Texts adopted by Parliament

Thursday 6 July 2006 - Strasbourg | Provisional edition

Freedom of expression on the Internet | P6_TA-PROV(2006)0324 | B6-0401, 0402, 0404, 0408, 0411 and 0414/2006

European Parliament resolution on freedom of expression on the Internet

The European Parliament ,

- having regard to its previous annual resolutions on the situation of human rights in the world,

- having regard to its previous resolutions on human rights and freedom of the press and on the evaluation of the World Summit on the Information Society held in Tunisia in December 2005,

- having regard to Article 19 of the Universal Declaration of Human Rights,

- having regard to Article 10 of the European Convention on Human Rights,

- having regard to the EU Guidelines on Human Rights Dialogue (2001) and on Human Rights Defenders (2004) and their first evaluation under Austrian Presidency

- having regard to the Declaration of Principles adopted by the World Summit on the Information Society on 12 December 2003

- having regard to the Joint Declaration of 21 December 2005 by the UN Special Rapporteur on Freedom of Opinion and Expression, the OSCE Representative on Freedom of the Media and the OAS Special Rapporteur on Freedom of Expression,

- having regards to the EU policy on human rights and democratisation in third countries adopted by the Council in December 2005,

- having regard to the European Initiative for Democracy and Human Rights (EIDHR),

- having regard to Rule 115 of its Rules of Procedure,

A. whereas Article 19 of the Universal Declaration of Human Rights states that everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers;

B. welcoming the statement of the World Summit in Tunis of 16-18 November 2005 on the primary importance of the information society for democracy and respect for human rights and fundamental freedoms; in particular the freedom of expression and opinion, as well as the freedom to receive and access information;

C. whereas the fight for freedom of expression has today largely shifted on-line as the Internet has become a mean of expression of choice for political dissidents, democracy activists, human rights defenders and independent journalists worldwide;

D. whereas access to the Internet can strengthen democracy and contribute to a country's economic and social development and restricting such access is incompatible with the right to freedom of expression;

E. whereas restrictions should only exist in cases of using the Internet for illegal activities, such as incitement to hatred, violence and racism, totalitarian propaganda and children's access to pornography or their sexual exploitation;

F. whereas, according to Reporters Without Borders, authoritarian regimes and governments have been working on ever more far-reaching methods of controlling the Internet, chiefly using more and more sophisticated filtering technology and surveillance of electronic communications and setting-up cyber-police;

G. whereas, according to human rights organisations, a large number of cyber-dissidents are detained in prison - most of them in China - including Hao Wu, Chinese blogger and documentary filmmaker, Yang Zili, Chinese cyber-dissident, Shi Tao, Chinese journalist at the daily Dangdai Shangbao, Motjaba Saminejad, Iranian blogger, Mohammed Abbou, Tunisian lawyer, Pham Hong Son, Vietnamese doctor and Habib Saleh, Syrian online journalist; whereas the most recent cases concern the Egyptian bloggers Mohamed Sharkawy and Karim Lel-shaer;

H. whereas a number of countries can be seen as enemies of freedom of expression on-line as stated in the last Reporters Without Borders report, including China, Belarus, Burma, Cuba, Iran, Libya, Maldives, Nepal, North Korea, Uzbekistan, Saudi Arabia, Syria, Tunisia, Turkmenistan and Vietnam,

I. whereas companies based in democratic States partly provide these countries the means to censor the web and to monitor electronic communication;

J. whereas Chinese government has successfully persuaded companies such as Yahoo, Google and Microsoft to facilitate the censorship of their services in the Chinese internet market; also notes that other governments have required the means for censorship from other companies;

K. whereas equipment and technologies supplied by Western companies such as CISCO Systems, Telecom Italia, Wanadoo, a subsidiary of France Telecom have been used by governments for the purpose of censoring the Internet preventing freedom of expression;

L. whereas US legislators introduced a bill in February 2006, the Global On-line Freedom Act, aimed at regulating the activities of Internet businesses when they operate in repressive countries;

M. whereas the EU should demonstrate that the rights of Internet users are at the heart of its concerns and that it is ready to act to promote free speech on-line;

1. Reaffirms the fact that freedom of expression is a key value shared by all EU countries and that they have to take concrete steps to defend it;

2. Calls, in this respect, on the Council and the EU Member States to agree on a joint statement confirming their commitment in favour of the protection of the rights of internet users and of the promotion of free expression on the internet world-wide;

3. Reiterates its commitment to the principles which were confirmed at the Tunis Summit, viz.:

- building the information society on the basis of human rights and fundamental freedoms,
- combating the digital divide and seeking resources for action plans to foster development,
- developing Internet governance arrangements which are more balanced, pluralist and representative of the States involved, to meet the new technological challenges (spamming, data protection, etc.);

4. Strongly condemns restrictions on Internet content, whether they apply to the dissemination or to the receipt of information, that are imposed by Governments and are not in strict conformity with the guarantee of freedom of expression; strongly condemns the harassment and imprisonment of journalists and others who are expressing their opinions on the Internet; calls, in this respect, on the Council and the Commission to take all necessary measures vis-à-vis the authorities of the concerned countries for the immediate release of all detained Internet users;

5. Calls on the Commission and the Council to draw up a voluntary code of conduct that would put limits on the activities of companies in repressive countries;

6. Calls on the Commission and the Council to maintain the presence and active participation of the EU and the presentation of common positions especially with ECOSOC, ITU, UNESCO and UNDP;

7. Calls on the Council and the Commission when considering its assistance programmes to third countries to take into account the need for unrestricted Internet access by their citizens;

8. Welcomes the Joint Investor Statement on Freedom of Expression and the Internet at the initiative of Reporters Without Borders; stresses that corporations which provide Internet searching, chat, publishing or other services should have a responsibility to ensure that the rights of users are respected;

9. Instructs its President to forward this resolution to the Council, the Commission, and the governments and parliaments of the Member States.

BBC NEWS

EU wants tariffs on Chinese shoes

By Theo Leggett
Europe business reporter, BBC News

The European Commission is proposing punitive import tariffs on leather shoes brought into the European Union from China and Vietnam.

But EU governments are deeply divided over the plan - which requires approval by more than 50% of member states.

The quantity of shoes imported from China and Vietnam has risen dramatically over the past five years.

In 2005, 1.25 billion pairs were brought into the EU from China, and 265 million pairs from Vietnam.

Low manufacturing costs in both countries mean that such imports are very cheap, and attractive to retailers.

'Dumping'

But some European manufacturers are crying foul.

> **If we tolerate dumping, we send the signal that Europe tolerates unfair competition and unfair trade**
> EU trade spokesman

They claim that their rivals in China and Vietnam receive government subsidies, enabling them to sell shoes abroad for less than the cost of making them - a process known as dumping.

The European Commission agrees. After a lengthy investigation, it announced earlier this year that there was "compelling evidence of serious state intervention in the leather footwear sector in China and Vietnam".

In April, it introduced emergency tariffs on leather shoes, to protect European businesses from the effects of unfair competition.

Those measures are due to expire in early October.

The commission wants to replace them with a more formal system, under which imports from China would attract tariffs of 16.5% and imports from Vietnam, 10%.

These duties would remain in place for up to five years.

'Unfair competition'

A spokesman for EU Trade Commissioner Peter Mandelson said the proposals were fully justified.

It's quite clearly protectionism
Conservative MEP Syed Kamall

"If we tolerate dumping, we send the signal that Europe tolerates unfair competition and unfair trade," he said.

"Anti-dumping measures will not save uncompetitive producers - but they will create a market in which comparative advantage is exercised fairly."

The move has strong support from countries such as Italy, Spain, Poland and Portugal, which are anxious to protect their own shoe producers.

"The damage caused by the dumping of shoes from China and Vietnam is very serious," one Italian official told the BBC.

"In 2005, thousands of small companies closed down, and many more in the years before that.

"Many of these companies are family businesses with only three or four employees.

"We are not acting in a protectionist manner, and we are not trying to prevent imports of Chinese shoes. But free trade must be accompanied by fair trade."

'Protectionism'

But others insist the proposals are nothing short of protectionism, among them Syed Kamall, a UK Conservative member of the European Parliament.

"It's quite clearly protectionism," he said.

"And who does protectionism hurt but consumers? Consumers are going to have to pay more for their shoes."

Retailers' lobbies also take a dim view of the proposals, and have urged EU ministers to reject them.

And the plan does face strong opposition.

Countries such as the UK, Germany and the Nordic states believe that the proposals are too harsh, and represent an unwelcome barrier to trade.

In an informal vote earlier this month, 14 member states said they would not back the proposals. If the same thing happens when formal talks take place later this month, the plan will be rejected.

Commission officials concede that the plan may collapse.

But they insist that they had no choice but to bring forward proposals - because their own investigations had found evidence that dumping was taking place.

And they point out that member states which refuse to back the scheme could in theory be called on to justify their decisions in court.

For many observers, this case is about a great deal more than simple tariffs on a few 100 million pairs of shoes.

It reflects a deep debate within the EU itself over globalisation, and how to react to the emergence of China as a trading superpower.

And that debate is unlikely to be concluded quickly.

Story from BBC NEWS:
http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/5299932.stm

Published: 2006/08/30 17:41:03 GMT

BBC NEWS

China reporter jailed for spying

A Hong Kong journalist has been jailed for five years in mainland China, after being convicted of spying.

Ching Cheong, who was the chief China correspondent for Singapore's Straits Times, has been in detention since April 2005.

Chinese officials accuse him of buying information and passing it to Taiwan's intelligence services over a period of five years from mid-2000 to March 2005.

Both his family and his employers reject the charges.

Ching is the first Hong Kong journalist to have been charged with spying since China resumed sovereignty over the territory in 1997.

The maximum penalty for espionage in China is death.

China and Taiwan are believed to actively spy on each other. China sees Taiwan as its territory, threatening to use force if the island moves towards formal independence.

'Very unfair'

Ching was put on trial behind closed doors two weeks ago.

No information has been received about what was said inside the courtroom, but state news agency Xinhua reported on Thursday that Ching had been sentenced to five years in jail.

"We think it's very unfair, because from the beginning to the end nobody knew what happened," James Lung, coordinator of the Hong Kong-based Rescue Ching Cheong Alliance, told the French news agency AFP.

Ching was arrested in the southern Chinese city of Guangzhou in April 2005.

The state-run Xinhua news agency said that he confessed to gathering information about Chinese political, economic and military affairs, to pass to Taiwanese intelligence officials.

But his supporters insist he is innocent of the charge. His wife Mary Lau said he was in Guangzhou collecting secret papers linked to the former Chinese leader, Zhao Ziyang, who was ousted for opposing the suppression of pro-democracy demonstrators in Tiananmen Square in 1989.

She has reportedly suggested her husband was set up by an unnamed intermediary.

Reporting crackdown

Ching's case is one of several that have recently highlighted the dangers of reporting in China.

According to the human rights group Reporters Without Borders, more than 30 journalists are in custody, along with another 50 internet campaigners.

Last Friday, a Beijing court dismissed charges that New York Times employee Zhao Yan had illegally leaked state secrets, but sentenced him to three years for fraud.

Human rights activists have also been targeted in recent months. Blind civil rights campaigner Chen Guangcheng, who raised concerns about forced abortions, was sentenced to more than four years in jail earlier this month.

Prominent human rights lawyer Gao Zhisheng was also detained by police recently. He had actively campaigned on behalf of the banned Falun Gong spiritual group.

Story from BBC NEWS:
http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/asia-pacific/5300632.stm

Published: 2006/08/31 04:05:03 GMT

BBC NEWS

China trials show danger of dissent

Several recent trials in China have highlighted the dangers of dissent, in what appears to be a growing clampdown, writes the BBC's Dan Griffiths in Beijing.

In just a few days China's leaders have shown once again that they will not tolerate dissent on issues they consider sensitive or embarrassing.

Earlier in the week blind human rights activist Chen Guangcheng was sentenced to four years and three months in prison.

The self-taught lawyer was well known in China for his outspoken campaigns to help poor rural farmers and the disabled.

But he gained international attention when he publicised claims that Chinese officials in the eastern province of Shandong were enforcing late-term abortions and sterilisations - in an attempt to control population growth.

That angered the Chinese authorities and Mr Chen was arrested and charged with destroying public property and disturbing social order. His supporters have always claimed the charges were fabricated.

Other Chinese rights activists who have campaigned for Mr Chen's release have been put under house arrest in Beijing, deported from there to distant cities, or gone into hiding.

Mr Chen's wife, Yuan, said officials restrict her movements to around her home village.

'State secrets'

Mr Chen's case has not been the only one to make the headlines this week. On Friday, a court in Beijing sentenced New York Times researcher Zhao Yan to three years in prison for fraud.

A more serious charge of revealing state secrets - which would have carried a much longer sentence - was dismissed.

Zhao Yan was arrested in 2004 after the New York Times correctly reported that China's former president, Jiang Zemin, was going to resign his last official position as head of the country's armed forces.

The United States and some human rights groups have repeatedly called for the release of Zhao Yan and Chen Guangcheng, claiming that their trials were politically motivated.

But China has ignored those calls - in fact these latest verdicts appear to be part of a growing clampdown by the Chinese authorities.

One of the most high profile cases is that of Hong Kong based journalist Ching Cheong, who reported on China for the Singapore-based Straits Times newspaper.

Earlier this year he was arrested while in the southern Chinese city of Guangzhou.

Mr Ching's wife said he had travelled there to collect secret papers linked to the former Chinese leader, Zhao Ziyang.

Mr Zhao was ousted for opposing the suppression of pro-democracy demonstrators in Tiananmen Square in 1989. Beijing considered him an extremely controversial figure and he was still under house arrest at the time of his death in January 2005.

The Chinese authorities charged Ching Cheong with espionage and he was recently put on trial, although a verdict has yet to be announced.

Severe penalties

These cases are all reminders that while China may have experienced dramatic economic change in the past three decades, political reform is not on the government's agenda.

The government does not allow any challenge to its authority and keeps a tight rein on the media.

Beijing censors newspapers and television and has also invested considerable resources in trying to control what Chinese people see and read on the internet.

The authorities here regularly block access to material on the web that they consider pornographic or politically subversive.

And this week has been a stark reminder that for those who do cross the line the penalties are severe.

Story from BBC NEWS:
http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/asia-pacific/5284754.stm

Published: 2006/08/25 14:03:24 GMT

CHINA: Chinese companies seek markets and technology

Friday, August 25 2006

Relevant Profiles: EU | China |

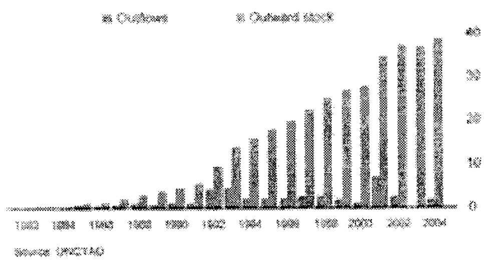
SUBJECT: China's investment in the EU.

SIGNIFICANCE: China's much-publicised investment activities in Africa and Latin America suggest that the search for resources is the most important driving force behind its outward investment strategy. However, Chinese companies are also motivated by technology acquisition and the search for new markets, which has implications for the more developed countries of the EU.

ANALYSIS: In absolute terms, the scale of Chinese outward investment is important:

- Between 1990 and 2004, the value of foreign assets owned by mainland Chinese multinational enterprises (MNEs) rose from almost 4.5 billion dollars to over 38 billion dollars, registering an average annual rate of growth of 16.5%.
- By 2003, two Chinese companies -- Sinopec and the China State Construction Engineering Corporation -- employed almost 40,000 people overseas, generating foreign sales of 9 billion dollars.
- Three Chinese banks -- Bank of China, China Construction Bank and the Industrial and Commercial Bank of China -- have been ranked in the world's top 50 financial trans-national corporations (TNCs), and had 623 foreign affiliates employing over 55,000 staff (see CHINA: Huijin forces new financial approach - November 29, 2005).

China: Outward FDI
USD billion



(Click for a larger graphic)

The expansion of Chinese overseas investment is accelerating. UNCTAD has forecast that alongside India and South Korea, China will account for an increasing share of Asian outward FDI, including large-scale mergers and acquisitions. Much will go to natural resources and energy, and property and real estate, in developing countries. However, Chinese companies are also targeting developed countries for advanced technology and markets, and where the acquisition of established brand names promises to improve their competitive edge and increase their profits.

Motivation. Indeed, the search for resources has a low priority among

Articles referenced

see CHINA: Huijin forces new financial approach - November 29, 2005

see CHINA: Revenue trends force auto industry re-think - September 12, 2005

see CHINA: Beijing frees up overseas investment - May 2, 2006

Keywords (click to search...)

- AP
- China
- EU
- Africa
- France
- Germany
- India
- Italy
- Japan
- Latin America
- Russia
- South Korea
- Turkey

Chinese investors in the EU. Efficiency-seeking outward FDI based on reductions in factor costs also has very limited relevance to China's EU investment activities, since producers in most EU member states cannot hope to match China's low land and labour costs. Rather, the three main motivations for Chinese companies to invest in the EU are to:

- provide access to modern know-how and technology;
- secure new markets; and
- extend brand imaging.

By these means, Chinese investors hope to improve their international competitiveness and increase profitability.

Market access. Chinese companies are increasingly looking overseas to extend their markets, especially in industries -- for example, textiles and electronics -- where there is too much domestic supply. In addition, firms whose initial success has been as Original Equipment Manufacturers (OEMs) for foreign companies are looking for overseas markets, especially in the EU and United States, where they can market and sell the products themselves. For example, Haier Inc, was set up in 1984 as an OEM refrigerator manufacturer. As part of a localisation strategy designed to give it international reach, in 2000-01 it set up Haier Europe, purchased a refrigerator plant in Padua (Italy) and now operates as a major manufacturer and distributor of domestic appliances in 13 European countries.

Overcoming restrictions. FDI also enables Chinese firms to overcome EU tariff and non-tariff barriers and secure permanent market access by directly establishing foreign affiliates in EU countries. The expectation that Turkey will eventually gain EU membership has stimulated investment there by Chinese textile, food processing and farm equipment manufacturers.

Know-how. The acquisition of advanced managerial expertise, organisational know-how and high technology is important for Chinese enterprises that want to improve competitiveness and catch up with companies from more developed countries. FDI also offers a way of accessing technology that foreign companies are reluctant to introduce into China. Nanjing Automotive's purchase of MG Rover and Shagang's of ThyssenKrup fulfilled an increasingly widespread ambition to access foreign technology (see CHINA: Revenue trends force auto industry rethink - September 12, 2005). Similarly, Chinese firms have begun to establish Research and Development (R&D) centres overseas. As of last year, eleven such centres had been established by Chinese TNCs, including Huawei and Haier, in EU member states.

Brand acquisition. An increasingly important goal is also the acquisition of international brand names. The purchase by TCL (founded in Guangdong in 1981) of Germany's Schneider Electronics (2002) and, subsequently, its establishment of a joint venture with the ailing French television company, Thomson Electronics, were prime examples of Chinese investor strategy in this regard. In addition to acquiring valuable brand names, activities such as those of TCL in Germany, France and Poland offer the benefits of improved strategic positioning within EU economies.

Capital constraints. Chinese companies abroad also enjoy easier access to capital and foreign currency than purely home-based companies. However, some investors have benefited from new rules -- for example, through the Qualified Domestic Institutional Investor (QDII) scheme -- which allow them to use foreign currency reserves to invest in overseas financial assets (see CHINA: Beijing frees up overseas

- United Kingdom
- economy
- industry
- banking
- construction
- corporate
- electronics
- energy
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- foreign investment
- judicial
- labour
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- natural resources
- property
- technology
- textiles

nvestment - May 2, 2006).

Scale. Despite the attractions of the EU as an FDI destination for Chinese outbound investment, member states' share of China's global FDI remains tiny. Europe absorbs around 5% of all Chinese outward FDI, of which the share of non-EU countries -- mainly Russia -- accounts for about half. The small scale of Chinese FDI in the EU is reflected in the huge disparities between reciprocal FDI flows between China and individual EU members. For example, in 2004, the cumulative value of the United Kingdom's FDI stock in China was 10.7 billion dollars, while that of Chinese FDI in the United Kingdom was a mere 75 million dollars. In Germany's case, the corresponding figures were 8 billion dollars and 80 million dollars.

The most important recipients of Chinese FDI within the EU are France, Germany, Italy and the United Kingdom, although the recent inclusion of Romania and Hungary is a reminder of the competing investment attractions -- not necessarily of the same kind as those of Western European countries -- of 'new' EU members. Europe's heterogeneity both encourages and discourages Chinese FDI inflows:

- The economic maturity of Western European member states and the dynamism of their Central and Eastern European counterparts offer a uniquely wide range of investment opportunities.
- However, the perceived uniformity of the North American market has its own benefits, compared with the differing business customs, linguistic and legal traditions, which characterise market conditions in the EU.

CONCLUSION: Increased FDI in EU member states highlights a more active and increasingly aggressive stance by Chinese firms determined to enhance their global corporate image through the acquisition of established brand names, and to improve their international competitiveness. To date, the strategy has met with partial success, reflected in efficiency improvements and increased profitability achieved by some Chinese MNEs. However, unlike Japan at a similar stage in its development, China is still seriously lacking in international corporate authority, and the creation of true global champions will, at best, be a long-run process.

Keywords: AP, China, EU, Africa, France, Germany, India, Italy, Japan, Latin America, Russia, South Korea, Turkey, United Kingdom, economy, industry, banking, construction, corporate, electronics, energy, fiscal, foreign investment, judicial, labour, manufacturing, natural resources, property, technology, textiles

Word Count (approx): 1120

CHINA: Beijing moves to force policy compliance

Friday, August 18 2006

Relevant Profiles: China |

EVENT: Beijing on August 16 punished three senior provincial officials for ignoring central government policy.

SIGNIFICANCE: The State Council has told the chairman of Inner Mongolia, Yang Jing, and his two deputies to write self-criticisms for illegally building power stations. The aim was to send a strong signal to the provinces that Beijing will clamp down on 'illegal' investment as it seeks to cool the economy and tackle pollution. However, Inner Mongolia is a relatively soft target; more powerful provinces may still work their way around central government directives.

ANALYSIS: Since late last month, continuing rapid growth in fixed asset investment has finally driven the State Council to implement extremely tough policies to constrain investment (see CHINA: PBoC will consider another interest rate rise - July 19, 2006). On August 16, the State Council reprimanded the leadership of Inner Mongolia for carrying out unauthorised investment projects. The decision to order the chairman of the 'autonomous region', Yang Jing, and his deputies to write self-criticisms sends a signal to local officials nationwide that macroeconomic policies will be enforced by administrative punishment.

Concerns. Central government officials fear that the rapid expansion of fixed asset investment is driving a real estate bubble in many localities. China's leaders have become visibly more alarmed since the release of the first-half figures, in late July:

- **Monetary expansion**. Broad money supply (M2) expansion has only slowed marginally from 18.8% year-on-year at end March to 18.4% year-on-year at end June (see CHINA: Monetary tightening is underway - May 22, 2006). While this above-average pace highlights weaknesses in the People's Bank of China's (PBoC) monetary tools, such monetary expansion is not overly alarming. Furthermore, the central bank still has ample room to reduce the overall money supply through the issuance of PBoC notes.
- **Fixed asset investment**. By contrast, the pace of fixed asset investment, which grew by 27.7% during the first quarter and by 29.8% for the first half of this year, is more serious. Jilin, Anhui and Henan registered growth in urban fixed asset investment at or above 50%. Hebei, Inner Mongolia, Qinghai and Fujian recorded fixed asset investment growth well above 40%. The mild monetary adjustments during the first half of this year have clearly had little effect on investment growth, which is why the People's Bank of China has raised its benchmark one-year lending rate 27 basis points to 6.12% today, following a similar rise to 5.85% in April.

Articles referenced

see CHINA: PBoC will consider another interest rate rise - July 19, 2006

see CHINA: Monetary tightening is underway - May 22, 2006

see CHINA: CCP prepares for crucial Congress - August 2, 2006

see CHINA: Political seniority will decide fate of reforms - April 10, 2006

see CHINA: Government tightens property rules - June 5, 2006

Keywords (click to search...)

- AP
- China
- economy
- politics
- corruption
- environment
- fiscal

- **Political factors**. Historically, the approach of Communist party congresses, where new slates of local and central leaders are chosen, has generated investment fever and heightened inflationary pressure as local officials scrambled to maximize local growth performance, to increase their chances for a promotion (see CHINA: CCP prepares for crucial Congress - August 2, 2006). The spectacular investment boom has indeed generated some impressive growth figures for the first half, including around 18% in Inner Mongolia, 15% in Jiangsu and Shandong, and 14% in Guangdong and Tianjin.

Land moves. Since this round of macroeconomic imbalance is not purely a monetary phenomenon, the central government has returned to the traditional methods of articulating a strong political message and taking tough administrative measures:

- **Land sale receipts**. Premier Wen Jiabao held a State Council meeting last month in which he called for a series of policy changes to restrict investment. The most important was one to place receipts from the sale of land into the formal local budget, subject to central authority oversight. Currently, such receipts go entirely into off-budget accounts that are not regulated by the centre, which gives local officials an incentive to develop land. The next day, Wen convened a national teleconference on the economy and demanded that local officials slow investment and restrict the sale of land. However, it remains unclear whether this policy change will actually be implemented.
- **Project halt/zone reduction**. Earlier this month, the National Development and Reform Commission ordered the halting of all investment projects above 100 million renminbi (12.5 million dollars) if they violated existing regulations. The Ministry of Land and Resource further announced that it is in the process of reducing the number of development zones, which typically give local governments an excuse to take over large tracts of land. The State Council plans to send out work teams of central officials to ensure local compliance to these regulations as well as existing regulations limiting the real estate sales.
- **Corruption**. Real estate development is a great source of corruption, and the central government has made an example of a few fairly senior officials, including the vice governor of Anhui, Tianjin's lead procurator, and a vice mayor of Beijing. All stand accused of taking bribes in exchange for securing land for real estate developers. Such a sweep of vice provincial level cadres is rare.

Administrative punishment. Wen's move against Yang and his deputies was prompted in particular by the building of the Xinfeng power plant in Inner Mongolia. Several lower level officials were removed for allegedly rushing its construction. A part collapsed and killed six workers. While the use of administrative punishments provides a clear signal of the State Council's determination to slow investment, Wen has yet to fire a senior official for investment transgressions, something that his predecessor, Zhu Rongji, did.

As usual, the government's central macroeconomic policies have prompted loud grumbling from local officials. Officials from central China, in particular, complain that since they were left out of previous economic booms, they should be allowed to benefit from the current upsurge. In the past, vocal provincial opposition to central policy has suggested support from powerful political patrons at the centre. This may be what is happening today.

- government
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- party
- policy
- property
- regional

Divergence. Within the central leadership, there appears to be some disagreement on the appropriate speed of growth. On July 25, Vice-Premier Huang Ju instructed the PBoC to "ensure that the national economy can maintain stable, fast-pace growth", while on the next day Wen said at the national economic teleconference that all members of the government should "promote the stable, relatively fast, coordinated development of the economy" (see CHINA: Political seniority will decide fate of reforms - April 10, 2006). While the distinction may appear minor, both leaders were clearly trying to convey something different.

Historically, once administrative measures are deployed to slow the economy, they usually exert downward pressure on the level of investment. Thus, unless another member of the leadership openly opposes restrictive policies, investment should slow, as should the growth in housing prices in major cities, in the last quarter of the year (see CHINA: Government tightens property rules - June 5, 2006).

One litmus test for the effectiveness of central policies, as well as Wen's personal authority, is whether the proposal to incorporate land sales into the formal budget will be carried out. This is a widely debated issue that has been bitterly opposed by local officials.

CONCLUSION: While it remains unclear whether the central leadership is at one in supporting the implementation of tough macroeconomic policies, the centralisation of land approvals and of investment authorities should give the State Council sufficient power to slow the current round of surging investment. Beijing's decision to chastise senior officials for ignoring its instructions underlines a degree of determination at the centre to exercise authority over regional governments. All this points to a slowing of GDP growth over the last quarter to below 10.5% for the full year.

Keywords: AP, China, economy, politics, corruption, environment, fiscal, government, growth, investment, monetary, opposition, party, policy, property, regional

Word Count (approx): 1220