



The University of  
**Nottingham**

China Policy Institute

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**Briefing Series – Issue 46**

**CHINA'S POLITICS IN 2008:  
CRISES, CELEBRATIONS, PREDICAMENTS**

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**January 2009**

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The China Policy Institute, part of the School of Contemporary Chinese Studies at The University of

Nottingham, was set up to analyse critical policy challenges faced by China in its rapid development. Its goals are to help expand the knowledge and understanding of contemporary China in Britain, Europe and worldwide, to help build a more informed dialogue between China and the UK and Europe, and to contribute to government and business strategies.

## **Executive Summary**

1. When China celebrated its 30th anniversary of Deng Xiaoping's economic reform in 2008, Chinese President Hu Jintao assured the Chinese Communist Party that China "will not go back to the old road, nor side-track into changing its flag."
2. A broad range of crises and celebrations made 2008 an extraordinary year for China. During the year China successfully hosted the Olympics, conducted its first space walk by astronauts, and celebrated 30 years of successful reform and rapid economic development.
3. But China was also seriously affected by a devastating snow-storm, riots in the Tibetan region, a severe earthquake, a widespread milk powder scandal, and confrontations with the international community in the pre-Olympics torch relay.
4. The successful hosting of the Games with a related spending of around US\$35 billion is an important indicator of China's enhanced economic strength. It also demonstrates the CCP's strong ability to manage its domestic agendas.
5. China started off the year preoccupied with preventing overheating in the economy and curtailing inflation. But things took an unexpected turn in the second half of the year when the global financial crisis hit the Chinese economy.
6. Steep rises in unemployment and the economic slowdown put the government once again in a crisis mode. The government had to turn its focus to spurring economic growth and tackling the deteriorating unemployment situation.
7. While the handling of last year's major challenges pointed to improved crisis management capacity on the parts of the Party and the government, the Chinese leadership was caught in predicaments when it comes to political reform.
8. Although Hu Jintao and Wen Jiabao had more political room to maneuver in their second term following last year's 17<sup>th</sup> Party Congress, unexpected disasters and strong vested interests prevented the government from making substantial progress on their policy initiatives.

9. More importantly, although demand for democratization from outside and within the Party was clearly growing, the state was still cracking down on societal voices while lacking a plan for introducing political reforms.
10. Internationally, the collapse of Wall Street highlighted the shortcomings of American-style capitalism. China's standing rose as many countries looked to it to do more to address the global financial and economic uncertainty.
11. China and the U.S. maintained fruitful exchanges on issues of mutual concern through existing mechanisms such as the Strategic Dialogue and the Strategic Economic Dialogue. The 2008 US presidential election was marked by the almost non-existence of "China bashing".
12. China-EU relationship however suffered a setback as China unilaterally postponed the EU-China Summit, aiming to send a strong signal to the many EU state leaders who took an issue with China's stance on Tibet and the Dalai Lama.
13. Cross-strait relations entered a more stable phase in 2008. In an historic move, the Mainland and Taiwan resumed regular direct air, shipping and postal links in December 2008. China also pledged to bolster Taiwan's economy if needed.
14. Looking ahead to 2009, China's foremost concern is to stimulate economic growth. China can therefore be expected to take an even more proactive role to ensure that the external environment remains conducive for it to concentrate on its domestic agendas.

**CHINA'S POLITICS IN 2008:  
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Zhengxu Wang, Liang Fook Lye and Gang Chen\*

**A Year of Glory and Traumas**

- 1.1 The year 2008 marked the 30th anniversary of China's successful reform. A wide range of crises and celebrations also made it an extraordinary year for China. China successfully hosted the Olympics as well as conducted its first space-walk by astronauts. But the country was also seriously hit by a devastating snow-storm, violent protests in the Tibetan region, a severe earthquake, a widespread milk powder scandal, and confrontations with the international community in the pre-Olympics torch relay.
- 1.2 The success of the Beijing Olympics coupled with 30 years of reform and rapid economic growth vindicated China's unique path of development. In a nationally televised speech celebrating 30 years of reform policies, Hu Jintao said that "the significant changes prove that the direction and path of reform and opening-up are completely correct." He assured the ruling Chinese Communist Party that China "will not go back to the old road, nor side-track into changing its flag."<sup>1</sup>
- 1.3 Countering pressures from radical leftist and rightist camps, Hu re-emphasised further economic and social reforms and the reform of the Chinese Communist Party (CCP) leadership. "Standing still and regressing will lead only to a dead end," but China should "not blindly copy the model of Western political institutions."<sup>2</sup>
- 1.4 Hu's resolute remarks were necessary in an extraordinary year of unprecedented challenges. At the beginning of the year, China's economy registered a very high 11.9% year-to-year growth rate as well as alarming price hikes. The government started off the year worrying about an overheated economy with escalating prices.

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<sup>1</sup> Zhu Zhe, "We'll forge ahead with reforms: Hu," *China Daily*, 19 Dec. 2008

<sup>2</sup> *Ibid.*

As the summer drew to a close, however, a serious economic slowdown had hit, and the government had to turn its focusing to spurring economic growth and tackling the deteriorating unemployment situation.

- 1.5 For most part of the year, all eyes were on the Olympics; the CCP's top priority was political and social stability. But a chain of events soon erupted, including the unprecedented snowstorms in southern China in January, riots in Tibet and neighboring provinces in March, international protests disrupting the Olympic torch relay route, and the Sichuan earthquake in May. All these put the government to a serious test.
- 1.6 Although these events caught the state unaware, one positive outcome was the strengthening of the leadership's crisis management capability. China's handling of the aftermath of the Sichuan earthquake greatly enhanced the public's confidence in the Party and the government. The success of the Olympics despite a lot of international misgivings also confirmed China's ability to manage large-scale events and deal with crises.
- 1.7 While China was still basking in the glory of its Olympic success, a tainted milk scandal broke out in September. Though Beijing's response was relatively quick and transparent, especially compared to its handling of the SARS epidemic in 2003, its international image as a commodity manufacturer was nevertheless marred. Consumer dissatisfaction also spread across the country.
- 1.8 Following that, the impacts of the global economic crisis also hit the country. Initially, the de-coupling argument did create the impression that China could be spared from the US-originated crisis. But as the crisis deepened and spread to all developed economies, China's industrial production and exports quickly plummeted. The government was once again in a crisis mode. Towards the end of the year, it quickly unveiled several stimulus measures, including a fiscal package of 4 trillion yuan (US\$586 billion) to boost domestic demand and offset slumping exports.
- 1.9 Although Hu Jintao and Wen Jiabao had more political room to maneuver in their second term following last year's 17<sup>th</sup> Party Congress, the unexpected disasters and strong vested interests had prevented the government from making substantial progress on their policy initiatives. More importantly, although demand for democratization from both outside and within the Party had clearly increased,

the leadership was still cracking down on societal voices while lacking a plan for introducing political reforms.

- 1.10 Since Ma Ying-jeou of the Koumintang (KMT) took over as Taiwan's President in May, cross-Strait relations have witnessed a substantial improvement. In November a high-level delegation from the Mainland visited Taiwan, with the two sides signing a number of agreements to reduce tensions and establish closer links. As part of normalizing economic relations, China and Taiwan now have closer senior-level personnel exchanges and direct air, shipping and postal links.
- 1.12 On the foreign policy front, China's relations with major powers like the U.S., Japan and its ASEAN neighbors have generally been warm and positive over the year. In contrast, China's relations with the European Union (EU) have experienced greater turbulence. At the 7<sup>th</sup> ASEM Summit in October 2008, China and the European countries pledged firm action to deal with the world financial crisis. Yet, soon after, China postponed its scheduled summit meeting with the EU in December 2008 due to French President Sarkozy's meeting with the Dalai Lama.

### **An Olympics-Dominated Agenda**

- 2.1 Dominating China's political agenda in 2008 was the 17-day Beijing Olympics in August, an event showcasing China's prospering economy and rising international status. Beijing went all out to safeguard domestic social stability and secure a favorable international environment for the success of the Games.
- 2.2 Plots by Xinjiang Muslim separatists, protests along the global Olympics torch relay route triggered by the violent Tibetan riots and the catastrophic earthquake in Sichuan in the first half of 2008, added to the Games such high risks and international pressure that seemed almost impossible for the organisers to handle. There was nevertheless little room for failure amid high expectations of the Party and the public for success.
- 2.3 The CCP showed its flexibility when the theme of a "safe Olympics" was adopted in preference over that of "the best Olympics". In a keynote speech at a conference held a month before the Beijing Olympics, Chinese Vice State

President Xi Jinping (习近平) said "a safe Olympics is the biggest indicator of the success of the Games."<sup>3</sup>

- 2.4 The Chinese leadership also sought to ensure a smooth and successful Olympics on all fronts. Domestically, to curb rising inflation in the first half of the year, the CCP had adopted various strict measures including curtailing bank loans, capping prices and raising interest rates. On the international front, the government had softened its stances towards Tibetan separatists through opening dialogues with the Dalai Lama's envoys to improve its international image. Tight visa policies were also adopted before the Games to block overseas political activists and to prevent terrorists from entering China.
- 2.5 The Chinese leadership was also determined to have a "blue-sky" Olympics; it not only imposed stringent traffic controls in the capital, but also closed most polluting factories in the outskirts of Beijing and neighboring provinces. The draconian measures paid off. China's capital saw its cleanest skies in a decade during the 17-day Games, all of which met Chinese National level II Air Quality Standard or the "blue sky" standard.<sup>4</sup>
- 2.6 There were also no terrorist attacks or other major disruptive incidents in Beijing during those 17 days. The Games were hailed as an unparalleled success by most Chinese. The Chinese team's topping of the gold medal table had further inspired national pride, while the city's hospitality and efficiency had impressed most foreign visitors.
- 2.7 The success of the Games with related spending of around US\$35 billion is an important indicator of China's rapidly growing economic muscles, as well as the CCP's strong control over domestic socio-economic activities and diplomatic skills in handling the complexities of such a high-profile event.
- 2.8 The success further established Xi Jinping as a national leader and strengthened his heir-apparent position. Xi was put in charge of the Beijing Games, his first big

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<sup>3</sup> Edward Cody, "Across China, Security Instead Of Celebration," *Washington Post*, 19 July 2008, Page A01

<sup>4</sup> Beijing Environmental Protection Bureau's Air Quality Report, 1 Sept. 2008, <http://www.bjepb.gov.cn/bjhb/tabid/68/InfoID/17391/frtid/40/Default.aspx>. The Beijing Environmental Protection Bureau claimed that in August 2008, the major pollutants density in the atmosphere averagely dropped 45% year on year, with only one day's air quality not meeting the national standard. During the Games, the density of sulfur dioxide, carbon monoxide and nitrous dioxide all reached the standards of cities in developed countries.

political test since he emerged as China's leader-in-waiting at the 17th Party Congress in October 2007.<sup>5</sup>

### **Predicaments and Reforms in Small Steps**

- 3.1 Many observers had expected Hu Jintao and Wen Jiabao to introduce substantial reforms in certain areas in the first year of their second term of presidency and premiership, having consolidated their power since the 17<sup>th</sup> Party Congress in October 2007. In reality, however, strong interest groups and the *paluan* (fearing instability) mindset have prevented the government from making substantial policy changes. If not for last year's snowstorms, the Sichuan earthquake and Beijing Olympics, the "super-ministry" reform (大部制改革), kicked off by the annual session of the National People's Congress (NPC)<sup>6</sup> to merge overlapping ministries into large so-called "super ministries," would have drawn more attention from the public in 2008.
- 3.2 According to the first phase of the plan announced in March, five new ministries, namely the Ministry of Industry and Information Technology, the Ministry of Environmental Protection, the Ministry of Human Resources and Social Security, the Ministry of Housing and Urban-Rural Construction, and the Ministry of Transport, were established through merging relevant ministries and commissions.
- 3.3 The reform indicates that the party-state is paying increasing attention to the knotty problems of energy, environmental pollution, transport, public health, government employment system, urban housing and rural construction. Cabinet-level agencies were reduced from 28 to 27.
- 3.4 In October, the CCP unveiled a land reform policy to improve the income of its 750 million rural residents, encouraging them to lease or transfer their land-use rights under a to-be-established land market. As a cautious step in the right direction, the reform provides greater tenancy security and facilitates farm

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<sup>5</sup> Despite his satisfactory handling of the Beijing Olympics, Xi was still not granted the important title of Vice Chairman of the Central Military Commission at the CCP plenum. This indicates that his heir-apparent position is not fully assured yet and that he still needs to outperform his potential rivals in the Political Bureau..

<sup>6</sup> For details of this NPC annual session, please refer to CPI's Policy Paper Series No.38 "China's National People's Congress 2008: New Administration, Personnel Reshuffling and Policy Impacts" by Yongnian Zheng and Zhengxu Wang (China Policy Institute, March 2008)

consolidation while laying the ground for the transfer of redundant labour to urban areas for industrialization.<sup>7</sup>

- 3.5 China's long-awaited healthcare plan was also publicised in October. In the new plan, the government promised to set up a "safe, effective, convenient and affordable" healthcare system that would cover all urban and rural residents by 2020. The four-trillion-yuan fiscal stimulus package announced in late 2008 will definitely accelerate health care reform, as the government promises to inject more money into this sector.
- 3.6 While the Party is determined to strengthen its governance through reforms, it also has to maintain tight control rather than make more political changes and allow greater freedom in the expression of ideas. This is so despite the demand for democratisation and more political openings are growing both without and within the Party.
- 3.7 In April, Hu Jia, one of China's most vocal human rights activists, was convicted of "inciting subversion of state power" and sentenced to three and a half years in prison. Subsequently, a call for political opening expressed in a document known as "Charter 08" was released by activists, asking for signatories. The government responded by arresting activist Xiaobo Liu and forbidding people from signing it.
- 3.8 In fact, in terms of introducing political reform the Party is finding itself in great predicaments. While more and more Party members are discussing the unavoidable changes needed to make the political system more democratic, the Party leadership appears to lack a clear direction. As the Party commemorated 30 years of reform, , no major plans or even a consensus for political reform, except for piecemeal efforts to make local government more transparent and accountable, were in sight.

### **Enhancing Crisis Management Capability**

- 4.1 The CCP leadership met their biggest challenge in a decade and in the "Olympics Year" when the chain of natural disasters and social unrests unexpectedly hit the country one after another. Although the government was slow to act when the rare snow disaster affecting much of southern and central China struck in January,

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<sup>7</sup> For an in-depth analysis of this reform programme, see CPI's Policy Paper Series No. 45, "China's New Blueprint for Rural Reform and Development" by Bin Wu (China Policy Institute, December 2008).

the state responded to the Sichuan earthquake -- the country's worst natural disaster in more than 30 years -- quickly and with uncharacteristic openness in May. In sharp contrast to neighboring Myanmar's lethargic and secretive handling of a destructive cyclone in its Irrawaddy Delta region, China's prompt deployment of rescue troops and round-the-clock media coverage gained it precious public relations kudos.

- 4.2 Within hours of the earthquake, Premier Wen Jiabao was on a plane, President Hu Jintao was chairing an emergency meeting of the Political Bureau's Standing Committee to discuss how to cope with the disaster and thousands of soldiers and policemen were being deployed. After an initial deployment of 5,000 troops, the number was ramped up to 100,000 within three days. The official media, often reticent about reporting bad news, were promptly updating casualty numbers.<sup>8</sup>
- 4.3 While the Sichuan earthquake won kudos for China, the March 2008 riots in Tibet presented Beijing with a dilemma. Had the local authorities not responded forcefully, rioters would have destroyed more schools, hospitals, banks, restaurants, office buildings, and residential houses and further attacked civilians and security forces. On the other hand, if the local authorities were to crack down hard on these rioters, human rights groups, Tibetan independence forces, and the international media would have severely criticised the Chinese government for its "appalling" human rights violations.
- 4.4 Under these circumstances, Beijing chose to exercise self-restraint through limiting the use of violence in the region, as well as reopening dialogues with representatives of the Tibetan spiritual leader, the Dalai Lama. The Tibetan riots revealed not only long-existing conflicts between the Han Chinese and Tibetans, but also their wide income inequalities and clashes between traditional culture and modernity.
- 4.5 Beijing had found itself in a serious public relations dilemma. Within an international media environment that generally favours the Dalai over an authoritarian communist regime, Beijing appeared to be fighting a losing battle. The subsequent earthquake in Sichuan Province, however, diverted international attention from the Tibetan issue and helped Beijing salvage its reputation through its swift responses to quake victims and timely release of information to the media.

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<sup>8</sup> "China's earthquake: Days of disaster," *The Economist*, May 15th 2008, [http://www.economist.com/world/asia/displaystory.cfm?story\\_id=11376935](http://www.economist.com/world/asia/displaystory.cfm?story_id=11376935)

- 4.6 The tainted infant formula scandal posed another public relations crisis for China.<sup>9</sup> The scandal was initially centred on Sanlu, a Hebei-based dairy company, whose melamine-contaminated baby milk powder had sickened thousands of infants. According to the latest official figures, as many as six babies might have died and nearly 300,000 infants were affected in the milk scandal.<sup>10</sup>
- 4.7 The scandal was the result of fierce competition among local dairy companies in the lower-end market under a weak quality-control regulation system. The failure of the local government and local firms to respond to the tainted milk also exacerbated the problem.
- 4.8 Overall, the crisis management mechanism of the central government responded effectively and decisively especially after Hu and Wen stepped in. Nevertheless, the long string of food/product safety scandals had greatly compromised China's effort in moving up the value-added chain through industrial upgrading and building its own "Made-in-China" brands.
- 4.9 As the economic slowdown worsened and the central government became more tolerant of short public protests, strikes and demonstrations broke out in some parts of the country. Up to 30,000 people took part in a mass protest in the Weng'an county of Guizhou province in June, torching government buildings and smashing and burning cars.
- 4.10 The CCP's approach to the Weng'an riot was different from its treatment of similar past incidents in that there was no indiscriminate use of force. Instead, Guizhou Provincial Party Secretary Shi Zongyuan apologised three times to the people of Weng'an for the situation in their county. Even more surprisingly, the primary target of official punishment was not the rioting townspeople but local officials.
- 4.11 The CCP's handling of the Weng'an incident has far-reaching implications and reveals how the Party's style of governance is evolving. Under Deng Xiaoping's mantra of "stability above all else," those who protested or petitioned to the authorities - no matter the cause - could be accused of "breaching stability" and

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<sup>9</sup> For details of the scandal, please refer to Zhao Litao & Lim Tin Seng, "The Tainted Milk Formula Scandal: Another Hard Lesson For China," *EAI Background Brief* No. 406, 29 September 2008

<sup>10</sup> Andrew Jacobs, "Chinese Release Increased Numbers in Tainted Milk Scandal," 2 December, 2008, *The New York Times*, [http://www.nytimes.com/2008/12/03/world/asia/03milk.html?\\_r=1](http://www.nytimes.com/2008/12/03/world/asia/03milk.html?_r=1)

be subject to legal repression. Today, Hu-Wen's "people first" ideology lays the responsibility for unrest on local officials.

### **Rising International Profile and Relations with Key Partners**

- 5.1 The successful hosting of the Olympic Games in Beijing in August 2008 cemented China's status as an important player on the world stage. This outcome vindicates China's economic reform and open door policy introduced three decades ago. From being a country on the periphery, China is now a key player on the world stage whose involvement is vital to addressing the many important global challenges.
- 5.2 Internationally, China's prestige has risen as many countries look to it to do more in the midst of the global financial and economic uncertainties. This is partly due to its relatively more stable economy, and partly due to its strong foreign exchange reserves now standing at US\$2 trillion. China has played constructive roles in tackling the challenges posed by the global financial crisis at multilateral forums such as the 7<sup>th</sup> ASEM Summit (24<sup>th</sup>-25<sup>th</sup> October), the G20 Leaders' Meeting (15<sup>th</sup> November) and the 16<sup>th</sup> APEC Economic Leaders' Meeting (22<sup>nd</sup>-23<sup>rd</sup> November).<sup>11</sup>
- 5.3 China's relationship with the U.S. remained stable, although the U.S. remained suspicious of China's long-term ambitions. On the most sensitive issue of Taiwan, the U.S. appeared to have taken a position which China welcomes. US Secretary of State Condoleezza Rice was reported to have said during her visit to Beijing in February 2008 that the U.S. "opposes the proposed referendum" on Taiwan's United Nations membership.<sup>12</sup>
- 5.4 The two countries resumed the 14<sup>th</sup> Human Rights Dialogue in Beijing in May 2008 after years of suspension.<sup>13</sup> In April 2008, the Defense Ministers of the two countries held their first telephone conversation via the newly-established military hotline.<sup>14</sup> Perhaps more significantly, China and the U.S. had continued fruitful exchanges on issues of mutual concern through existing mechanisms such as the

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<sup>11</sup> For further details on China's role at these multilateral forums, please refer to "The International Financial Crisis and China's External Response", Zheng Yongnian and Lye Liang Fook, EAI Background Brief No. 420, 17 December 2008.

<sup>12</sup> "Rice: US opposes Taiwan UN bid", *China Daily*, 26 February 2008.

<sup>13</sup> The 13<sup>th</sup> Human Rights Dialogue was held in Beijing in 2002. China suspended the dialogue in 2004 following the US decision to introduce a human rights motion related to China at the 60<sup>th</sup> session of the UN Commission on Human Rights.

<sup>14</sup> "China, US defense chiefs discuss Taiwan in first phone call", *The China Post*, 11 April 2008.

Strategic Dialogue (in January 2008) and the Strategic Economic Dialogue (in June and December 2008).

- 5.5 At the recent Strategic Economic Dialogue, the two countries agreed to make available an additional US\$20 billion for trade finance, particularly for creditworthy importers in developing countries -- a measure to encourage trade flows in the midst of global economic uncertainty. U.S. Financial Secretary Henry Paulson had earlier praised China's cooperation in taming the global financial turmoil and acknowledged his useful and constructive discussions with Chinese Vice Premier Wang Qishan on this matter.<sup>15</sup>
- 5.6 Building on earlier foundations, China's relations with Japan continued to improve. During the Sichuan earthquake in May 2008, the Japanese disaster relief team was granted the rare honour of being the first foreign team allowed into China. The most important indicator of improving relations was President Hu Jintao's visit to Japan in May 2008, the first by a Chinese State President in a decade.<sup>16</sup> Also, a Japanese warship made a port call at Zhanjiang port in Guangdong in June 2008, the first Japanese warship to visit China since World War II. The leaders of China, Japan and South Korea further agreed at a historic North Asia Summit in December 2008 to bolster cooperation to tackle the global financial crisis.<sup>17</sup>
- 5.7 China's relations with the EU and individual European countries had been more turbulent compared to its relations with the US and Japan. While China's economic ties with the EU and individual countries like Germany, Britain and France are strong, they were occasionally hobbled by disagreements over trade, human rights, treatment of dissidents and the Dalai Lama.
- 5.8 After China's perceived crackdown on Tibetan demonstrators in March 2008, a few European leaders announced their intentions to boycott the opening ceremony of the Beijing Olympic Games.<sup>18</sup> Yet, following a turn of events, Chinese and European leaders displayed an unprecedented level of commitment to work

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<sup>15</sup> Paulson made these remarks at the National Committee on US-China Relations in New York. See "Paulson lauds China cooperation amid market turmoil", *Reuters*, 21 October 2008.

<sup>16</sup> Since 2006, the two sides have resumed high-level exchanges. Japanese Prime Minister Shinzo Abe visited China in October 2006. This was followed by Chinese Premier Wen Jiabao's "ice-thawing visit" to Japan in April 2007. Japanese Prime Minister Yasuo Fukuda visited China in December 2007.

<sup>17</sup> "North Asian nations unite on financial crisis", *Reuters*, 13 December 2008.

<sup>18</sup> They include German Chancellor Angela Merkel, Polish Prime Minister Donald Tusk and Czech Republic President Václav Klaus. See "Merkel says she will not attend opening of Olympic Games", *Guardian*, 29 March 2008.

together to restore confidence to world markets at the 7<sup>th</sup> ASEM Summit in Beijing in October 2008.

- 5.9 Soon after, however, China-EU relations nosedived when French President Sarkozy set a precedent in December 2008 by becoming the first European leader to meet the Dalai Lama while holding the EU rotating presidency. In response, China postponed a planned summit meeting with the EU. From China's perspective, President Sarkozy's meeting with the Dalai Lama was completely unnecessary given more pressing challenges confronting the EU and China such as the global financial turmoil, food and energy security, and climate change.
- 5.10 According to recent reports, China's Premier Wen Jiabao is scheduled to address the World Economic Forum Annual Meeting in Davos, Switzerland, 28 January – 1 February 2009. Following the Forum he is scheduled to visit several European countries including Switzerland, Germany, Spain, the UK, and the EU headquarters in Brussels. These visits are expected to have positive impacts on the Sino-EU relationship. As France is left out of Wen's itinerary, it is possible that the bilateral relationship is still in a stringent situation.

### **Improving Cross-Strait Ties amidst Challenges**

- 6.1 Cross-Straits relations entered a more stable phase following the election of Ma Ying-jeou of the Kuomintang as Taiwan's President in March 2008. Ending years of unpredictability in cross-strait ties under his predecessor Chen Shui-bian of the Democratic Progressive Party (DPP), Ma wants to normalise economic ties with China to revive Taiwan's flagging economy. At the same time, Ma is conscious of the need to tread carefully lest he be misconstrued as selling out Taiwan's interests by anti-China critics.
- 6.2 The relevant cross-strait bodies from both sides have resumed talks. Chiang Pin-kun, Chairman of Taiwan's Straits Exchange Foundation (SEF), met his counterpart, Chen Yunlin, Chairman of China's Association for Relations Across the Taiwan Straits (ARATS), in Beijing in June 2008, holding the first talk between the two organizations after a nine-year suspension. Both sides reached an agreement to resume direct weekend charter flights and boost tourism. The first weekend chartered flight took off in July 2008.

- 6.3 Another milestone in cross-strait relations was made when Chen Yunlin visited Taiwan in November 2008, making him the highest ranking Chinese official to visit Taiwan since 1949. The visit further enhanced cross-strait economic ties with the signing of agreements on food safety, direct shipping and flights, and mail services. Building on these agreements, regular direct air, shipping and postal services were resumed on 15 December 2008.
- 6.4 According to a survey released by Taiwan's Mainland Affairs Council that oversees relations with China, more than 60% of Taiwanese surveyed believed that these agreements were good for Taiwan's economy. Also, more than 70% of those surveyed supported the mechanism for regular cross-strait talks.<sup>19</sup>
- 6.5 While improving cross-strait ties, President Ma Ying-jeou was nevertheless confronted with the twin challenges of ensuring that the warming of relations would benefit Taiwan's economy and not come at the expense of Taiwan's interests. At the moment, the agreements reached so far have yet to see a significant trickle-down positive effect on Taiwan's economy. The global financial crisis and economic uncertainty compound the challenges Taiwan faces.
- 6.6 There are also groups within Taiwan led by the DPP who are against Ma's policy of forging closer ties with China, accusing him of selling out Taiwan to the communists. Although it now constitutes part of the opposition, the DPP still commands a strong presence judging from its ability to mobilise protests against Chen Yunlin's visit and even earlier when Chen's deputy Zhang Mingqing visited Taiwan in his private capacity. At the moment, Ma appears to be at the receiving end of such protests and does not seem able to translate improving relations with China into much-needed political capital.

### **Looking Ahead**

- 7.1 In 2009, the economy will be China's No. 1 concern, as in every other country. Beijing will strive to keep economic growth above 8% and hasten economic recovery, especially through large-scale infrastructure construction and the easing of monetary policy. Socially, it will strive to create jobs for the unemployed, including the millions of university graduates, to maintain social stability.

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<sup>19</sup> "Over 70% Taiwan people satisfied with cross-strait deals", *China Daily*, 10 November 2008.

- 7.2 The year 2009 itself will be politically sensitive as it not only marks the 60<sup>th</sup> anniversary of the founding of the People's Republic of China, but also the 90<sup>th</sup> anniversary of the May Fourth Movement, 20<sup>th</sup> anniversary of the 1989 Tiananmen student movement and 50<sup>th</sup> anniversary of the Dalai Lama's exile. The ruling party will face increasing political pressure from human rights activists and western countries for more civil rights and political freedom.
- 7.3 The disaster-hit population of the 8.0-magnitude Sichuan earthquake accounts for about 3.5% of China's total 1.3 billion people. The central government has mapped out an ambitious reconstruction plan with a budget of more than one trillion yuan. Experts have estimated that it will take at least two to three years to complete this project. Resettlement of survivors and compensation issues remain challenging tasks for the government; so in the next few years, Sichuan will definitely draw more attention from the central government than most other provinces.
- 7.4 The government will continue its "super-ministry" reform to optimise decision-making mechanisms and enhance coordination among different ministries and departments. China has established the National Energy Bureau to unify its divided energy management regime to better cope with the urgent problem of energy security. The bureau will possibly be renamed as the Ministry of Energy, with greater authority over affairs relating to China's energy production and consumption.
- 7.6 Cross-Straits relations look set to improve further under the framework of economic normalisation. China wants to ensure that the series of agreements reached this year will have a more significant impact on Taiwan in 2009. This will help to generate greater public support within Taiwan for closer ties with China. It will also relieve political pressure on Taiwan President Ma Ying-jeou, often accused of being too close to China. Beijing can therefore be expected to deepen and widen socio-economic and even political exchanges between the two sides at appropriate junctures.
- 7.7 China's relations with the U.S. will likely remain stable. More cooperation between the two will be even more important in addressing the global economic downturn and other international concerns such as a denuclearised Korea, food and energy

security, and climate change.<sup>20</sup> The U.S., under the administration of President Barack Obama, would likely be busy with getting its economic house in order, at least for the next few years. It will also continue to be preoccupied with extricating itself from its involvement in Iraq and Afghanistan.

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<sup>20</sup> Some observers have even argued that Obama should make China his first Presidential trip abroad. Others have stressed that the greater degree of interdependence will make it more likely for an Obama-led administration to work closely with China. See "Why Obama must go to China", *Newsweek*, 6 December 2008 and "Cooperation with China critical for Obama", *IHT*, 9 December 2008.

## APPENDIX I LIST OF PROVINCIAL LEADERS

(Names in bold indicate newly-appointed Party leaders in 2008)

<b>Provincial Units</b>	<b>Party Secretary</b>	<b>Mayor/Governor</b>
Anhui	Wang Jinshan (王金山)	Wang Sanyun (王三运)
Beijing	Liu Qi (刘淇)	Guo Jinlong (郭金龙)
Chongqing	Bo Xilai (薄熙来)	Wang Hongju (王鸿举)
Fujian	Lu Zhangong (卢展工)	Huang Xiaojing (黄小晶)
Gansu	Lu Hao (陆浩)	Xu Shousheng (徐守盛)
Guangdong	Wang Yang (汪洋)	Huang Huahua (黄华华)
Guangxi	Guo Shengkun (郭声琨)	<b>Ma Biao (马飏)</b>
Guizhou	Shi Zongyuan (石宗源)	Lin Shusen (林树森)
Hainan	Wei Liucheng (卫留成)	Luo Baoming (罗保铭)
Hebei	Zhang Yunchuan (张云川)	<b>Hu Chunhua (胡春华) (Acting)</b>
Heilongjiang	<b>Ji Bingxuan(吉炳轩)</b>	<b>Li Zhanshu (栗战书)</b>
Henan	Xu Guangchun (徐光春)	<b>Guo Gengmao (郭庚茂) (Acting)</b>
Hubei	Luo Qingquan (罗清泉)	Li Hongzhong (李鸿忠)
Hunan	Zhang Chunxian (张春贤)	Zhou Qiang (周强)
Inner Mongolia	Chu Bo (储波)	<b>Bagatur (巴特尔) (Acting)</b>
Jiangsu	Liang Baohua (梁保华)	<b>Luo Zhijun (罗志军)</b>
Jiangxi	Su Rong (苏荣)	Wu Xinxiong (吴新雄)
Jilin	Wang Min (王珉)	Han Changfu (韩长赋)
Liaoning	Zhang Wenyue (张文岳)	<b>Chen Zhenggao (陈政高)</b>
Ningxia	Chen Jianguo (陈建国)	Wang Zhengwei (王正伟)
Qinghai	Qiang Wei (强卫)	Song Xiuyan (宋秀岩)
Shaanxi	Zhao Leji (赵乐际)	Yuan Chunqing (袁纯清)
Shanxi	Zhang Baoshun (张宝顺)	<b>Wang Jun (王君) (Acting)</b>
Shandong	<b>Jiang Yikang(姜异康)</b>	Jiang Daming (姜大明)
Shanghai	Yu Zhengsheng (俞正声)	Han Zheng (韩正)
Sichuan	Liu Qibao (刘奇葆)	Jiang Jufeng (蒋巨峰)
Tianjin	Zhang Gaoli (张高丽)	<b>Huang Xingguo (黄兴国)</b>
Tibet	Zhang Qingli (张庆黎)	Qiangba Puncog (向巴平措)
Xinjiang	Wang Lequan (王乐泉)	<b>Nu'er Baikeli (努尔·白克力)</b>
Yunnan	Bai Enpei (白恩培)	Qin Guangrong (秦光荣)
Zhejiang	Zhao Hongzhu (赵洪祝)	Lu Zushan (吕祖善)

**APPENDIX II LIST OF MINISTERS IN THE STATE COUNCIL**

(Names in bold indicate newly-appointed ministers in 2008)

<b>Ministry</b>	<b>Minister</b>
Foreign Affairs	Yang Jieci (杨洁篪)
Defense	<b>Liang Guanglie (梁光烈)</b>
National Development and Reform Commission	<b>Zhang Ping (张平)</b>
Education	Zhou Ji (周济)
Science and Technology	Wan Gang (万钢)
Industry and Information	<b>Li Yizhong (李毅中)</b>
State Ethnic Affairs Commission	<b>Yang Jing (杨晶)</b>
Public Security	Meng Jianzhu (孟建柱)
State Security	Geng Huichang (耿惠昌)
Supervision	Ma Wen (马馥)
Civil Affairs	Li Xueju (李学举)
Justice	Wu Aiyong (吴爱英)
Finance	Xie Xuren (谢旭人)
Human Resources and Social Security	Yin Weimin (尹蔚民)
Land and Resources	Xu Shaoshi (徐绍史)
Environmental Protection	Zhou Shengxian (周生贤)
Housing and Urban-Rural Construction	<b>Jiang Weixin (姜伟新)</b>
Transport	Li Shenglin (李盛霖)
Railways	Liu Zhijun (刘志军)
Water Resources	Chen Lei (陈雷)
Agriculture	Sun Zhengcai (孙政才)
Commerce	<b>Chen Demin (陈德铭)</b>
Culture	<b>Cai Wu (蔡武)</b>
Health	Chen Zhu (陈竺)
National Population and Family Planning Commission	<b>Li Bin (李斌)</b>
People's Bank of China	Zhou Xiaochuan (周小川)
National Audit Office	<b>Liu Jiayi (刘家义)</b>

### APPENDIX III A CHRONOLOGY OF DOMESTIC EVENTS IN CHINA IN 2008

9 Jan	A State Council executive meeting chaired by Wen Jiabao vows to take further measures to stabilise market prices and increase the severity of punishment for those found guilty of driving up prices through hoarding or cheating.
10 Jan – early Feb	Heavy snow ravages 21 provinces, autonomous regions and municipalities in China, causing an estimated US\$21.1 billion in economic loss.
14-16 Jan	The second plenary session of the 17 <sup>th</sup> Central Commission for Discipline Inspection outlines plans to step up the fight against corruption this year.
12 Jan	Taiwan’s opposition party Kuomintang wins 81 seats in the 113-seat legislative elections while the incumbent Democratic Progressive Party (DPP) wins only 27 seats.
25 Jan	The People’s Bank of China, China’s central bank, raised the reserve requirement ratio to 15 percent (up from 14.5 percent) to cool the economy and curb inflation.
29 Jan	Hu Jintao chairs a Political Bureau meeting to discuss measures to deal with the challenges arising from inclement weather in central and southern China. Wen Jiabao visits Hunan and Guangdong to provide assurance to those stranded.
13 Feb	Steven Spielberg announces his withdrawal as artistic adviser to the Beijing Olympic Games, citing China’s policies in Sudan.
28 Feb	The People’s Bank of China issues 115 billion <i>yuan</i> (US\$16.1 billion) of central bank bills. It also conducts 91 billion <i>yuan</i> (US\$12.7 billion) in repurchase transactions. They are aimed at cooling the economy and curbing inflation.
3 -14 Mar	The 11 <sup>th</sup> Session of the Chinese People’s Political Consultative Committee convenes in Beijing.
5-18 Mar	The 11 <sup>th</sup> Session of the National People’s Congress convenes in Beijing. The focus is on the economy and government administrative reforms.
6 Mar	The People’s Bank of China soaks up 275 billion <i>yuan</i> (US\$38.6 billion) by issuing central bank bills and conducting repurchase transactions.
14 Mar	The apparent “peaceful” demonstration in Tibet degenerates into looting, arson and damage to property. The unrest spreads to Tibetan areas in Qinghai, Gansu and Sichuan. There are also demonstrations in some cities around the world.
22 Mar	Kuomintang’s Ma Ying-jeou and his running mate Vincent Siew emerge triumphant in Taiwan’s presidential election, taking nearly 60 percent of the vote to defeat DPP candidates Frank Hsieh and Su Tseng-chang.
28 Apr	The Political Bureau passes a five-year plan (2008-2012) to step up the prevention and punishment of corruption within the Party.
4 May	Zhu Weiqun and Sitar, Deputy Heads of the United Front Department of the Chinese Communist Party, hold the first round of talks with Lodi Gyari and Kelsang Gyaltzen, representatives of the Dalai Lama, in Shenzhen since the unrest in March 2008.
12 May	A massive earthquake measuring 8 on the Richter scale strikes Wenzhou county in Sichuan. Tremors are felt in Beijing, Shanghai, Gansu, Henan, Ningxia and Chongqing.
19-21 May	Beijing declares three days of national mourning for victims of the earthquake.
11-14 Jun	Chiang Pin-kun, Chairman of Taiwan’s Straits Exchange Foundation, visits China to meet Chen Yunlin, Chairman of China’s Association for Relations Across the Taiwan Strait, the first of such meetings in nine years.

4 Jul	Taiwan and China resume direct weekend chartered flights since suspension in 1949.
1-2 Jul	Du Qinglin, head of the United Front Work Department of the Chinese Communist Party, and his two deputies, Zhu Weiqun and Sitar, hold the second round of talks with Lodi Gyari and Kelsang Gyaltsen, representatives of the Dalai Lama in Beijing.
1 Aug	China raises tax rebates for certain textile and garment exports to help exporters.
8-24 Aug & 6-17 Sep	Beijing successfully hosts the Olympic and Paralympic Games, raising China's international stature.
11 Sep	<i>Sanlu</i> , one of China's biggest dairy companies, comes under the public spotlight for producing milk tainted with melamine. The scandal soon engulfed other dairy producers.
16 Sep	The People's Bank of China cuts interest rates for one-year loans by 0.27 percentage points to 7.2 percent. The reserve requirement ratio will also be cut by 1 percentage point to 16.5 percent from 25 Sep.
27 Sep	Chinese astronaut Colonel Zhai Zhigang conducts China's first-ever space walk, the third country after the Soviet Union and the US to achieve this feat.
8 Oct	The People's Bank of China cuts deposit and lending rates by 0.27 percentage points. This is the first time in nine years that China reduced deposit rates at all financial institutions. The reserve requirement ratio will be cut by 0.5 percentage points from 15 Oct.
9-12 Oct	A Party plenum decides to push ahead with rural reforms to improve living standards and reduce the gap between rural and urban areas. It pledges to double per capita farmers' income by 2020 from the current level of 2008.
17 Oct	Premier Wen Jiabao announces that the government would adopt measures and allocate central funds in the fourth quarter to boost domestic demand and stimulate economic development.
21 Oct	While visiting Taiwan in his capacity as Dean of the School of Journalism at Xiamen University, Zhang Mingqing (also Vice Chairman of Taiwan's Association for Relations Across the Taiwan Strait) is roughed up by DPP supporters.
30 Oct	The People's Bank of China cuts interest rates by 0.27 percentage points, the third of such moves in six weeks.
3-7 Nov	Chen Yunlin, China's chief negotiator on Taiwan affairs, is the highest ranking Chinese official to visit Taiwan since 1949. He signs four agreements on direct shipping, air transport, postal services and food safety.
9 Nov	China unveils a four trillion <i>yuan</i> economic stimulus package to maintain "steady and relatively fast" economic growth. It vows to adopt an "active" fiscal policy and moderately "easy" monetary policy.
8-10 Dec	The annual Central Economic Work Conference sets the goal of maintaining a stable, healthy growth in 2009 through domestic demand expansion and economic restructuring.
15 Dec	China and Taiwan resume direct air, sea and postal links for the first time since 1949.
18 Dec	In a televised speech celebrating 30 years of reform policies, President Hu Jintao reaffirms that China will press ahead with reform and opening-up of its socialist system. He stresses the paramount goals of economic growth and social stability.

**APPENDIX IV A CHRONOLOGY OF CHINA'S FOREIGN AFFAIRS  
IN 2008**

5-6 Jan	Chinese and Japanese academics meet for the third time in Beijing to bridge differences over interpretations of history. The second meeting was held in March 2007 in Tokyo.
17 Jan	US Deputy Secretary of State John Negroponte calls Taiwan's planned referendum on UN membership a "mistake" and "provocative".
17-18 Jan	Chinese Deputy Foreign Minister Dai Bingguo and US Deputy Secretary of State John Negroponte meet for the 5 <sup>th</sup> round of strategic dialogue that began in 2005. For the first time, military representatives from both sides took part.
21 Feb	US shoots down a rogue satellite with a missile fired from its warship, sparking fears of an arms race in space.
21-27 Feb	China's Special Envoy to Africa Liu Guijin visits Britain and Sudan to highlight China's contribution to peace and development in Darfur.
26-27 Feb	US Secretary of State Condoleezza Rice visits China to maintain the momentum of bilateral relations. China agrees to resume human rights dialogue with the US that was suspended in 2004.
29 Feb	China and the US sign an agreement to set up a military hotline between the two countries. The line will provide instant contact between Chinese and US defense and military leaders on major issues, especially during emergencies.
3 Mar	The US Department of Defense issues a report asserting that the international community has limited knowledge of the motivations, decision-making and key capabilities supporting China's military modernization. In response, China says that the report distorts facts and smacks of cold war mentality.
4 Mar	China's Foreign Ministry Spokesman Qin Gang says that China hopes to work with Japan to properly resolve a recent dumpling poisoning incident.
10 Mar	Six groups of Japanese youth (around 1,000 of them) arrive in China for a seven-day tour to mark the start of the China-Japan Friendly Exchange Year of the Youth. The exchange was mooted by Premier Wen Jiabao and Prime Minister Yasuo Fukuda when they met in Singapore in November 2007.
24 Mar	The Olympic Games torch relay is lit in Greece and immediately becomes a platform for anti-China protestors to voice their unhappiness with China's perceived crackdown in Tibet and appalling human rights record.
30-31 Mar	The leaders of China, Myanmar, Thailand, Laos, Cambodia and Vietnam gather in Vientiane for the Third Greater Mekong Sub-region Summit to explore ways to strengthen regional cooperation.
2-3 Apr	US Treasury Secretary Henry Paulson visits China to lay the groundwork for the fourth round of China-US Strategic Economic Dialogue,
11 Apr	Chinese Defense Minister Liang Guanglie and his US counterpart Robert Gates communicates with each other for the first time through the military hotline.
6-10 May	President Hu Jintao visits Japan, the first by a Chinese Head of State in a decade.
17-18 Jun	The 4 <sup>th</sup> China-US Strategic Economic Dialogue discusses financial and macro economic management, developing and protecting human capital, the benefits of trade and open markets, enhancing investment, and advancing opportunities for cooperation in energy and environment.
18 Jun	China and Japan agree on the cooperative development of the Chunxiao oil and gas fields without prejudice to their disputed claims in the East China Sea.
24-28 Jun	A Japanese destroyer docks at a naval base in Zhanjiang (Guangdong Province), the first by a warship from Japan in China since World War II.

7-9 Jul	While in Japan to attend the G-8 Summit, President Hu Jintao meets with 16 members of the Japanese rescue and medical teams that participated in the rescue work in the Sichuan earthquake in May.
23 Jul	At the ASEAN-China Ministerial Meeting in Singapore, Chinese Foreign Minister Yang Jiechi announces that China has decided to send an ambassador to ASEAN.
8-24 Aug & 6-17 Sep	Beijing hosts a successful Olympic and Paralympic Games that raised China's international profile.
24-25 Oct	At the 7 <sup>th</sup> Asia-Europe Meeting Summit in Beijing, President Hu Jintao states that China's sound economic growth is in itself a major contribution to global financial stability and economic growth.
15 Nov	China attends the G20 Leaders' Summit in Washington that approves an action plan to deal with the global financial crisis and economic uncertainty.
22-23 Nov	China and other world leaders pledge not to implement protectionist measures for the next 12 months at the APEC Economic Leaders' Meeting in Peru.
26 Nov	The EU expresses regret at China's decision to postpone a scheduled China-EU Summit on 1 Dec after President Sarkozy, as EU rotating chair, indicates his intention to meet the Dalai Lama at a ceremony for Nobel Peace Prize winners in Poland.
4 Dec	The 5 <sup>th</sup> China-US Strategic Economic Dialogue discusses issues related to trade and investment, transportation, currency reform, energy security, product safety and environmental sustainability. Both countries agree to provide an additional US\$20 billion for trade finance, particularly for creditworthy importers in developing economies.
13 Dec	Meeting in Fukuoka for their historic North Asia Summit, the leaders of China, Japan and South Korea agree to bolster cooperation to tackle the global financial crisis. This is the first time the three countries are meeting outside of any other formal arrangements.
16 Dec	China announces that it is "seriously considering sending naval ships" to the waters off the Somali coast for escort operations in the near future to fight against rampant piracy in the region.

All appendixes were compiled by the authors as of 20 December, 2008.