Welcome! The Center for US-China Policy Studies (CUSCPS) is a research unit based in the College of Behavioral and Social Sciences (BSS) at San Francisco State University. The Center seeks to advance knowledge of China and deepen understanding of US-China relations. It promotes research, teaching, training, and outreach on US-China domestic and international policy issues in all areas. It provides policy research, data collection, analysis, and consultation to interested government agencies, non-profit organizations, community groups and businesses. It facilitates academic exchange and serves as a bridge and a base for collaboration between the college and the university and any other institutions or organizations, particularly in China. Please contact us at cuscps@sfsu.edu if you would like to make a connection with us.

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International/Regional Issues

China is Becoming Major Project Lender in Asia

STRUNG TRENG, Sept. 18 – The New York Times reports that China is becoming a major project lender in poor Asian countries like Cambodia, Laos, and Myanmar, supplanting or supplementing the funds provided by the Asian Development Bank (ADB), Japan, the United States, and the World Bank. Countries such as Cambodia see China’s funds as more attractive because of China’s simpler list of conditions and China’s willingness to lend larger sums. Liqun Jin, a vice president of the ADB, said that China “wants to help developing countries in the region by financing infrastructure” both to offset the capital flowing into China and to create “a peaceful neighborhood to develop our own economy” (Source: New York Times).

Chinese Fleet Visits San Diego

SAN DIEGO, Sept. 19 – Two Chinese warships, the Qingdao and Hongzehu, recently arrived at
the San Diego base of the U.S. Navy after concluding a visit to Hawaii. The fleet visit marked
the first time in nine years that the Chinese navy has visited a U.S. mainland base. Rear
Admiral Len Hering, commander of the U.S. Navy Southwest Region, said, at the receiving
ceremony, that “the U.S. navy and china navy, both have the duty to keep peace and stability
in this region...We hope this visit will help us better understand each other” (Source: Xinhua).

China and Italy Work on Developing their Strategic Partnership

BEIJING, Sept. 19 – Meeting with Italian Prime Minister Prodi, Chinese President Hu Jintao said
that China was “willing to expand cooperation with Italy on economy and trade, investment and
especially on small and medium-sized enterprises (SMEs).” Hu commented that the two
countries enjoyed broad prospects as they had no disputes or any unresolved issues. Hu
informed Prodi that he wanted to deepen strategic cooperation with Europe while Prodi stated
that he wanted Italian SMEs to play a greater role in China’s economic construction and hoped
Italy could be a gateway for Chinese goods moving into Europe (Source: Xinhua).

China and Japan Hold sub-Cabinet Talks

Sept. 20 – China and Japan are holding sub-Cabinet-level talks this weekend in Japan. The
main purpose of the talks, the 6th one since May 2005, it to try to arrange a summit between
recently elected Japanese Liberal Democratic Party (LDP) President Shinzo Abe and Chinese
President Hu. The talks also will consider Sino-Japanese disputes over the East China Sea, the
resumption of the six-party talks on North Korea, and economic sanctions against North Korea (Source: The Japan Times).

China Opposes Sanctions on DPRK

BEIJING, Sept. 20 – Chinese Foreign Ministry spokesman Qin Gang told reporters assembled
at a regular news conference that China is opposed to financial sanctions on North Korea. Qin
also stated, “all parties concerned should focus on how to resume the talks as soon as possible
and avoid any actions which may further complicate the situation.” He noted that the situation
on the peninsula is tense and that dialogue was needed to ease tensions (Source: Xinhua).

China Urges Abe to Undertake Concrete Steps to Improve Sino-Japanese Relations

BEIJING, Sept. 21 – At a regular news conference, Chinese Foreign Ministry spokesman Qin
urged newly elected LDP President Abe to make concrete efforts to improve to improve Sino-
Japanese relations. Qin encouraged Abe to correctly view and handle the history issue,
meaning visits to the Yasukuni Shrine. He further called on Japan to work with China to solve
bilateral problem and to make active efforts to bolster bilateral ties (Source: Xinhua).

China and U.S. Set Up Strategic Economic Dialogue

BEIJING, Sept. 21 - The U.S. and China have agreed to a regular, biannual top level economic
dialogue. The leaders of the talks will be Hank Paulson, U.S. Treasury Secretary, and Wu Yi,
China’s Vice Premier responsible for trade and foreign investment policy. The dialogue is likely
to touch upon issues such as innovation, globalization, and energy security. According to an
American official, “the focus will not be on resolving the issues of the day.” Nevertheless, the
dialogue is seen as contributing to the efforts of the two countries to deal with their short-term economic problems. For the dialogue, China and the U.S. will establish an inter-agency group bringing together top officials in economic and foreign policy (Source: Financial Times).

**Bush Lauds new Sino-American Strategic Economic Dialogue**

NEW YORK, Sept. 21 – Commenting on the creation of the new Sino-American strategic economic dialogue, U.S. President George W. Bush stated “President Hu and I agree on the importance of maintaining strong and mutually beneficial U.S.-China economic relations, and on the need to establish an overarching bilateral economic framework between our two countries. The Strategic Economic Dialogue will help us achieve those objectives.” Bush added, “the economies of the United States and China have been engines of global growth...we [must] work together to address economic challenges and opportunities” (Source: Xinhua).

**Chinese President Hu Jintao Comments on Strategic Economic Dialogue**

BEIJING, Sept. 22 – Chinese President Hu and Premier Wen met with American Treasury Secretary Paulson in Beijing. President Hu commented that the strategic economic dialogue would “make suggestions for high-level policymaking by the two nations.” Moreover, the dialogue, coupled with existing mechanisms such as the Joint Commission on Commerce and Trade and Joint Economic Committee, would serve the purpose of “deepening bilateral trade and economic cooperation and promoting common development.” For his part, Wen observed that the dialogue would defuse misunderstanding and increase cooperation in an area that was a critical part of the Sino-American relationship and that had important ramifications for the global economy (Source: Xinhua).

**Politics**

**China to reinforce auditing of officials at all levels of government**

BEIJING, Sept. 22 – The National Audit Office (NAO) issued its 2006-2010 Five-Year Audit Development Program on Friday, saying China will continue to explore new and more effective methods of auditing provincial and ministerial officials over the next five years. "China's audit bodies will reinforce auditing of officials at all levels of government and in the Communist Party of China as well as leaders of state-owned enterprises," said the program. It said the country is improving and extending the audit system nationwide and endeavoring to make it more transparent. Results of the country's annual audits, apart from classified information concerning national intelligence, will be made public in 2010, according to the program (Source: Xinhua).

**China's top leader calls for a new type of industrial path**

BEIJING, Sept. 24 – China's top political leader Jia Qinglin said that the change of economic growth pattern is a major task in promoting the rise of central China. In this sense, a new type of industrial path should be followed, the national macro-control policy should be implemented, economic restructuring should be stepped up, resource and energy conservation should be given high attention, and greater efforts should be made in developing rural productivity, education, culture and health services. He called for more contribution of the non-Communist
people in various social sectors to the rise of central China and the building of new countryside and harmonious society. Jia is Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), and he made the above speech during his visit to east China's Jiangxi Province on Friday and Saturday (Source: Xinhua).

**Economy**

**China Seeks to Double its Trade with SCO Members**

DUSHANBE, Sept. 16 – Chinese Premier Wen stated to reporters after the conclusion of an annual meeting of SCO member prime ministers that China planned to double its trade with the other members of the organization by 2010. Wen said that economic cooperation was an important aspect of SCO member cooperation and that all members had contributed to the promotion of trade and investment facilitation in a bid to ensure the steady growth in the areas of economy and trade. Thus, “China will increase its exports while expanding its imports.” Addressing China’s preferentially-financed projects in SCO member countries, Wen stated that all would be launched through “open, just, and transparent bidding” (Source: Xinhua).

**IMF Increases China’s Voting Rights and Quota**

SINGAPORE, September 18 – In Singapore, the IMF’s 184 members approved plans to boost China’s voting rights and financial contribution as well as the voting rights and contributions of other countries such as South Korea and Turkey. The changes would make China, which currently has fewer votes than Belgium or the Netherlands, the IMF’s sixth most powerful member behind the U.S., France, Germany, Japan, and the U.K. (Source: BBC News).

**Mittal Calls on China to Open Its Steel Market to Foreign Investment**

LONDON, Sept. 19 – Lakshmi Mittal, the President of Arcelor Mittal, the world’s largest steelmaker, told the Financial Times in an interview that he hoped “some day the Chinese government would allow” non-Chinese companies to take controlling stakes in Chinese ones. Arcelor Mittal, which already has three joint-venture operations in China with partners such as Baosteel, China’s largest steel producer, sees China as presenting some of the most exciting opportunities for both organic and acquisitive growth (Source: Financial Times).

**China’s Foreign-Exchange Reserves Hit $954.5 Billion in July**

BEIJING, Sept. 19 – China’s foreign-exchange reserves hit $954.5 billion in July, with trends suggesting they will exceed $1 trillion by mid-October. The explosion of reserves is creating challenges for Chinese central bankers who are facing an unbalanced balance sheet, U.S. dollar depreciation, and rising hedging costs. The explosion is attributable to foreign trade and a continuing high level of foreign investment. Chinese leaders are considering various measures to reduce China’s huge reserves including increased government imports, greater yuan flexibility, new options for foreign exchange use, gold purchases, and increased expenditures on financial sector restructuring or China’s social-security fund (Source: Asia Times).

**Baidu Dominates China’s On-Line Search Market**
BEIJING, Sept. 20 – A survey of China’s on-line search market reveals that Chinese search engine Baidu continues to dominate the on-line search market with a market share of 62.1%, a 10% increase over a 1-year period. Baidu’s nearest competitor Google, once the market leader in China, had a market share of 25.3%. The survey indicated that Baidu appealed to students while Google appealed to China’s white-collar classes (Source: Xinhua).

Microsoft Reaches Agreement with China Telecom to Provide Web Search Services

BEIJING, Sept. 20 – Microsoft reached an agreement with China Telecom, China’s largest fixed-line network operator and internet provider, to provide web search services, “Windows Live,” to China Telecom’s 25 million broadband customers (Source: People’s Daily Online).

China to Become World’s 3rd Biggest Automobile Producer

Sept. 20 – Polk Marketing Systems, a German research and consulting company, released a report predicting that China would replace Germany this year to become the world’s 3rd biggest maker of cars and vans. According to the study, China will produce 5.9 million light vehicles while Germany will produce 5.38 million. China would remain far behind market leaders the U.S. and Japan, which both produce more than 10 million cars annually. The Polk Study expects China’s annual light vehicle production to hit 10 million by the end of the decade (Source: Xinhua).

Carlyle Group Likely to Give Up Pursuing A Share of Guangdong Development Bank

BEIJING, Sept. 20 – Carlyle Group, the global private equity firm, is likely to drop out of an effort to take control of China’s Guangdong Development Bank (GDB). Carlyle originally had sought a stake after the GDB and Chinese authorities had encouraged foreign consortiums to bid for more than 25% of GDB. Later, however, Chinese authorities, influenced by a backlash against foreign investment, limited total foreign ownership in a Chinese bank to 25%, with individual foreign owners being restricted to a 20% share. Société Générale, a French bank, is leading a rival group’s bid for a stake in GDB. Per reports, the U.S. and French governments are intensely lobbying the Chinese government about GDB (Source: Financial Times).

China Reduces Export Tax Rebates while Boosting Others

BEIJING, Sept. 21 – Spurred by its huge trade surpluses and the resulting political backlash, China has implemented a new export-tax rebate scheme. The changes reduce export tax rebates from 13 to 11% for commodities, low-value-added goods, and resource-intensive goods and affect products such as textiles, ceramics, and plastics. China, though, increased the rebate for exports of high-value added information products, biotech goods, and heavy equipment from 13 to 17% and for some agricultural exports from 5 to 13%. The changes are broadly designed to reduce exports, to facilitate the efforts of the Chinese government to slow the economy, and to make it easier to adjust the yuan. Some doubt the reductions will have much effect on China’s trade surplus given the ability of Chinese producers to absorb minor tax increases and the fact that some of the changes encourage exports (Source: Asia Times).

Number of Chinese Broadband Subscribers Reaches 77 Million
BEIJING, Sept. 22 – Chinese Ministry of Information Industry Deputy Minister Jiang Yaoping reported at China's 2006 Internet Conference that the total number of China’s internet users reached 123 million as of June. Of this number, 77 million were broadband subscribers. It was pointed out by other government officials at the conference, though, that internet development in China is unequal with those on the coast in East China have much better connections than those inland (Source: People’s Daily Online).

**Capital will account for 50% of GDP value in 2010**

SHANGHAI, Sept. 22 – In its newly released report titled "Chinese Capital Market Prepares for Great Expansion", Credit Suisse predicts that due to the fast economic growth, Chinese capital market will expand from 402 billion US dollars last year to 1.88 trillion US dollars in 2010. By then, total capital will account for 50% of the country’s GDP value. Wu Guangwei, vice director of the Economic Research Institute under the Tongji University and concurrently vice director of the Economic Commission of the Shanghai Municipal Committee of the Chinese People's Political Consultative Conference, said that it can be expected with optimism that Chinese capital market will reach one trillion US dollars by 2010, and that such capital volume will account for 33% or more of the GDP value at that time (Source: Chinanews.cn).

**Society**

**China still has to cope with employment problem**

WASHINGTON, Sept. 19 – Tian Chengping, the Minister of Labor and Social Security, said in a speech at the Brookings Institution in Washington on September 14 that the contradiction between its large population and insufficient job posts will remain severe for a very long time. There will be at least 24 million people hunting for jobs in the next few years; however, only 11 million jobs will be available if retirees are taken into consideration. Employment problems in rural areas also need attention, where there will be 100 million people in need of getting jobs other than farming, although 200 million have already turned to work in other industries (Source: Chinanews.cn).

**Chinese business people earn an average annual income of 176,000 yuan**

BEIJING, Sept. 20 – According to a recent survey conducted by CTR market research, the average annual family income of 550 thousand Chinese businesspeople is 176 thousand yuan, an 18% growth compared with last year. Their consumption potential should never be overlooked. About 53%, or 300 thousand, of Chinese businesspeople have private cars, while only 47.5% had last year. 13.8% of their cars are the products of international brands, their favorites being Audi, Benz and BMW. Expensive TV set is another necessity to them, thus 33% of them have bought advanced TVs, which can be found in only 3% of ordinary homes. The statistics also show that more women have joined the business circle. Last year, only 34.7% of businesspeople were female, while they have taken up 35.7% this year (Source: Chinanews.cn).

**Self-employed workers decreased by 1mln in 5 yrs**

BEIJING, Sept. 23 – The 2006 White Paper on Private Business, recently published in Beijing,
shows that over the past five years, the number of registered self-employed businesspeople has decreased from 25.71 million five years ago to the present 24.64 million, decreasing at an annual rate of 0.8%. Vice chairman of the All-China Federation of Industry and Commerce Gu Shengzu said that the declining trend was opposite to what people had expected before, showing that business environment in China was still not good enough. Chinese private business has always encountered two major problems, unequal taxation and financing difficulty. At present, capital owned by private business accounts for only 10% of the total capital in society. Compared with foreign enterprises which enjoy a set of preferential policies in taxation and other matters, most privately-owned enterprises in China are usually taxed heavily and treated unequally (Source: Chinanews.cn).

Other

The Editors have prepared this newsletter using publicly-released media and research accounts that are believed to be reliable. The Editors, the CUSCPS, and San Francisco State University do not guarantee their accuracy and any such information should be checked independently by the reader.

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