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## Quotes Of The Month

"I heard that there is going to be a fourteen percent increase in the Chinese defense budget. That's a lot. China should undertake to be transparent about what their military build-up means." ~ U.S. Secretary of State, **Condoleezza Rice**, speaking in Sydney ahead of the inaugural ministerial meeting of the trilateral strategic dialogue among Australia, Japan and the United States. Secretary Rice also called on China to have an open trade policy, and said "The growth of the Chinese economy, if done in a rules-based way in which China is fully obeying the rules of the global economy, is a positive development for international growth and for the United States."

**Source:** Financial Times, March 16, 2006

## Trivia Question

How many American school children are studying Mandarin Chinese?  
(cont pg 3)

## FEATURE ESSAY

### Hu's Priority: Remapping China's Regional Development

BY CHENG LI

China is in the midst of a developmental strategy shift. The National People's Congress, in a 97 percent majority vote earlier this month, approved the 11th Five-Year Program (FYP, 2006-2010). The near unanimous approval of the plan was something of a victory for President Hu Jintao and Premier Wen Jiabao as it is the first FYP under their watch. The implementation of this FYP will profoundly remap China's economic landscape in accordance with the new leadership's political vision and policy priorities.

Despite rapid economic growth, the past leadership of Jiang Zemin in the 1990s and early 2000s became known for growing economic disparity between urban and rural areas, coastal and inland regions, and new economic sectors and smokestack industries. Jiang allocated a disproportionately large amount of economic resources to Shanghai and other coastal cities while many inland provinces lagged behind. In contrast, Hu and Wen have set their sights on fixing the serious problems associated with their predecessor's elitist developmental approach.

The 11th FYP embodies the new leadership's policy shift in four significant ways: 1) from a fixation on rapid GDP growth to social cohesion; 2) from a focus on urban construction and foreign investment to more concern about rural development and domestic demand; 3) from a policy that favors entrepreneurs and other elites to a populist approach that protects the interests of farmers, migrant workers, the urban unemployed, and other vulnerable social groups; (cont pg 2)

## In The News

**BEIJING** The fourth annual session of the tenth National People's Congress (NPC), China's top legislature, took place from March 5 to 14. The NPC approved China's next five-year program for national economic and social development, the centerpiece of which is a new reform plan to create "a socialist countryside". China's new policy aims to address the country's rural woes and narrow the economic gap between rural and urban areas by promising an infusion of government cash for the countryside. Chinese Premier Wen Jiabao delivered the annual government's work report at the opening ceremony of the NPC, and said China targeted an eight percent economic growth this year and would take measures to keep the development "fast" and "steady".

**TAIPEI** Taiwan's President Chen Shui-bian announced in late February that the National Unification Council, a body in charge of working towards unification with China, would "cease to function", and guidelines set by the Council which define unification as a national goal would "cease to apply". His announcement came in defiance of warnings from both China and the United States. The Council has been moribund since Chen took office in 2000, but has had considerable symbolic importance. China responded by warning that Taiwan's decision to scrap the Council could bring disaster. The United States, Taiwan's closest ally, has also made clear that it supports the status quo, though China also warned against the United States playing down Chen's announcement.

and 4) from a single-minded emphasis on coastal development to a more balanced regional development strategy.

Hu and Wen's objective seeks to reduce the staggering economic divide between the coast and the interior (*dongkuai ximan*), and between the southern and northern areas of the country (*nangao beidi*). Specifically, the 11th FYP has placed Chongqing and Tianjin on the fastest track toward economic growth. The government will invest 350 billion yuan (US\$43.5 billion) in new industrial renovation projects in Chongqing over the next five years. Chongqing's rapid growth envisions a radiant effect on the trade and economic integration of the Chengdu-Chongqing economic zone in inland Sichuan province, which includes 35 cities and 99.6 million people. By 2010, the total GDP in this economic zone is expected to reach 1.4 trillion yuan (US\$173.9 billion) – twice as high as the region's current GDP.

Tianjin's projected development over the next five years is even more impressive. The 11th FYP designates Tianjin's Binhai District as China's third national-level special economic zone (Shenzhen and Shanghai's Pudong are the other two). Located east of Tianjin, the Binhai District was founded a decade ago and is comprised of 2,270 square kilometers of land, 1.35 million people, and 153 kilometers of seashore. The central government will allow for a number of preferential policies in Binhai in the next five years: including more flexible land use, financial liberalization, reinvestment of revenues, the establishment of a duty-free zone, and a reduction in enterprise income taxes from 24 to 15 percent. The city will invest 40 billion yuan (US\$4.97 billion) in the expansion of Tianjin Port and a US\$10 billion railway between Tianjin and Beijing will be completed within two years. Because of Tianjin's location, this new phase of the city's development will likely stimulate the economies of its neighboring cities and regions, including vast areas of China's beleaguered northern and northeastern provinces.

These investments and favorable policies in favor of Chongqing and Tianjin are in sharp contrast to the previous regional developmental strategy in the Jiang era. Shanghai's total investment in fixed assets in 1998, for example, was 196.6 billion yuan, a figure significantly higher than the investment in the three other municipalities directly under the central government — Beijing (112.4 billion yuan), Tianjin (57.1 billion yuan), and Chongqing (49.2 billion yuan). Under the leadership of Hu and Wen, the economic prospects of Chongqing and Tianjin have dramatically changed.

Perhaps not surprisingly, Hu's protégés now occupy some of the most important leadership posts in both Chongqing and Tianjin. The newly appointed Party secretary of Chongqing, Wang Yang, is a rising star in the "fifth generation" of Chinese leadership. Wang came under Hu's wing in the early 1980s when both worked in the leadership of the Chinese Communist Youth League (CCYL). Hu was secretary of the national committee and Wang was secretary of the Anhui provincial committee. Similarly, the newly appointed chair of the provincial people's committee of Tianjin, Liu Shengyu, is a long-time friend of Hu's. Liu worked under Hu in the CCYL central committee in the early 1980s and also served as vice president of the Central Party School between 1993 and 2000 when Hu was the school's president.

Dai Xianglong, mayor of Tianjin, previously served as governor of the People's Bank. It is widely believed that Jiang removed Dai from the top post of China's central bank so that his own protégé, Zhou Xiaochuan, could take over the position. Dai also failed to obtain a seat in the Politburo in 2002. Now, with the new leadership's emphasis on Tianjin and Chongqing, both Dai Xianglong and Wang Yang have a good chance to become members of the Politburo in the 17th National Party Congress in 2007.

Leaders in Shanghai and Guangdong, which were previously favored under Jiang's leadership, are not happy with this shift of regional emphasis. They have on occasion tried to challenge the macroeconomic adjustment policies adopted by Hu and Wen and have even argued that the FYP relies too much on outdated socialist planning that is not conducive to a market economy. However, these leaders are currently on the defensive as they have been tainted either by frequent mass protests or corruption scandals in their own constituencies. Besides, economic achievements in their regions have not been entirely based on market mechanisms.

China's new phase of development does not mean that Shanghai and Shenzhen will lose their roles as major economic players in the country. Due to their advantages in human and financial resources as well as their proximity and familiarity with the outside world, these two showcases of the country's coming of age will remain dynamic economic leaders in the future.

Overall, geographical disparities and factional politics in the country are not necessarily zero-sum games. Nevertheless, if the 1980s were the "era of Shenzhen," and the 1990s were the "era of Shanghai," the next decade will likely be the "era of Tianjin and Chongqing."

**Cheng Li is William R. Kenan professor of government at Hamilton College and a nonresident senior fellow at the Brookings Institution.**

## PUBLICATIONS

*"Democracy Agenda May Revive U.S. Interest in Hong Kong"*, Hong Kong Journal, January 1, 2006

By **Bates Gill**, Freeman Chair in China Studies, CSIS and **Chin-Hao Huang**, Research Intern, Freeman Chair in China Studies, CSIS

Gill and Huang note that after the 1997 reversion of Hong Kong to China, Washington's interest in the former British colony has been uneven at best and steadily lagging at worst. However, this lagging attention may be turning around, especially in light of George W. Bush's second-term focus on democratization around the world. Renewed attention to Hong Kong should be welcomed and sustained, while it should also be broadened to recognize Hong Kong's importance to U.S. interests extends beyond the democracy issue alone. Washington should not lose sight of the broader interests the United States has in Hong Kong, including counterterrorism efforts, maintaining a pro-market economic and trade system, intellectual property rights protection, and other critical issues.

## CONFERENCES AND EVENTS

**February 24**      *Roundtable Luncheon on China-Africa Relations*

China's expansive engagement in Africa has accelerated swiftly in recent years in line with its rise on the global stage. This roundtable luncheon, hosted by the Freeman Chair in China Studies and the Africa Program of CSIS, aimed to update participants on the various initiatives under way in Washington and elsewhere examining China's role in Africa and the implications for the U.S. foreign policy. The meeting also discussed new issues on China-Africa horizon. For more information on this event, please contact Savina Rupani at [srupani@csis.org](mailto:srupani@csis.org).

**March 22**      *Consolidating Taiwan's Democracy: Challenges, Opportunities, and Prospects*

This symposium was jointly organized by the Brookings Institution's Center for Northeast Asian Policy Studies, the Center for Strategic and International Studies' Freeman Chair in China Studies and the Institute for National Policy Research. Speakers addressed issues relating to various key pillars of the democratic consolidation in Taiwan and the implications for U.S. policy and cross-Strait relations. For more information on this event, please contact Savina Rupani at [srupani@csis.org](mailto:srupani@csis.org).

**March 23**      *Taiwan's Role in Peace and Stability in East Asia: A Discussion with Dr. Ma Ying-jeou*

The Brookings Institution and the Center for Strategic and International Studies (CSIS) co-hosted a discussion of Taiwan's role in peace and stability in East Asia featuring **Dr. Ma Ying-jeou**, Mayor of the Taipei City and Chairman of the Kuomintang (KMT). **Richard Bush**, Senior Fellow and Director of Brookings' Center for Northeast Asian Policy Studies, and **Kurt Campbell**, Senior Vice President of CSIS, hosted the event and moderated the question and answer session following Dr. Ma's presentation.

## CORRECTION

In the February issue of the Freeman Report, page 2 line 3 should read: "In December 2003 President Bush – a friend of Taiwan – felt compelled to caution against these moves when asked about Taiwan at a press conference during the visit of Chinese Premier Wen Jiabao." Correcting 2004 to read 2003.

## TRIVIA ANSWER

**There are thought to be about 50,000 American school children studying Mandarin Chinese at public schools and another 50,000 outside the public system, in private and specialist schools.** In 2002, there were about 34,000 students learning Mandarin in U.S. universities, a 20% increase on the 1998 figure.

**Source:** *"America in 'critical need' of Mandarin"*, The Guardian Weekly, March 10, 2006

## PUBLICATIONS FROM THE FREEMAN CHAIR 2005\*

\* Please visit our website to access archived publications dating back to 2002.

### November

*"China's Evolving Regional Security Strategy"*, Power Shift: China and Asia's New Dynamics. California: 2005.

By **Bates Gill**, Freeman Chair in China Studies, CSIS

### October

*"More Strait Talk: Ten Years after the Taiwan Missile Crisis"*, China Brief, Jamestown Foundation, October 25, 2005

By **Bates Gill**, Freeman Chair in China Studies, CSIS and **Chin-Hao Huang**, Research Intern, Freeman Chair in China Studies, CSIS

*"China's Soft Power in Africa: From the 'Beijing Consensus' to Health Diplomacy"*, China Brief, Jamestown Foundation, October 13, 2005

By **Drew Thompson**, Assistant Director of the Freeman Chair in China Studies, CSIS

*"Injecting and Infecting: Stigma and Zero Tolerance in China"*, Global AIDSLink, September/October 2005 - #93

By **Drew Thompson**, Assistant Director of the Freeman Chair in China Studies, CSIS

[Chinese Translation is available online.]

*"Taiwan: When No News is Good News"*, Asia Times, October 8, 2005

By **Chin-Hao Huang**, Research Intern, Freeman Chair in China Studies, CSIS

### September

*"Diverging Paths Hurt U.S. and Europe"*, International Herald Tribune, September 6, 2005

By **Bates Gill**, Freeman Chair in China Studies and **Robin Niblett**, Director of Europe Program, CSIS

### August

*"China's Emerging Interests in Africa: Opportunities and Challenges for Africa and the United States"*, African Renaissance Journal, July/August 2005

By **Drew Thompson**, Assistant Director, Freeman Chair in China Studies, CSIS

*"Bringing China Closer to the Market"*, Asia Times, August 02, 2005

By **Dag Detter**, founder and director of Detter & Co., and former Director of the Division for State Owned Companies of the Ministry of Industry in Sweden, and **Sue Anne Tay**, Research Assistant, Freeman Chair in China Studies, CSIS

### July

*"China's Asset Management Companies a Liability"*, Asia Times, July 7, 2005

By **Sue Anne Tay**, Research Assistant, Freeman Chair in China Studies, CSIS

*"The 'People's War' Against Drugs and HIV/AIDS"*, China Brief, Jamestown Foundation, June 21, 2005

By **Drew Thompson**, Assistant Director, Freeman Chair in China Studies, CSIS

*"China Confronts HIV/AIDS"*, Population Reference Bureau, June 2005

By **Drew Thompson**, Assistant Director, Freeman Chair in China Studies, CSIS

### June

*"China's Evolving Approach to Counterterrorism"*, Harvard Asia Quarterly, Winter/Spring 2005

By **Bates Gill**, Freeman Chair in China Studies, CSIS and **Melissa Murphy**, Research Associate, Freeman Chair in China Studies, CSIS

### May

*"Beijing's Participation in UN Peacekeeping Operations"*, China Brief, Jamestown Foundation, May 10 2005

By **Drew Thompson**, Assistant Director, Freeman Chair in China Studies, CSIS

### April

*"China and India: Rivals or Partners?"*, Far East Economic Review, April 2005

By **Pramit Mitra**, Research Associate, South Asia Program, CSIS and **Drew Thompson**, Assistant Director, Freeman Chair in China Studies, CSIS

## FREEMAN FACTS:

### Sino-Russian Economic Ties

1. Figures from the Chinese Customs show that the trade volume between China and Russia in 2005 reached USD 29.1 billion, up 37.1% year on year.
2. China is now Russia's 4th largest trade partner, and Russia is China's 8th largest trade partner.
3. In 2005, border trade between the two countries reached USD 5.57 billion, accounting for 19.1% of total bilateral trade.
4. Sino-Russian trade was approximately 1/10th of China's trade with the United States in 2005.
5. By the end of 2005, China's contracted investment in Russia has totaled USD 977 million, whereas Russia's contracted investment in China has totaled USD 1.405 billion.

Sources: BBC, Xinhua

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The United States has a long-standing relationship with China and the countries of East Asia, which play increasingly important roles in future international economics, politics, culture, and security. In the diplomatic, public policy, business, and government fields, the peoples of both China and the United States will benefit from greater mutual appreciation and understanding through broadly based international exchange.

The Freeman Chair's active policy-oriented agenda is dedicated to delivering informed public policy debates, expert briefings, and strategic policy recommendations on Greater China and East Asia to the diplomatic, policymaking, business, and government arenas.

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- China's military modernization and its impact on regional security
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