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Analysis: Rising China faces social, political challenges in 2006

By Edward Lanfranco

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BEIJING -- Events in China during 2005 point to a country on the rise in the economic sphere, but one that faces a variety of daunting political and social dilemmas.

China's ascendancy in the global economy was made clear by upward revision of its gross domestic product figures for 2004 to more than \$1.9 trillion dollars, nearly 17 percentage points better than first estimated by the National Bureau of Statistics. Better data collection in the tertiary sector, especially among privately owned companies, accounted for 93 percent of the amended GDP figure.

These numbers enabled China to rank as the sixth-largest economy in the world, surpassing France. Economists predict the country's GDP for 2005 will see it overtake Britain for fourth place, behind only the United States, Japan and Germany.

While China strives for bilateral trading partners to grant it "market economy status" under rules of the World Trade Organization, there are still 138,000 state-owned enterprises nationwide employing 43 million workers. Beijing keeps close control over strategic industrial sectors such as telecommunications, transportation and energy, among others.

Li Rongrong, chairman of the State-owned Assets Supervision and Administration Commission promised slow and steady reform of the socialist-era command economy legacy, stating, "4,000 to 5,000 SOEs are being eliminated each year."

The goal of the Chinese leadership is to consolidate SOEs into profitable conglomerates patterned along lines approximating the chaebol model used in South Korea. China National Petroleum Corp. and China Mobile are two of the 169 "central SOEs" in which Li's commission manages the government's holdings.

China's Ministry of Commerce reported foreign trade climbed by 23 percent in 2005, valued at \$1.2 trillion dollars. The country ran a \$63 billion trade surplus with the European Union, and by its accounting methods had a \$100 billion surplus with the United States. The U.S. Department of Commerce says the trade deficit is twice that amount.

Faced with increased pressure from its major trading partners, in July 2005

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China revalued its currency by 2.1 percent against the U.S. dollar and moved to a basket of currencies to determine the value of the yuan, allowing it to float in a tightly restricted bandwidth.

Access to energy resources to fuel its burgeoning economy was one of the top stories out of China in 2005. The country relies on coal to provide almost 70 percent of its energy demand while oil and natural gas account for 25 percent; hydropower takes up most of the remainder.

Despite a yearlong high-profile effort spearheaded by Chinese Premier Wen Jiabao, working in the country's coal mines remains tantamount to a death sentence. According to state-run media, the country mined more than 2.1 billion tons of coal this year, an increase of 7.9 percent over 2004. More than 5,000 miners (in all extractive sectors) died in China during 2005.

The China National Offshore Oil Corp. failed in an \$18.5 billion dollar takeover bid for California-based Unocal this summer after the U.S. Congress signaled it wouldn't approve the deal. However CNPC purchased PetroKazakhstan in Central Asia from a Canadian company for \$4.2 billion dollars as well as an oilfield in Ecuador for another \$1.4 billion, part of China's strategic goal to diversify its oil sources away from the Middle East and vulnerable shipping lanes. The country continues to court regimes in Sudan and Iran, which have been criticized by the West.

Chinese President Hu Jintao articulated the country's foreign policy goal of a "harmonious world" based on peace and mutual prosperity at the 60th anniversary of the United Nations in September.

The country's international relations remain dominated by border security issues. It projects influence by using trading prowess to enhance security via sponsorship of two regional forums.

In July, the Shanghai Cooperation Organization, which includes four Central Asian nations and Russia, invited Iran, Pakistan, India and Mongolia to participate as observers. SCO members signed a declaration calling for the United States to set a timetable to remove military bases from the region. Also in July, China hosted a meeting of the Greater Mekong Sub-region with Southeast Asian neighbors for greater linkages in trade, tourism, hydropower and road building projects.

China scored limited success with its other border-inspired diplomatic initiative, the six-party talks aimed at defusing the crisis caused by North Korea's nuclear weapons ambitions. After two years of thorny negotiations, participants signed a joint declaration in September.

There were significant developments in two of China's most important bilateral security relationships. The Sino-Russian strategic partnership saw the two sides hold extensive joint military exercises in August. U.S. Secretary of Defense Donald Rumsfeld made his first visit to China during the presidency George W. Bush, signaling a partial thaw in frosty military ties.

Sour Sino-Japanese relations continued downward in 2005. In April, anti-Japan demonstrations in Beijing and Shanghai turned violent with businesses vandalized and embassy grounds coming under attack. China and Japan's navies played a game of brinkmanship in the East China Sea to reinforce claims to a disputed gas field.

While much attention gets paid to geopolitical implications of China's economic rise, the costs to environment and weakest members of society have been high in 2005.

The November toxic chemical spill on the Songhua River highlights China's water problem. The country's own environmental watchdog agency says 90 percent of aquifers for cities and 40 percent used in agriculture are tainted. Air pollution remains bad and desertification continues apace.

There are no mechanisms to build genuine consensus within society despite a white paper in October lauding development of the "peoples' democratic dictatorship." The Communist Party maintains a stranglehold on power without independent oversight and legal means of expression. A Chinese journalist received a 10-year jail sentence (thanks to help from Yahoo!) for sending e-mail messages the government didn't like this year.

Conflicts because of unchecked grassroots corruption and government-business collusion have resulted in intensified antagonisms at localities. The curtailing of petition rights by regulations issued in 2005 resulted in Chinese protests from Shengyou, Hebei in the north to Dongzhou, Guangdong in the south turning violent.

Unless addressed, problems on Beijing's doorstep and the most distant reaches of the country are setting China up for a big fall.



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