</sup>. At the same time, the scandals of 2007<sup>21</sup>, have brought Chinese

<sup>19</sup> Dong Baohua is a distinguished professor at the East China University's Institute of Political Science and Law. He has made a study of the economy and participated in drafting the labour law in 1994. In recent years he has taken an active part in the discussions around the law on labour contracts, and has become well known for his controversial opinions and opposition to that law. He has been nicknamed "the company spokesman". But that has not always been the case. Seven years ago, when he opened a centre to protect the rights of the workers (*mingong*) he was known as the "workers' representative".

<sup>20</sup> For example, *The Economist* has shown that number of work-related complaints handled by the arbitration committees has steadily increased since 1994. From a few thousand, it has reached more than 30,000 registered by the National Statistics Office, affecting a similarly increasing number of employees (rising to 800,000 in 2004): "The Party Throws a Sop to the Workers", *The Economist*, December 6th 2007.

<sup>21</sup> For example, the case of the Shanxi brickworks where, in June 2007, hundreds of employees were discovered working in conditions of slavery.

people to an unprecedented level of awareness of the negative aspects of the nation's economic growth, graphically portrayed by Dong Baohua.

Similarly, last Autumn the Huawei affair proved to some people the desirability of a new law on labour contracts. In September 2007, Huawei told 7,000 employees who had worked there for eight years to resign and reapply in competition with each other. Although Huawei suspended this plan under pressure from the media and the All-China Federation of Trades Unions (ACFTU), that withdrawal did not calm the controversy.

The question of wage levels is a major issue in the labour reforms because the spectacular growth in the GDP and the profits of Chinese enterprises has not been accompanied by a rise in wages. As Wang Dongjing emphatically points out, if the State wishes to stimulate domestic consumption in order to bring overproduction under control, that requires an increase in wages, starting with the lowest paid.

To return to the Huawei affair, Dong Baohua sees in it a twin failure of the law on contracts, since it suits neither the companies nor the employees. Given the inflexibility which the new law will impose on the labour market, Dong Baohua welcomes the fact that firms like Huawei are looking for solutions - within the law - to adapt to the situation and to continue to grow nonetheless. He asserts in effect that with the introduction of this new law, China will become the country where it is the most difficult to lay off workers. The situation now is that, unlike the United States or the United Kingdom, China has imposed three conditions which have to be rigidly observed: there must be advance notice of any dismissal, the reasons for it must be given, and there must be financial compensation. That will make lay-offs costly, long, and complicated for Chinese companies.

As for the terms of the contract and its renewal, the law lays down a certain number of instances when firms will be obliged to give contracts of indeterminate duration (CIDs) to those employees who have already held two contracts of determinate duration, or those who have been employed for ten years or more. Despite the relative flexibility of some of the provisions, the professor is afraid that they will irreversibly freeze up the labour market. The introduction of CIDs will reduce the Chinese reserve labour pool to being a tank of stagnant water instead of ensuring the flow necessary to the economic vitality of the country. It will bring back the time of the "iron rice bowl".

Dong Baohua points to three problems which have distorted the drafting of the law. Firstly, he criticises its premise, that China must "*build a stable and harmonious working environment*". He believes that harmony is not the same as stability, and that excessive stability can lead to stagnation. Furthermore, the social situation and popular attitudes have led the deliberations astray. In his opinion, many legislators have a view of society which he considers simplistic. According to this view, from the beginning of its period of growth China has sought to strengthen the power of the companies at the expense of their workers; therefore it is now time to support the workers and exercise more control over the companies. Finally, Dong Baohua regrets the absence of wider consultations during the drafting of the law, which would have given the companies more opportunities to express their views. Consequently, the law has been shaped by the desire to build a more harmonious society and to protect the weak, but in the final analysis, it tends only to protect the wage earners instead of introducing a win-win relationship between the companies and their employees.

On the contrary, by trying to be too protective, the law has failed to address the real problems, especially those confronting labourers and the unemployed

or those employees without job security. Dong Baohua argues that to achieve a healthy balanced growth, China must retain flexible conditions for taking on workers, ensure comprehensive social security provisions, especially for workers, and, lastly, use legal sanctions to prevent "*non standard*" relations between employers and workers. Unfortunately, instead of that, the legislators have set up an inflexible one-way system, when flexibility alone can maintain economic dynamism.

To put it bluntly, Dong Baohua foresees the practical implementation of the law in rather pessimistic terms. Firstly, firms will have less room for manoeuvre in managing their human resources. They will therefore be all the more careful in taking on extra labour. As for the employees, they will find themselves more swiftly excluded, unless they can prove that they are irreplaceable in terms of added value. But in reality, the vast majority of workers and low-level salaried staff are easily replaceable. Lastly, what Dong Baohua fears above all is that China will follow in the steps of France, which he considers to be a country marked by economic stagnation, 9% unemployment and high taxes, where it is impossible to alter established benefits without incurring strike action.

So, in the eyes of its most virulent opponents, the new Chinese law on work contracts risks striking a deadly blow against the country's economic vitality. Under the cover of wishing to protect the workers, it will only weaken the companies, society, and, in the end, the workers themselves.

Striking a more optimistic but equally politically correct note, in an article in *21 shiji jingji baodao* Wang Dongjing suggests a method of increasing wages in order to stimulate domestic consumption. He reminds the reader that although raising wage levels is a popular cause, it is complicated because social harmony is involved and it is difficult for the State to take action on wages paid by private firms.

Moreover, the prime beneficiaries must be the workers and peasants. In order to raise wage levels, he proposes that business taxes should be lowered. But what are the guarantees that lower business taxes would lead to increased wages?

To answer this complex set of problems, Wang Dongjing proposes that the first step should be to increase the lowest wages, because that would inevitably set up an escalation, obliging the firms to raise the wages of all their employees in a natural process of overall readjustment. Last year's 30% increase in State revenue ought to make it absolutely possible to lower the taxes paid by private firms. According to his analysis, that is the only way of making a rise in wages conceivable without putting any restraint on the firms' prospects. But it also presupposes a legally fixed minimum wage for the lowest paid workers<sup>22</sup>.

In giving their reactions to the different topics which they raise, both experts recognise the need to improve the conditions for workers at the bottom of the scale, and to take that as the starting point for making the labour market healthier and more balanced. The key to such reforms lies in the State's ability to take all this into account while still preserving its economic pragmatism. The question is whether the State will be able to rise to this challenge and bring a degree of calm into currently tense social relations, while at the same time maintaining economic flexibility and growth.

---

<sup>22</sup> See Michal Meidan, "The minimum wage and the laws of the market", *China Analysis*, no. 5, May-June 2006.

## 6. Local people should assess the way cadres manage environmental issues.

An analysis by Thibaud Voïta based on:  
- Xiao Hong<sup>23</sup>, "Create the grounds for local governments to have a real interest in environmental protection", *Zhongguo guoqing guoli*, November 2007.

Although the Chinese central government is aware of the problems arising from the pollution generated by growth, most local administrations are very hesitant over taking measures to protect the environment. Their implementation of central government directives lacks drive. Even worse, the policies of hyper-intensive growth (过高经济增长速度, *guogaojingji zengzhangsudu*) pursued by local governments serve only to speed up the degradation of the environment<sup>24</sup>. Going beyond purely environmental issues, Xiao Hong's article pays close attention to the functions of the central government, its political relations with the localities, and the role which the local population may come to play within this structure.

Xiao Hong sees a fundamental distinction between the centre and the localities. On the one hand, the government has a mandate from the people, which means that it must ensure social well-being through economic development and environmental protection. On the other hand, the local governments are entrusted with representative responsibilities. They have to propose contractual incentives (激励合同, *jilihetong*) of two different kinds: those with social consequences (社会产出激励合同, *shehui chanchu jilihetong*) and

those with economic consequences (经济产出激励合同, *jingji chanchu jilihetong*). The former are intended to enable a balanced development of the economy and the environment. The latter are only concerned with economic results, and are not basically interested in the negative by-products of growth.

For several years, Beijing has been trying to promote the former kind of contract, but it can never be certain of the outcome because of the imbalance in the flow of information between the central and the local governments. Environmental management by the central government has a top-down structure, from macro to micro. All its problems arise from this downward flow towards the micro end, making it difficult to get proper information feedback. This management structure is particularly costly, but the current state of the environment in China is so dire that the central government has hardly any choice. Being unable to keep a close watch on local government activities, the central government is reduced to relying on their official reports. These then provide the basis for the rewards - or the penalties - handed out to local officials. But this situation is not sustainable in the long term. So a system needs to be set up to supervise the various local government organisations.

First of all, the apparatus in charge of statistics needs overhauling. In concrete terms, Xiao Hong believes that allocations should be agreed separately for three different areas: 1) data on environmental expenditure, such as sums spent on the handling of pollution or assessing its extent, 2) information on the relevance of the statistics for environmental protection, and lastly, 3) it is also essential to unify the data base containing environmental information.

These reforms must also apply to the administration. Firstly, new sources of information must be established, the personnel must be increased, and the number of investigations, into the extent

<sup>23</sup> Professor at the Economics Institute, Fudan University, Shanghai.

<sup>24</sup> On the economic relations between the central government and local administrations, see Huang Yasheng, "The Strategic Investment Behaviour of Chinese Local Governments During the Reform Era", *China Economic Review*, Volume 6, no. 2, 1995, pp. 169-186. This analysis is still very pertinent, even if environmental questions then had not yet occupied the central position which they hold today.

and the consistency of support for measures taken locally, must be multiplied. Secondly, the State Environmental Protection Administration (SEPA) must be made more independent. At the moment, it is hampered by its paucity of means to exert pressure on local cadres. Its powers and responsibilities must be increased, by handing it all the necessary prerogatives for dealing with environmental matters.

But Xiao Hong's article goes even further, by proposing a third type of reform. He raises the question as to how the actions of local governments can be subjected to scrutiny without incurring increased costs. And his answer is simple: through the participation of the people. After all, the population has a good knowledge of its local ecological problems. In other words, the central government must share its mandate with the people (分享委托权, *fexiang weituoquan*). This is a matter of giving the local population the task, to be shared with the central government, of assessing the achievements of their local administration. Through their help, the costs incurred by the central government's efforts to gather information could be diminished. Since those who are not cadres, i.e. "the masses" (群众, *qunzhong*), are already involved in the assessment of local cadres, Xiao Hong's proposal simply comes down to extending these assessment exercises to environmental issues<sup>25</sup>.

In this respect, the article is itself the sign of a major trend; in an increasingly complex social environment, the State has great difficulty in maintaining its ability to control the whole country. On the one hand, it does not have the means (especially the financial means) to keep a watch on the local officials, and on the other hand, the local governments often have few incentives to obey central directives, since their goals are all too

often in conflict with those of the central government. These problems are particularly acute in the sensitive area of environmental protection.

---

<sup>25</sup> On this issue, see Maria Edin, "State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective", *The China Quarterly*, no. 173, 2003, pp. 32-52.

## DIPLOMATIC AND STRATEGIC AFFAIRS

### 7. 2008. A complicated year for Chinese diplomacy

An analysis by Michal Meidan, based on:

- Tang Yongsheng, “International relations are entering a time of profound change”, *Xiandai guoji guanxi*, n°12, 2007.
- Shi Yinhong, “China is facing new foreign policy challenges”, *Xiandai guoji guanxi*, n°12, 2007.
- “The White Paper on Chinese diplomacy will be released in 2008. China has diplomatic relations with 170 countries”, *Wen weipo*, 28 December 2007.

The overall picture for 2007 is rather rosy, but the outlook for 2008 is disturbing. Chinese commentators foresee major changes in an “overloaded” international system and warn against the inability of Chinese diplomacy to face up to the new international challenges ahead.

The articles that appeared at the end of the year in the general press in the PRC see a number of reasons for satisfaction with China’s diplomacy in 2007. These include an improvement in relations with the major powers of Asia (India); Africa (South Africa) and of course North America and Europe; a constructive engagement in the fight against climate change; a constructive mediation with regard to Iran and Darfur; participation in the Annapolis peace conference; effective management of the question of food security, and the protection of the workforce and Chinese interests abroad<sup>26</sup>. In addition to its successes which, according to *Wen weipo*, will be confirmed in the White Paper on Chinese diplomacy to be released in 2008, important progress has been made in Sino-Russian and Sino-Japanese relations, as well as in mobilising international support against

Taiwan’s independence and its membership of the United Nations and the World Health Organisation.

A more worrying and critical voice can also be heard, however. Shi Yinhong, at the same time as being pleased with the 2007 results, is concerned with the “complexification” of the international situation and the inability of Chinese diplomacy to face up to “the emergence of new problems which are developing, diversifying and spreading at a growing rate”. Economic and trade questions are on the agenda, such as food security, the issue of exchange rates and the Chinese sovereign fund. All this is happening in the context of a slowdown in America’s economic growth, record highs on the world’s oil markets and an inflationary trend in China. This is contributing to the politicisation of economic issues, and does not make relations with the United States and the European Union any simpler. Although the Sino-American dialogue is constructive, “it has not managed to temper the protectionist tendency of the United States”. This tendency, noted by Shi Yinhong, is accompanied, according to Tang Yongsheng, by a return of power politics. The change in the international system to one based on globalised capitalism cannot avoid having growing recourse to power relations, even if such a move has already shown on numerous occasions that it is incapable of resolving international problems (as in Iraq and Afghanistan). Nonetheless, according to Tang, the great danger associated with this capitalist configuration is financial instability. As financial power is concentrated in the hands of only a few countries, any crisis will have a disproportionate impact on developing countries, in so far as instability will have repercussions on flawed financial systems as well as affecting social and political stability.

<sup>26</sup>. Ma Wenbo, Tan Jingjing, “Yearender: A fruitful year for China’s diplomacy in 2007”, *Xinhua*, 27 December 2007.

According to Shi, the danger in having multiple financial and trade relations does not, however, lie in financial crisis; rather, it would come from the actors in this new global set-up. For these commercial and financial reasons, as indeed for problems such as climate change, or the attention given by the media to the Olympic Games or the Dalai-Lama, the great challenge for China is the relation between government and non-government actors. China's diplomacy is no longer dealing only with governments in a bilateral (or even multilateral) context. It must now also deal with NGOs, trade organisations, and civil and consumer associations, which means that it has to take account of international public opinion. "International civil society" can call upon rapid and effective means of communication and people-to-people interaction, and can successfully mobilise the media and public opinion. The resources of Chinese diplomacy are inadequate to deal with this new situation.

This international civil society is not, however, the only "complicated" factor looming in 2008. The Taiwanese question is mentioned by Tang as a likely problem China needs to prepare for, but one that it can resolve. As Shi Yinhong sees it, this involves two dilemmas that could come to the surface in 2008. The one is that China must find a middle path between taking excessively strong measures of dissuasion (political or military) and having too weak a capacity for intimidation in the face of a possible declaration of independence by Taiwan. The other dilemma facing China concerns reunification, with respect to which it should be careful not to act either too quickly or too slowly. The Presidential election to be held on the island in 2008 could bring about a reaction by China, which is, implicitly, judged to be premature.

Shi Yinhong also views with concern China's place in Asia faced with the prospect of a new American diplomatic offensive in the region. He says that the United States seems once again to be mindful of the importance of what is

happening in Asia, following an initial "weariness" in the wake of 9/11. In spite of the diplomatic and military resources being devoted to the fight against international terrorism and to the Middle East, the United States is fully capable of deploying other diplomatic means ("supple and flexible", 柔性, *rouxing*) to win back lost ground in Asia. Already in 2007, it succeeded in strengthening its position with regard to Korea, India, Mongolia, Pakistan and the Asean countries. The position of China, however, is "stagnating" and even being blocked by difficulties which are undermining relations between it and North Korea and bringing about a weakening of Beijing's influence on Pyongyang<sup>27</sup>. Its relations with South Korea are "neither hot nor cold", there is a slowing down of initiatives in South-East Asia, and difficulties have arisen as a result of internal disturbances in Myanmar. Despite a relative improvement in relations with Japan, the situation in Asia poses a risk of becoming more complicated for China in 2008.

Shi Yinhong also notes some gains in China's African policy, as well as in its energy diplomacy and even in terms of military development. But the international situation is such that even these gains have not been without dubious effects. Military modernisation is reviving concerns about a "(future) Chinese threat", but Shi wonders whether the spirited reactions on the part of American strategists, generals and of course neo-conservatives do not come from the fact that the Chinese army

---

<sup>27</sup> In this context we should note Kim Jong-Il's visit to Beijing, scheduled for March (unconfirmed): "North Korean Leader May Visit China in March: Report", AFP, 27 January 2008. This position differs from what Chinese commentators usually say; see François Godement, "Ce que la Chine chuchote au sujet de la Corée du Nord..." [What China is whispering about North Korea...], *China Analysis*, n°9, October 2006, and Michal Meidan, "Pourquoi les États-Unis ont-ils cédé sur le dossier nord-coréen?" [Why has the United States given ground on the North Korean question?], *China Analysis*, n°13, March-April 2007.

is finally beginning to present a real challenge, which would explain why “nerves are frayed” in the United States...

The basic point alluded to by Shi is the response of China's diplomacy. Thanks to a rhetorical subtlety, he manages to criticise and warn in a politically correct way. China has to take account of the rapid changes to the international system. It cannot let itself be limited by its gains or by the thinking behind them. “*What constituted success a generation ago could be the cause of failure in a generation's time*”. It is therefore possible that the postulates of the 16th Central Committee concerning a “period of strategic opportunity” and “peaceful development” are no longer in step with the change in the international political situation and its major trends.

The principle of “scientific development” put forward by the Party and the government is an attempt to respond to the imbalances of Chinese development (especially in the economic sphere). The challenge, however, lies in how things are implemented. China's ability to take on board the new imperatives of the national and international situation and to adapt to them will be determining “for the international configuration in which China acts and for the fate of the country” (国运, *guoyun*).

## 8. Should the European Union be taken seriously?

An analysis by Mathieu Duchâtel, based on:  
– Li Yonghui, “A powerful China; China-Europe relations in flux”, *Xiandai guoji guanxi*, vol. 12, December 2007, p. 28-30.  
– Feng Zhongping, “The European Union is seeking to promote the construction of an efficient international multilateral system”, *Xiandai guoji guanxi*, vol. 12, December 2007, p. 20-21.

Chinese academics, heavily influenced by a culture of realist theories, are keen to

draw attention to the fact that the international order is undergoing a period of great structural change. The old order has not quite disappeared; the new order is still emerging. In the eyes of these writers, China's rise in power represents the principal dynamic of this transformation, in which the European Union (EU) is only a minor player. The Europeans are seen as having understood that it was time to react. To protect their interests, they are striving to promote a new form of international order, whose regulatory body would be the United Nations, whose foundation would be international law, and whose purpose would be the integration of emerging countries into an “*efficient multilateral system*” (有效国际多边体系, *youxiao guoji duobian tixi*). As a consequence, the diplomatic energy of the Europeans is focused on the adjustment of their policies towards emerging economies, in particular China. The underlying question is what leverage Europe possesses to enable it to build a new order that accords with its interests.

This edition of *Xiandai guoji guanxi* acknowledges first that the change in China-Europe relations is one of the manifestations of a change in the international order. It is characterised by a “*complexification*” (复杂化, *fuzahua*): a transition from a relationship based essentially on economic and trade interactions to a dense fabric of strategic dossiers<sup>28</sup>, with the potential for greater discord. The two writers draw different conclusions, however. Feng Zhongping defends the classic point of view according to which the divisions within the EU over the approach to be taken towards China will prevent it from reaching the strategic targets it has set for itself. He adds that a harder attitude on trade

---

<sup>28</sup> This phenomenon has been well observed by European academics. See for example Nicola Casarini, “The Evolution of EU-China Relationship: from Constructive Engagement to Strategic Partnership”, Institute for Security Studies, European Union, *Occasional papers* no. 64, October 2006.

matters on the part of the Europeans would only result in obstacles to the development of harmonious bilateral relations. This is one way of confirming that it is not up to the EU to determine the agenda for its relationship with China, and that any attempt to force China's hand will be counterproductive. Li Yonghui, on the other hand, adopts an approach that is more pessimistic for China. He believes that there are growing elements of competition within a bilateral relationship that is nevertheless defined as a cooperative one, as European foreign policy becomes consolidated. He perceives that a stronger Europe will pose a risk to China-Europe relations. These two theses are a reminder that China views itself as relatively more powerful than Europe at the level of the bilateral relationship.

For Feng Zhongping, the main strategic objective of the Europeans today is to ensure that China becomes a “*constructive participant*” (建设性的参与者, *jianshexing de canyuzhe*) in the emerging new multilateral world order. In practice, this means involving it in solving and managing strategic regional and global problems such as global warming or the fight against environmental degradation. However, in his opinion this effort to engage China conflicts with the increasingly harder attitude on the part of the Europeans towards trade matters<sup>29</sup>, which has a negative effect on the harmonious growth of bilateral relations, since it is an approach doomed to failure. For Feng Zhongping, the example of Europe-Russia relations shows that Europe is incapable of going beyond an approach anchored in *realpolitik*. In seeking to transform Russia and to encourage its progress towards a democratic system and free society, it hit a brick wall. Even worse, it realised that in attempting to criticise, isolate or sanction Russia, it was only creating problems of

---

<sup>29</sup> “The EU-China Summit, the World does not shake China”, *The Economist*, 29 November 2007.

energy security and economic security. Is Europe then condemned to weakness?

Feng Zhongping's response is clear. The increasing complexity of China-Europe relations is at present an obstacle in the path of the EU's attainment of its strategic objectives. This is because it leads the EU to be overly demanding on matters in which China will refuse to make any concession, leading to differences that affect the whole of the relationship. At the same time, the message from the Europeans has only very limited impact because of internal disagreements. Admittedly, the Treaty of Lisbon is strengthening the EU's capacity to pursue its common foreign and security policy (CFSP)<sup>30</sup>. But as long as the system of a unanimous vote remains in place for the fundamental decisions of the CFSP, Feng Zhongping wagers that the EU will not be capable of developing a level of political influence commensurate with its economic weight.

The argument proposed by Li Yonghui is based on quite a different logic. He believes that China must rethink its definition of the emerging new world order. While China has for a decade been repeating its theory of “*one superpower, many powers*” (一超多强, *yichao duoqiang*), the world is moving more towards a configuration where China, would hold a place of “*quasi-superpower*” (准超级大国, *zhun chaoji daguo*), between the superpower that is the US and the various other world powers. As a consequence, Europe, which has correctly recognised the new dimension to China's

---

<sup>30</sup> The Treaty of Lisbon merges the positions of Commissioner for External Relations and High Representative for the Common Foreign and Security Policy into one position of “High Representative of the Union for Foreign Affairs and Security Policy”. This will lead to removal of the current practice of the Commission dealing with economic and trade matters, and interministerial councils directing political and strategic matters. Furthermore, the Treaty of Lisbon establishes a European civil service [European External Action Service] for its foreign policy.

power, is entering a phase of intense speculation, re-examining its view of China and attempting to redefine the shape of China-Europe relations. It is a strategic turning-point with, for China, the risk that Europe may define it as a “strategic competitor” rather than a partner. The trends in this direction are already apparent, notably in Germany<sup>31</sup>. According to Li Yonghui, they have a psychological basis: China’s rise in power is prompting fear in Europe of a “*new marginalisation*” (再次被边缘化, *zaici bei bianyuanhua*), after its eclipse behind the United States following World War II. Concrete concerns are feeding this vague feeling of fear: the activation of sovereign Chinese capital, or China’s activities in Africa, often considered in Europe to be a form of colonialism.

In particular, Li Yonghui is one of the first observers to consider that the adoption of the Treaty of Lisbon, which is accelerating the unification of Europe and its democratisation, constitutes a potentially negative factor in the development of China-Europe relations (to be understood as a potential threat to Chinese interests). In his view, “*what we used to consider a trend favourable to the birth of a multipolar world, that is, the unification of Europe, is having undesirable effects on China-Europe relations, which are becoming more apparent daily*”. All the more so since this consolidation is taking place in a context in which at least two factors could precipitate a deterioration of bilateral relations.

First, the fight against climate change, a matter in which Europe is trying to take on the mantle of world leader. Chinese and European perceptions on this point are so different that there is considerable potential for dispute, since it is probably the matter in which the political weight of the Union will be the greatest. Secondly,

China and the EU do not have conflicting security interests. Europe is consequently not particularly dependent on China for its security. In these circumstances, it will not sacrifice any of its economic interests to preserve its security interests (in other words, unlike the US), which limits China’s room to manoeuvre. While it could be concluded that this lack of dependence is a potential asset for Europe, for this Chinese academic it represents a structural obstacle to the harmonious development of bilateral economic relations.

In summary, Li Yonghui is repeating the European point of view that the “honeymoon period” between Europe and China is over. However, he calls on Beijing to rethink its diplomacy towards Europe, without necessarily making any recommendations, so that, in his terms, “*the end of the honeymoon is not the prelude to divorce*”.

---

<sup>31</sup> Mathieu Duchâtel, “Relations franco-chinoises : la rupture... avec l’Allemagne ?” [France-China relations: the break... with Germany?], *China Analysis*, no. 16, November-December 2007.

## 9. Africa caught up in AFRICOM, the new US military command

An analysis by Michaël Andréi, based on:  
– Liu Jun<sup>32</sup>, “Objectives and influences in the establishment of Africom<sup>33</sup> by the United States”, *Xiandai guoji guanxi*, September 2007, p. 23-28 and 53.

Chinese penetration in Africa has for some years become an extremely popular topic, but one on which literature written in the Chinese is obviously very restrained, content to trot out the official line: an appeal to the fraternity of developing countries and an alternative development model, in order to respond to increasingly frequent attacks. These protests of goodwill furnish the background for the article written by Liu Jun, who seizes on the establishment of the unified US command centre in Africa (Africa Command, Africom<sup>34</sup>) to elucidate the rationale behind it, the missions that will fall to it, and the influence it will undoubtedly have on the continent. Predictably, China’s role is the subject of only a few passing phrases: on reading the article, it could even be thought that India is more present than China on the African continent.

It is appropriate to highlight the diversity of sources used by the writer<sup>35</sup> (43 references, a quarter of which come from Chinese language sources, and over half from US institutional sources). The whole article is thus well supported and precise.

---

<sup>32</sup> Liu Jun (刘军), researcher at the Institute for International Relations of the University of Yunnan.

<sup>33</sup> Africa Command (Africom) will be a unified command of the American forces for the Africa area.

<sup>34</sup> Announced on 6 February 2007, the unified command should commence activities on 30 September 2008.

<sup>35</sup> In Chinese: institutional sites, State press and specialist international relations journals. In English: a considerable number of *CRS Reports for Congress (Africa Command; Terrorism, the Future, and US Foreign Policy; AIDS in Africa; US Foreign Assistance Issues; Instances of Use of USA Forces Abroad...)* in addition to specialist articles.

Among the reasons for the establishment of Africom, the author emphasises several times the nature of its being a “catch-up” exercise: the United States is putting the finishing touches to the settling of accounts from the Cold War (its “senseless legacy”) and the conclusion to it, which had removed any interest in Africa. Indeed, this rationalisation required the 53 African countries to be handled within a single authority rather than being shared among the various existing regional commands (Eucom, Pacom<sup>36</sup>): the dispersal of the continued overlooking of the countries of Africa had become all the more harmful in that this overlooking has acquired a new strategic value of which the US is well aware. Thus the Eucom Commander explained before Congress that his staff now spend half their time dealing with Africa (they are responsible for some 91 countries in all), when only three years ago they spent only a negligible amount of time on it.

Equipped with a very low number of personnel (400 to 1 000 persons), Africom is therefore intended to have as its mission the promotion of stability in Africa (through training of the local security forces), the limiting of terrorist activities through operations other than war and, lastly, to exercise a soft power going beyond its uniquely military missions. In short: to anticipate crises instead of managing them, and to have the Africans manage these crises instead of managing them itself.

The writer explains, however, with a certain amount of jubilation, that the delegation that traversed Africa to identify a country that would be happy to host Africom<sup>37</sup> met with a very negative

---

<sup>36</sup> Unified command for Europe and for the Pacific. Centcom was responsible for seven countries (Egypt, Eritrea, Djibouti, Ethiopia, Kenya, Somalia and Sudan); Pacom for four countries (the Comoros, Madagascar, Mauritius and the Seychelles); Eucom covered the 42 remaining countries.

<sup>37</sup> He is perhaps getting ahead of himself in proposing the hypothesis that the Pentagon wants absolutely to have Africom stationed in

reception: citing several North African countries that not only refused to host Africom, but also expressed their opposition to Africom being located in neighbouring countries, Liu Jun devotes considerable argument to the African opposition to the project:

– the problems of the Africans must be solved by themselves (that is the primary mission, together with economic development, that the African Union has set for itself);

– numerous African countries are opposed to US interference<sup>38</sup> (a quote by Muammar al-Gaddafi dating from 1973 accompanies this point, which would undoubtedly have been improved by being replaced with something more current);

– finally, Africom is likely to encroach upon the security mechanisms and competency of the United Nations.

To the last argument, the author adds that Africom furthermore will undoubtedly create in countries “such as China or India”, which also have interests in Africa, feelings of “confusion, antagonism and inevitable rivalry”.

The conclusion in relation to the motivation for the creation of this command is borrowed from a US article<sup>39</sup> according to which the two main reasons for the establishment of Africom are the US desire to control the African hydrocarbon reserves and to counter China on the continent of Africa.

If the United States is so keen on this unified command, despite the reservations of the main interested parties, this, the author outlines, is related to its new strategic value, from the triple viewpoint of traditional security, non-traditional security and ensuring security of their supplies, which drive Africom’s missions.

---

Africa. US plans do not yet seem to be entirely firm.

<sup>38</sup> Condemning the US “policy of imperialism and power”, Liu Jun quotes the authors with a concise phrase that links this policy to the emergence of global movements such as Al-Qaeda.

<sup>39</sup> Article reproduced by china news.net.

– Traditional security: Africa’s central place in world maritime movements and the need to secure the continent’s petroleum markets have led the United States to strengthen its “*capacity of armed dissuasion*” on the ground (particularly through the Djibouti and São Tomé bases). Highlighting that the United States feels considerably more threatened today by weak States than by strong ones, and recalling the US opposition between its democratic allies and autocratic opponents, Liu Jun counts approximately thirty US operations on African soil since 1990<sup>40</sup> that are justified by the globalisation of threats and African instability. The demonstration of recent effort is not totally conclusive, however, when he comments that US military assistance to Africa has increased from 12 to 24 million dollars in the period 2000 to 2006: indeed, in 2001 other areas of the US budget increased dramatically and quite visibly. He also borders on insincerity when he explains that “*the influence of the US forces thus extends to almost the entire African continent*”<sup>41</sup>, since the PLA has a close relationship with surely no less than three quarters of the armed forces of Africa.

– Non-traditional security: as set out in US documents<sup>42</sup>, the objectives are an end to the war in Sudan, strengthening the African financial market, US channels of supply of African petroleum, the fight against terrorism, crisis diplomacy and peace-keeping operations (PMO),

---

<sup>40</sup> A figure that would need to be checked, even by including US participation in peace-keeping operations (PMO).

<sup>41</sup> Except by broadening considerably the notion of military influence. Thus the writer includes the IMET program (US International Military Education and Training Program), which provides for the provision of training mechanisms in the use of defence materiel within the scope of the US International Military Education and Training Program. Yet in 2008, Sudan, which cannot seriously be ranked among the accomplices of the United States, is itself the subject of a request for 300 000 dollars (only Eritrea does not appear on the list of potential beneficiaries).

<sup>42</sup> “Africa Policy Advisory Panel”, 2 February 2004.

protection of the environment and maintaining US leadership in the fight against AIDS.

– Security of natural resources: African petroleum, destined to exceed 20% of global production, is already a strategic product for the United States since, in 2005, *“North African and Sub-Saharan African petroleum represented 18.6% of global US imports, thus exceeding the Middle East at 17.4%”*.

In addition, the creation of Africom *“represents a response to the rapid increase in Chinese and Indian influences in Africa”*. However, Liu Jun here stresses only the *“huge efforts of India to attain a military presence”* in Africa<sup>43</sup>. As for the *“development of the friendship between China and Africa”*, it is condemned, he denounces, only by *“neurotics with frayed nerves”* (神经过敏, *shenjing guomin*) demonstrating *“extreme and biased points of view not worth refuting”*<sup>44</sup>.

For the United States, the creation of Africom marks the completion of its strategic global network. Washington's resumption of a diplomacy of traditional assistance and a return to Africa have furthermore gone hand in hand with the crystallisation of US discourse on the deep causes of terrorism, and with a worsening of the situation in Iraq<sup>45</sup>.

---

<sup>43</sup> Citing the two Indian naval bases that are expected to be established on Mauritius and Madagascar, which obviously involve the Indian Ocean much more than Africa.

<sup>44</sup> Not doing so is regrettable since the incriminating article (by Peter Brookes) does no more than pick up on the most frequent criticisms made of Beijing's Africa policy, which are that it is likely to delay economic development and encourage human rights violations.

<sup>45</sup> Liu Jun does not go as far as pointing out that this is therefore subsequent to Chinese efforts in Africa.

## TAIWAN

### 10. The legislative elections, first round of the presidential contest?

An analysis by Hubert Kilian, based on:

- Lin Cho-shui, “The determining factors in the blue wave and the green ebb, *Zhongguoshipao*, 14 January 2004.
- “Is the defeat of the DPP really due to unfairness in the electoral system?” editorial, *China Times*, 17 January 2008.
- Yang Tai-shun, “The Kuomintang is feeling the pulse to win the elections”, *Zhongguoshipao*, 14 January 2008.
- Shih Cheng-feng, “The war against Chen Shui-ban will not contribute to the return of springtime”, *Lienhebao-United Daily*, 18 January 2008.
- Philip Yang Yong-ming, “The KMT, a single great party? There is still some way to go!”, *Lienhebao-United Daily*, 21 January 2008.

Though expected, the extent of the Kuomintang (KMT) victory in the legislative elections held on 12 January 2008 was a surprise across the whole of the political spectrum. Putting aside the technical analyses which sought to determine the influence of the new electoral system<sup>46</sup> on this political

---

<sup>46</sup> Implemented following the constitutional reform of 23 August 2005 that was sought by both the DPP and the KMT, and with the objective of bipolarising politics, the system involves a single-round ballot for a single preferred candidate, through which 73 representatives are elected by simple majority in each of the single-candidate electoral districts, and 34 proportionally-elected seats determined by election by list on the basis of political parties. Six seats are reserved for the indigenous population. Each citizen therefore places two ballot papers in the ballot box. The reform also reduced the number of representatives (113 seats instead of 225), and lengthened the term of the mandate from three to four years. Following this reform, the previous legislative electoral system, based on a system of single-round election of several candidates per electoral district, a legacy of Japanese colonisation that remained in place in Japan until the 1994 reform, was abolished. This system had the peculiarity of allowing several candidates

landslide, many questioned the impact of the blue camp's victory on the outcome of the presidential election due to take place on 22 March 2008. Is it possible for the pendulum to swing back towards Hsieh Chang-ting and the Democratic Progressive Party (DPP)?

The 12 January 2008 legislative elections brought a brutal end to a twenty year increase in the “green” vote and inflicted a historic defeat on the DPP<sup>47</sup>. In 2001, President Chen's group obtained its highest score in an election and became the leading party based on numbers of seats, though it still did not hold an absolute majority<sup>48</sup>. Today, the DPP has declined in all of the electoral districts, including the seven districts and towns where it had harnessed more than 52% of the vote in the 2004 legislative elections.

---

from a single party to stand within the one electoral district. Depending on the electoral district, the number of seats available ranged from one (the Jinmen district) to thirteen (the Taoyuan district). A candidate could therefore be elected with a very low percentage of the vote within an electoral district when competing against particular candidates in his party, which gave rise to complex strategies for distribution of the vote within each party in each electoral district.

<sup>47</sup> The KMT won 53.5% of the votes, with 81 seats out of 113. The DPP collected only 38.17%, or 27 seats. The small political parties were annihilated. Only the non-partisan Alliance, a group close to the KMT, won 4 seats. The People's Party won one of the six seats reserved for representation of the indigenous population. The two referendums called for by the people, one proposed by the KMT, the other by the DPP, ended in failure, since only 26% of voters answered the two questions, concerning the return of the KMT's assets to the State (DPP), and the extension of Parliament's powers of inquiry in instances of corruption (KMT).

<sup>48</sup> Out of the 225 seats in the Legislative Yuan at that time, it won 89, or 39.1%.

Lin Cho-shui<sup>49</sup>, one of the rare politicians in the DPP to have foreseen the extent of the party's crushing defeat, is among those who are inclined to attribute this failure to national rather than strictly local causes. In his view, the single-round single-candidate ballot has brought about a radical change in the Taiwanese political landscape, much more so than in Japan, where the same reform, adopted in 1994, had little impact on the distribution of power among the parties. The popularity of the political party is, in his opinion, becoming a more critical element than the existence of electoral bastions. This is a comparison that Philip Yang takes up in *Lienhebao* by analysing the enhanced effect of this electoral system as involving a growing assumption of responsibility in the island's politics: the seats of the MPs are now won or lost on the basis of the party's political performance and no electoral district can be held for ever, which should result in a weakening of local factions and of clientelism. In the same vein, the *China Times* editorial believes that the new electoral system accentuated the mood of the electorate, thus describing the election as a vote of defiance (不信任投票, *bu xinren toupiao*) of the President.

Continuing his analysis on a tactical level, Lin Cho-shui notes that Chen Shui-bian's error (Chen Shui-bian having led the campaign by sweeping aside all sectors of public opinion, and relying simultaneously on independence-unification rhetoric, a campaign of strong "de-Chinification"<sup>50</sup>

---

<sup>49</sup> Lin Cho-shui participated actively within the DPP in discussions relating to the reform of the electoral system. He was opposed to a pure and simple reduction in the number of representatives without amendment to the electoral system. See "DPP Lawmaker says party will not win by halving legislature", *Taiwan News*, 18 August 2005. Considered to be one of the theoreticians of independentism, he resigned in a display of opposition against the Head of State in November 2006.

<sup>50</sup> "Liberty Square plaque to be installed at the TDMH", *China Post*, 8 December 2007.

and the island's admission to the UN<sup>51</sup>) was to select candidates whose positions were too extreme. Considering that "independentism" had become one of the central values of the Taiwanese political landscape, he chose to rely on this ideologically-won constituency, estimated at 38%. The strategy proved to be ineffective in the context of the new ballot process. On the contrary, even though the Kuomintang benefited from its very high local foothold, he worked on uniting his camp and muzzling the most conservative factions in its ranks in order to gain renewed popularity for the localist trend (本土派, *bentupai*) as in the time of Lee Tenghui<sup>52</sup>, and capable of winning over the centrist constituency. Shih Cheng-feng, an academic specialising in national identity and close to the independentists, is of the same mind as Lin Cho-shui and sees the break with the Taiwan Solidarity Union (台灣團結聯盟, *Taiwan tuanjie lianmeng*), provoked by an excess of authoritarianism by the DPP (大哥欺負小弟的惡霸作為, *dage qifu xiaodi de eba zuowe*), as one of the determining factors in the defeat.

At the moment of reckoning of the legislative elections, the main question, which continues to preoccupy the political class today, is whether the absolute majority obtained by the KMT in the Parliament could pose an obstacle to the victory of the candidate Ma Ying-jeou in the March 2008 presidential election.

The idea echoed in the articles is that a swing of the pendulum (鐘擺效應, *zhongba xiaoying*) is not impossible. Scared by the extent of the recent victory of the KMT, as Philip Yang and the *China*

---

<sup>51</sup> "Chen says referendum can't be stopped", *Taipei Times*, 8 December 2007.

<sup>52</sup> It was by developing a political line founded on localism, originating in 1993 and the removal of the hard and very conservative faction of General Hau Pei-tsun, that Lee Tenghui was able to dominate the independentist trend and keep the DPP under the 33% bar. In 2000, Lee Teng-hui discreetly supported the green camp, enabling Chen Shui-bian to win the decisive 11% of the vote in his 2000 victory.

*Times* editorial note, or moved by a sentiment of compassion, characteristic of Taiwanese culture, after the harshness of the defeat suffered by the DPP, as Yang Tai-shun points out, the centrist voters could shift their vote to Hsieh Chang-ting.

Philip Yang considers such a swing of the pendulum both unlikely and undesirable. Describing the fear of the return of an all-powerful KMT as irrational, and confronted with the difficult matter of relations between the two shores, he considers it essential that there be strong presidential leadership in Taiwan; its absence would result in an immobility that would be damaging to the Taiwanese people's confidence in democracy. Yang Tai-shun, who emphasises that the KMT now holds a sufficient majority to dismiss the President of the Republic, shows how the DPP has tried without success to awaken the old fears concerning the Chinese authoritarian past of the KMT through its campaign of "de-Chinafication". He believes that the substantial victory shows that the KMT can now unashamedly wear its identity before the electorate.

For Shih Cheng-feng, the swing of the pendulum could nevertheless happen, but on several conditions. Hsieh Chang-ting must first stop fuelling confusion over his mainland policy, a strategy developed with the objective of competing with Ma Ying-jeou for the centre of the political chessboard. He must then unite the DPP, woo Lee Tenghui's constituency and cease being the hostage in factional wars, and lastly obtain the assistance of President Chen.

Conscious of this risk, the KMT is being twice as careful and is keeping a modest profile, as it did on the evening of the victory. The rate of participation in these legislative elections was 58.5%, as against an average of about 80% for the presidential elections...

## 11. The economic program of the presidential candidates

An analysis by Mathieu Duchâtel, based on:

- "Comparaison of the economic and fiscal policies of the two presidential candidates", editorial, *Jingji ribao* ("Economic Daily"), 24 January 2008.
- "An economic policy must offer markets not sweets", editorial, *Gongshang ribao* ("Trade and Industry Times"), 27 January 2008.
- "A global vision is needed for the economy", editorial, *Zhongguo shibao-China Times*, 25 January 2008.

Spread by the Kuomintang and passed on by the media, an atmosphere of economic decline is going hand in hand with the end of the reign of Chen Shui-bian in Taiwan. The arguments are well known. Accused by the KMT of having abandoned good economic management in order to concentrate on stirring up the issue of identity and the pursuit of a pro-independence agenda, the DPP retorts that national security takes precedence over economic growth and that the KMT wants to sell Taiwan to the Chinese. The island's economic press maintains that the deadlock in relations between the two shores – the governments have not spoken since 1999 – constitutes a bottleneck for growth which, at an average of more than 4% since 2000, is nevertheless equivalent to that of South Korea. However, the rate of growth is not the key to everything. Declining purchasing power, the fear of an increase in unemployment and Taiwan's loss of competitiveness in the region are genuinely real problems<sup>53</sup>. The articles

<sup>53</sup> Since 2000, disposable household income in Taiwan has grown by an average of only 0.4% per annum, that is, less rapidly than prices. Furthermore, the island's economic press are forecasting an unfavourable economic climate for employment in 2008; the Taiwanese economy is particularly dependent on its exports, which contribute over 60% of GDP. The press fear that the 2001 scenario will be repeated: with the bursting of the information technology bubble, the

selected show a KMT keen to lead an economic policy based on rapprochement with China and on the reflationary effects of public investment. For his part, Frank Hsieh, though reputed to be moderate and pragmatic, remains very cautious towards China, towards which he prefers to retain a certain soft focus so as not to offend either the independentists or the centre of the political chessboard. His economic program seems primarily to serve his electoral strategy; the island's economic press already accuse him of viewing China as a security threat and not as an economic opportunity, following the example of Chen Shui-bian. The formulation of an economic program by the two candidates at the end of January is a reminder that this exercise is a balancing act in a Taiwanese context that rests on the reconciliation of two requirements: defence of the island's sovereignty and the pursuit of economic progress.

Under the slogan "openness and loosening" (開放與鬆綁, *kaifang yu songbang*), Ma Ying-jeou rests his program on four pillars, each of which involves relations between the two shores: – The opening up of direct flights in successive stages: changing from charter flights, linking the two shores only at the time of the annual holidays in the Chinese calendar, to weekend charters, then moving to daily flights and eventually to regular connections. The negotiations will be undertaken by the associations on each shore responsible for air transport, under the supervision of the government, which will take a back seat in order not to offend Beijing<sup>54</sup>. Mr Ma has promised that

---

island's unemployment, usually lower than 4%, exceeded 5%. See "Yi ge bei digu yanzhongxing de Taiwan shiye wenti", ("unemployment, a problem of underestimated seriousness"), *Gongshang shibao*, 24 January 2008. Lastly, the island's competitiveness is threatened by the free trade agreements that the countries of the region are signing, while China is bringing all its influence to bear to see to it that Taiwan is excluded from these.

<sup>54</sup> Ma Ying-jeou's plan is to broaden the model for negotiation that is already in place, which will see

direct flights would be finalised within two years.

– The immediate opening up of Taiwan to Chinese tourists, in order to boost local consumption.

– An end to the quota that prevents Taiwanese companies from investing more than 40% of their capital in China. Quantity controls on capital will be replaced by restrictions on the types of technologies transferred to China<sup>55</sup>.

– Lastly, Ma Ying-jeou wants to impose the principle of allowing direct Chinese investment in Taiwan, with the objective of revitalising the property market and of attracting capital to industrial production, even if safeguards would remain in place for a small number of industries. The lack of direct flights has kept foreign investors away from Taiwan. While rich Taiwanese invest in China or in tax havens, the investment deficit in the local economy means that the government holds a potential lever to boost growth if it manages to boost investment.

Frank Hsieh's economic program is constructed in part around these four themes. Yet, despite his reputation as a moderate pragmatist keen to compromise with China, his positions are much more cautious than those of his rival. Frank Hsieh must mobilise the various components of the DPP and its constituency while still trying to win over the centrist constituency. He must therefore counterbalance his supposed

---

the Taipei Airlines Association negotiate with Beijing's Civil Aviation Association. Taiwanese law permits the associations to negotiate directly with Chinese representatives if they if they are so authorised by the government. They thus act under its supervision, sometimes with officials who attend the negotiations in a personal capacity.

<sup>55</sup> These controls on technology transfer are already in existence and are in addition to the controls on the total capital invested in China. The government has made exceptional allowance for the construction in China of a 0.18 micrometre semiconductor factory made in 12 inch wafers. Maintenance of Taiwan's technological advantage over China in the semiconductor industries is considered essential by the Taiwanese government.

desire for openness with a strong position on the defence of Taiwanese sovereignty, which one part of the DPP considers to be threatened by the increasing interactions with China. However, according to the *Zhongguo shibao*, his economic policy remains profoundly influenced by DPP ideology, which views China as a threat. While everyone expected Frank Hsieh to reposition himself at the centre after President Chen announced that he was leaving control of the campaign to the former mayor of Kaohsiung<sup>56</sup>, it seems that Mr Hsieh's advisers are in fact not well disposed towards a policy of openness.

So, while Frank Hsieh is neither opposed to the opening up of direct flights nor to Chinese tourism (though in small numbers), he has not for the time-being proposed any model of credible negotiation to reach agreement with China. Unlike the KMT, which has already agreed with the Chinese on negotiation of an agreement on the basis of recognition of the 1992 consensus, the DPP still hopes to negotiate these two matters by merging them into one, and without preconditions. This has to be interpreted either as a desire to retain a strategic vagueness in order to give guarantees to the centre and to the pro-independence constituency, or as a position anchored in DPP ideology. This choice of a half measure is similarly apparent on the matter of the 40% quota: Frank Hsieh's team is proposing case by case control of investment projects in China and seems to be leaning towards moderation, but with the risk of creating a

---

<sup>56</sup> Before the elections, numerous disagreements on mainland policy had surfaced between President Chen and Frank Hsieh. The press had even gone as far as wondering whether these disagreements were not part of the plan, with the President harnessing the pro-independence constituency and the candidate attempting to rally the centrists behind the DPP (see "Chen, Hsieh deny split on China policy", *Taipei Times*, 14 November 2007). Their disagreement lies deeper and seems to be coupled with personal enmity, but Mr Hsieh's campaign incorporates Chen Shui-bian's positions, which have had the effect of moderating his own.

very heavy bureaucracy when even the controls in place today are constantly being by-passed. Lastly, he is categorically refusing Chinese investment in property and in the sectors of defence, agriculture and cutting-edge technolog.

On domestic matters, Ma Ying-jeou is proposing a Keynesian-inspired policy of reflation by public investment: the "twelve patriotic infrastructure projects" (愛台灣 12 項建設, *ai Taiwan shi'er xiang jianshe*). At a total cost of 81 billion dollars, these "twelve projects" primarily include transport infrastructure (modernisation of the port of Kaoshiung and the Taoyuan international airport, construction of a logistics centre at Taichung...), sustainable development projects (reforestation, flood remediation measures, rehabilitation of coastal areas), as well as the implementation of a wireless internet network covering the entire island. They lie at the heart of the policy of kick-starting the economy conceived by Ma Ying-jeou, who calculates that the income derived from them will cover their costs. The critics of this policy argue that it takes Taiwan back to the era of a planned economy, with all the inherent risks of collusion between the State and the construction companies.

Frank Hsieh, for his part, likes to repeat that the pursuit of economic growth at all costs makes no sense and that it is necessary to build a "happy economy" (幸福經濟, *xingfu jingji*). The emphases of his campaign are more readily of social inspiration, without necessarily being socialist. His priority is to "rid Taiwan of its four evils" (除台灣四害, *chu Taiwan sihai*): unemployment, high prices, the cost of real estate and credit card debt (the famous "credit card slaves" or 卡奴, *kanu*<sup>57</sup>). While he may not be proposing

---

<sup>57</sup> In the first quarter of 2006, when the problem assumed national proportions following a series of suicides, the "credit card slaves", who spend until they are crippled by debt, represented up to 7% of wage earners. See "No card slaves, just credit abusers", *Taipei Times*, 11 March 2006.

any clear measure to remedy these problems, his essential thrust is to promote “*cultural innovation*” (文化創新, *wenhua chuangxin*) in order to reap benefits in both the competitiveness of small and medium businesses and urban renewal.

If Ma Ying-jeou's message is directed to the major employers, his promise of a vigorous up-turn in the economy and his criticism of the DPP's economic performance appeal to those in Taiwan who are nostalgic for the period of strong growth that continued until the end of the 1990s. Hsieh Chang-ting, on the other hand, is targeting very specific groups of the population, which perhaps signifies a more sophisticated electoral strategy. Starting with the groups experiencing financial difficulty: he is promising free social security to all those who have been unable to pay their insurance contributions in recent years. Next, priority for young people: all housing in which the State invests will be let to them first and foremost. Lastly, by promising to lower death duties to 10%, he is appealing to the whole of the Taiwanese population. These measures have been strongly criticised by the island's economic press, which consider that they will have little effect on Taiwan's competitiveness and that the government no longer has the resources to fund them. The press are pushing without pretence for a global up-turn in the economy through the conquest of new markets.

In 2000, the support given by the major Taiwanese entrepreneurs to Chen Shui-bian, the only candidate to extol the virtues of economic openness with China, had largely explained the success of his “new centre” line (新中間路線, *xin zhongjian luxian*), inspired by Tony Blair. In 2004, President Chen had been re-elected on the basis of a nationalist program by stirring patriotic sentiment and using a strategy of emotional

mobilisation<sup>58</sup>. These two types of campaign encapsulate in a very precise way the range of positions within the DPP vis-à-vis China. Frank Hsieh was expected to campaign along the lines of the 2000 campaign. Yet it seems that he has instead chosen a strategy of mobilisation based on nationalist sentiment<sup>59</sup>. Lying behind these two types of strategy is a clash of two electoral theories. On the one hand, Anthony Downs puts forward the theory that to win an election, a party must formulate positions closest to the centrist constituency in order to muster the greatest level of support<sup>60</sup>. On the other hand, the salience theory involves the argument that political parties should try to focus the public's attention on matters that highlight their strengths and their competitors' weaknesses, and strive above all to give the campaign an agenda. Thus all the DPP would need in order to win would be for the election to be played out on the matter of national identity, while it would lose if it is played out on the economy<sup>61</sup>.

---

<sup>58</sup> Some authors, like Cal Clarke, have observed the paradoxical nature of this victory in that Chen Shui-bian's program was so far removed from the centre (and from the positions taken in 2008). See Cal Clarke, “The paradox of the national identity issue in Chen Shui-bian's 2004 presidential campaign: Base constituencies vs. the moderate middle”, *Issues and Studies*, vol. 41, no. 1, March 2005, p. 87-112.

<sup>59</sup> After the defeat in the legislative elections, Mr Hsieh's team attacked Ma Ying-jeou on his loyalty to Taiwan, accusing him of holding a US green card. He then accused the KMT of encouraging China to buy Taiwanese voters for the KMT by offering, through a pro-KMT businessmen's association, low-price direct charter flights during the Chinese New Year period. See “Hsieh camp complains about flights”, *Taipei Times*, 4 February 2008; “Hsieh questions Ma's statements on green cards”, *Taipei Times*, 30 January 2008.

<sup>60</sup> Anthony Downs, *An Economic Theory of Voting*, Harper Rose, New York, 1957.

<sup>61</sup> Dafydd Fell has applied this theory well to the Taiwanese situation: Dafydd Fell, *Party Politics in Taiwan, Party Change and the Democratic Evolution of Taiwan, 1991-2004*, Routledge, 2005, p. 18-20.

## The press in this issue

21 世纪经济报道, *21 Shiji jingji baodao*. Cantonese daily belonging to the Nanfang press group, considered since its creation at the beginning of the 21<sup>st</sup> century to be one of the best newspapers among the China economic press. As a result of political pressures, it has apparently lost something of its independence.

财经, *Caijing*. Fortnightly economic review based in Beijing, *Caijing* adopts liberal positions on the major contemporary economic and financial issues.

第一财经, *Diyi caijing-China Business News* was launched in 2004 and became famous for revealing a scandal implicating the Taiwanese company Foxconn. Some consider it to be the Chinese newspaper that exercises the most critical perspective. In this respect, it has taken up the flame of *21 Shiji jingji baodao*.

工商時報, *Gongshang shibao*. Taiwanese economic daily under the control of *Zhongguo Shibao*.

国际金融报, *Guoji Jinrong bao*. International finance daily of the *China People's Daily* press group.

經濟日報, *Jingji Ribao*. Taiwanese economic daily under the control of *Lienhebao*.

聯合報, *Lienhebao-United Daily*. Founded in 1951, one of the four largest dailies in Taiwan based on circulation and displaying a pro-Kuomintang political position in elegant and sometimes meticulous language.

南方周末, *Nanfang zhoubao*. Cantonese weekly that acquired great notoriety in the 1990s by denouncing corruption scandals. Despite a certain taking into hand by the Chinese authorities, it retains a certain freedom of expression.

世界经济与政治, *Shijie Jingji yu Zhengzhi-World Economics and Politics*. Academic monthly of the Institute of World Economics and Politics of the Chinese Academy of Social Sciences.

文匯報, *Wenweibo*. Directed by Zhang Guoliang, former President of the Xinhua agency and member of the Committee of the Chinese People's Political Consultative Conference, *Wenweibo* is one of the main propaganda organs of the regime in Hong Kong.

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

学习时报, *Xuexi shibao*. Monthly of the Central Party School, and as such, a fundamental tool for following discussions and the political line of one of the regime's fundamental institutions.

中国国情国力, *Zhongguo guoqing guoli* (China National Conditions and Strength). Monthly review of the National Bureau of Statistics.

中国经济时报 *Zhongguo jingji shibao*. Daily published by the Development Research Centre of the State Council.

中国青年报, *Zhongguo qingnianbao*. National information daily of the Communist Youth League. Sometimes used to feel the pulse of power since Hu Jintao, who was First Secretary of the League in 1984-1985, relies heavily on it, to the extent that it has been possible to talk of a League faction.

中國時報, *Zhongguo shibao-China Times*. Founded in 1950, one of the four largest dailies in Taiwan based on circulation. Located at the centre of the political chessboard, but remains closer to the Kuomintang than to the government.

重慶商報, *Chongqing shangbao*. Economic and commercial daily of the municipality of Zhongqing.

China Analysis-Les Nouvelles de Chine  
Bimonthly electronic bulletin  
published by **Asia Centre**  
27, rue Damesme, 75013 Paris  
[chinaanalysis@centreasia.org](mailto:chinaanalysis@centreasia.org)

**Responsible editor**

François Godement

**Editors**

Mathieu Duchâtel, Michal Meidan

**Editorial Coordinators**

Domestic policy: Michal Meidan

Economy: Thibaud Voïta

Diplomatic and strategic affairs;

Taiwan: Mathieu Duchâtel

**Contributors to this issue**

Michaïl Andréi, Camille Bondois, John

Fox, Hubert Kilian, Pierre Nordmann

**Circulation**

Rozenn Jouannigot

**Acknowledgements**

Florence Biot, Thomas Klau,

Max Mac Guinness