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In a Fortnight

By Joseph E. Lin

ESTABLISHMENT OF U.S.-CHINA MILITARY HOTLINE A GROWING POSSIBILITY

After years of stalling, China appears to have finally agreed to the creation of a military hotline between the Chinese Ministry of National Defense (MND) and the U.S. Department of Defense (DoD). In recent statements, General Qian Lihua, deputy director of the Chinese MND, stated that the two countries may reach a consensus on the hotline when they meet for the ninth round of the U.S.-China defense consultations in September. Such a hotline, noted General Qian, would be the first hotline between China's Ministry of National Defense and the defense ministry of another country (Zhongguo Tongxun She, June 26). Similar remarks have also been made by other Chinese leaders in past months, including Lieutenant General Zhang Qinsheng, the newly appointed commander of the Guangzhou Military Region, who stated during the recent annual Shangri-La Dialogue security summit in Singapore, "We will finalize the establishment of the hotline" (Xinhua, June 3). In April, a U.S. team was sent to Beijing to advise the Chinese military on the technical issues of setting up such a hotline. It is believed that the operational details of the hotline, such as the actual location of the phones as well as the length and scope of the conversations, will be hammered out during the upcoming bilateral defense consultations in the United States.

The idea of creating a U.S.-China military hotline—repeatedly proffered by the United States in past years—was proposed again in June 2006 by then Assistant Secretary of Defense for International Security Peter Rodman. Although hotlines between the U.S. and Chinese heads of state as well as the U.S. Department of State

and Chinese Ministry of Foreign Affairs already exist, the Chinese civilian leadership had been hesitant in the past to allow for the creation of such a military hotline. Doing so, they feared, might result in a loss of command and control over their military commanders during periods of crisis or heightened tensions. Recently, however, a number of Chinese analysts and strategists have joined their U.S. counterparts in proposing the need for such a hotline given the existing tensions and conflicts of interest between the two countries. Major General Yang Yi, director of the Strategy Research Institute of the National Defense University, for instance, argued that a U.S.-China military hotline is critical to improving the strategic mutual trust between both countries (*Zhongguo Tongxun She*, June 26). Yet, the creation of a hotline between the DoD and MND—a key mechanism in facilitating the enhancement of relations between the two militaries—may not prove to be altogether useful during a period of crisis. Unlike the U.S. Defense Department, the Chinese Defense Ministry is primarily responsible for developing relations with foreign militaries and does not exercise control over the PLA; command authority over the PLA belongs to the Central Military Commission, which is currently chaired by Chinese President Hu Jintao.

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China's Slavery Scandal Reveals Administrative Weaknesses

By Willy Lam

The slave labor scandal in Shanxi Province has exposed not only the near-barbarity of the “early stage of capitalism with Chinese characteristics” but also the deep-seated administrative malaise in the Chinese system. Since early this month, the nation has been stunned by reports revealing that more than 1,000 “slaves,” including children and mentally retarded men, were working for long hours with no pay in primitive brick-making kilns in hilly and remote counties in the underdeveloped province. Investigations ordered by the Chinese Communist Party (CCP) leadership have discovered that massive kidnapping and smuggling of children and youth—and their subsequent enslavement in shoddy kilns, mines and other makeshift workshops—has taken place in Shanxi during the past few years. While some 359 victims have so far been rescued, the shocking incident is a slap in the face of the “putting people first” and “harmonious society” credos of Chinese President Hu Jintao and Premier Wen Jiabao.

More importantly, the scandal has revealed serious lapses in the administrative ability of both Beijing and the provinces. In spite of the fact that President Hu had launched a full-year, Maoist-style ideological campaign in 2004 to “raise the governance capability of party cadres and members,” poor governance and corruption has persisted throughout all levels of the Chinese government. Aside from the slave labor scandal, for instance, the Shanxi provincial government has also been responsible, in numerous cases, of the gross mistreatment of urban workers and peasants. Thousands of mostly migrant laborers from the outer provinces have died or sustained heavy injuries in coal mines that lack rudimentary safety measures. Additionally, little has been done regarding the upsurge in cancer incidence rates in towns and villages: three among the country's ten most polluted cities are located in Shanxi. Provincial authorities have also turned a blind eye to collusion among local cadres, triad bosses as well as private entrepreneurs, who are responsible for the practice of human trafficking and slave labor.

Officials in the provincial capital of Taiyuan, however, have apparently been successful in keeping eyesores from Beijing's knowledge—largely through forbidding local media from reporting “negative news.” This is despite the fact that since taking power in late 2002, Hu and Wen have made frequent inspection trips to the provinces; ministries and departments in Beijing have also periodically sent “work teams” to the localities to ferret out instances of corruption or dereliction of duty. In early 2003, the Hu administration also erected a 24-hour, fully computerized “advance warning” systems in Beijing—in units including the Ministries of Public Security and State Security—as well as in major cities to tackle *tufa* (“unexpected” or emergency) events ranging from riots and acts of urban terrorism to large-scale fires, traffic and mining accidents. These expensive mechanisms, however, have not been functioning well. The brick-kiln scandal came to light only after a few Henan Province papers and websites earlier this month had carried the appeals of 400 Henan parents who suspected that their sons had been kidnapped and “sold” to slave masters in neighboring Shanxi (*Dabe Forum*, June 5).

Alarmed by the negative national and global impact of the slave story, Hu and Wen, together with three other Politburo members, gave stern instructions in mid-June on exterminating the practice immediately. It is symptomatic of bureaucratic overlapping and the lack of clear-cut division of labor among central units that “special work teams” were dispatched to Shanxi simultaneously from four different departments—the Ministry of Public Security; the State Prosecutor's Office; the Ministry of Labor and Social Welfare; and the CCP-affiliated All-

China Federation of Trade Unions. It is also a testament to the indifferent attitudes of regional bureaucrats that Shanxi officials started taking action only upon receiving Hu and Wen's instructions. Shanxi Party Secretary Zhang Baoshun said his province would "seriously implement the important decrees of the central leaders." On June 18, the first of the kiln bosses were arrested. A few days later, Shanxi Governor Yu Youjun accepted responsibility for the law-and-order breakdown in his province and tendered an apology to Shanxi residents, the central leadership as well as the victims and their parents (*People's Daily*, June 20; *Wen Wei Po*, June 22; *Outlook Weekly*, June 24).

In his self-criticism, Governor Yu admitted that the incident "has exposed the low political aptitude and awareness of cadres in the party, government and enterprises." He added, "They have not established the concept of administration for the sake of the people." Yu also told the hundreds of Chinese and foreign reporters who had converged in Taiyuan that "Shanxi Province welcomes supervision from the media" (*People's Daily*, June 22). There is widespread suspicion, however, that Zhang, Yu and other senior cadres have consistently muzzled the local media regarding mishaps in the province's tens of thousands of illegally or improperly run mines, factories, kilns and workshops. This is despite the fact that prior to his transfer to Shanxi, Zhang had served as the Vice Director of Xinhua, China's largest news agency.

A few of the more liberal local papers outside Shanxi have taken advantage of the furor to report that despite the tough action taken during the past fortnight, the basic problem of local officials providing shelter to illicit mine and kiln owners has remained unresolved. For example, at least two-thirds of the brick kilns in remote counties in Shanxi remain unregistered. A State Council edict last year forbidding officials from becoming investors in private coal mines and other small-scale but lucrative businesses has also not been fully observed (*Chongqing Morning Post*, June 20; *Xiaoxiang Morning Post*, June 22). In other words, unless there is rigorous pressure from the Politburo—or from the Hong Kong and overseas media—many more of China's long-suffering migrant workers and uneducated children will continue to be exploited in Shanxi.

The Shanxi disaster has proven particularly embarrassing for President Hu because several of the recent regional scandals have taken place in provinces run by potential Fifth Generation leaders from his own Communist Youth League (CYL) Faction. Shanxi Party Secretary Zhang, 57, worked together with Hu in the CYL Central Committee when the latter was CYL chief in the mid-1980s. Zhang was transferred to Shanxi as acting governor in early 2004. While Governor Yu, as head of the provincial government,

has borne the brunt of the responsibility for the "slave labor" incident, it is clear that Zhang's career has suffered a setback. After all, Zhang's status as the top cadre in Shanxi means he will have to shoulder at least some of the political responsibility for the poor state of his populous province.

In similar fashion, the reputation of the Party Secretary of Jiangsu Province, Li Yuanchao, has been dented by the uproar last month over the dangerous water quality of Lake Tai, one of the most famous scenic spots in southern China. Several lakeside towns, including the historic city of Wuxi, have depended traditionally on the lake for drinking water. Now Lake Tai is so laden with silt, chemicals and metal particles that its water is blanketed with rancid, blue algae, and it is not fit for even washing clothes. Li, 56, another CYL stalwart, is even closer to President Hu than Shanxi's Zhang. The fast-rising star from affluent Jiangsu has often been mentioned as a possible successor to Hu.

Usually deemed an efficient administrator, Li did not pay a visit to Lake Tai and Wuxi until the international press had reported a mass exodus of residents from the boomtown. Yet, blue algae had first been found in the lake in 1990; and the State Council had in 1998 earmarked more than a billion yuan to purify the water. Jiangsu officials, however, waited until Premier Wen personally instructed them to improve the Lake Tai situation before issuing ironclad orders to a few hundred chemical factories in the vicinity to close down. Unlike his counterparts in Shanxi, however, neither Li nor any of his senior colleagues bothered to offer an apology. Several lower-level bureaucrats were instead made scapegoats and either fired or demoted (*Xinhua Daily*, June 1; Associated Press, June 12; *Ming Pao*, June 25).

With the 17th CCP Congress approaching in October, the attention of ordinary party members and the nation's intelligentsia alike is very much focused on the dramatic deterioration of governance at both the central and local levels. The Wen cabinet has failed, despite repeated attempts since 2004, to tame the "irrational exuberance" in sectors ranging from iron and steel to the real-estate market. The bull-run on the Shanghai and Shenzhen stock markets has raised alarm bells not only in Beijing and Hong Kong but also in London and Washington. Incidents similar to those in Shanxi, Jiangsu and a host of both wealthy as well as poor provinces have further called into doubt Hu's ability to rein in regional cadres who have flagrantly run afoul of central edicts. As the belated firing of former Shanghai Party Secretary Chen Liangyu last September illustrated, the CCP leadership has now resorted to questionable tactics, such as wielding the "anti-corruption card," to get rid of particularly defiant "warlords."

In theory, large-scale personnel changes scheduled for the 17th Congress should give the CCP leadership an opportunity to restructure its ranks and induct not only younger but more capable and forward-looking cadres into senior party and government slots. The preoccupation of Hu, Wen and powerbrokers such as former president Jiang Zemin and Vice-President Zeng Qinghong, however, is to maintain an overall factional balance so as to attain “political harmony.” Given the party’s ironclad hold over the army, the police and other elements of China’s formidable control apparatus, it is unlikely that massive popular frustration, or demonstrations and riots, over scandals such as those in Shanxi and Jiangsu can prod the powers-that-be into considering real and thorough reform.

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After the SED: Evaluating the U.S.-China Economic Relationship

By Philip I. Levy

Last month’s Strategic Economic Dialogue (SED) meeting between a cluster of Chinese cabinet ministers and their U.S. counterparts intensified the spotlight that has shone upon the bilateral economic relationship for the last several years. In the aftermath, the U.S. contingent presented a few trophy deliverables but largely praised the healthy exchange of views that had taken place. Congress, meanwhile, seethed at the continued lack of movement on the exchange rate and plotted new legislation to address the problem.

One virtue of such summitry is that it presents an opportunity to take stock of a relationship. Before declaring the SED a success or failure, it is worth tallying up the successes and problems in Sino-American economic relations and then asking what role such a dialogue might play. To a large extent—due to the different way economists and politicians assess the same set of facts—the positive aspects of the relationship are economic while the negative aspects are political.

From a strictly economic perspective, both countries have enjoyed growth and relative prosperity in recent years. This is not solely due to the bilateral economic relationship, of course, but the relationship certainly played a role. In 2001,

the year China acceded to the World Trade Organization (WTO), its imports to the United States were roughly \$130 billion (in 2006 dollars). By 2006, Chinese exports had more than doubled to \$328 billion [1]. Over this period, China has worked to implement the vast array of commitments to liberalize its economy that it made when it joined the WTO [2]. If this were a political tally, the fulfillment of those commitments would be recorded as a “plus” in the U.S. column. As an economic tally, China clearly benefits from the rationalization and reform that the changes bring. Among other benefits, they have helped draw a surge of foreign direct investment into the country. At a time when world FDI flows faltered, flows into China grew. One recent study estimated that foreign invested enterprises in China were responsible for over 40 percent of China’s remarkable recent economic growth [3].

China’s dramatic burst of exports to the United States has benefited both countries. This double-counting gets to the essence of why trade is not a zero-sum game. When U.S. consumers choose to purchase an inexpensive toy or microwave made in China rather than a less desirable one made elsewhere, they are demonstrating a very real benefit from bilateral commerce. If one were to adopt a more mercantilist view, however, in which benefits are derived from exports, the United States’ shipments of goods and services to China have grown almost as quickly as its imports, from \$31 billion in 2001 to \$72 billion in 2006. Given the lower base and slower growth rate, however, this has meant a widening bilateral trade deficit.

In general, there is no economic meaning to bilateral trade balances, but in the case of U.S.-China trade, the bilateral imbalance reflects imbalances that apply worldwide. The United States runs a large current account deficit with the world, and China runs a large surplus. The flip side of this trade imbalance is a savings and investment imbalance. The United States borrows a great deal from the rest of the world, and China is a major lender. In terms of the bilateral economic relationship, this imbalance has helped fund years of inexpensive credit that has benefited Americans through lower mortgage rates and cheap financing for business activity.

Amidst these positive aspects of the relationship, there remain important sources of economic concern. Poor Chinese protection of intellectual property rights is very problematic. State-directed credit flows in China have also had disruptive effects on world markets. The recent concerns about the health safety of China’s food and other product exports are serious (*China Brief*, May 30). Nevertheless, when assessing the state of the bilateral economic relationship, a key question must be asked: compared to what? Presumably, we are assessing the U.S. policy of

openness and engagement. Of these major concerns, only the food and product safety problems would have been diminished under a less open approach. Moreover, even this issue may be temporary, since the Chinese either will likely find a means of regulating quality or will suffer severe reputational effects on world markets.

Thus, from a purely economic standpoint, the bilateral economic relationship has been broadly successful in recent years. To the extent that closer economic cooperation has facilitated cooperation on political and security issues such as North Korea's pursuit of nuclear technology, this has been an important additional benefit.

Yet, this rosy assessment of Sino-American economic relations bears little resemblance to the heated and derogatory public discourse in the United States. There are a couple of reasons for this.

It is natural that when governments engage with one another, they focus on matters of public concern rather than wallow in self-congratulation. When the United States Trade Representative's (USTR) office documents the state of China's WTO compliance, it acknowledges that much of the focus will be on areas where U.S. firms or individuals have lodged complaints, rather than an exhaustive documentation of all that has gone well. When playing down commercial disputes between the United States and the European Union, for example, it is common for officials to emphasize what a small fraction of the trading relationship is being contested. The Sino-American economic relationship is different, though. Even if Administration officials were tempted to point out things that were going well, all but the bravest would be deterred by the Congressional outrage that would surely follow.

Both Congressional concern and the public sentiment it reflects have focused almost exclusively on the bilateral trade balance and the yuan-dollar exchange rate. The obsession with the bilateral trade balance is based upon two fallacies: the mercantilist belief that exports are good and imports are bad; and the belief that the bilateral balance is a natural indicator of a healthy economic relationship while imbalance must reflect foul play.

One way to describe the trade and financial flows of recent years is that China, a poor nation, has been making large loans to the United States, a wealthy nation. Those "loans" have ultimately been in the form of manufactured goods while the Chinese have received IOUs in exchange (e.g., U.S. treasury notes). While not a very sound policy for the Chinese, the United States has prospered.

It is certainly true that U.S. manufacturing employment has declined in past years, but this trend predates China's

emergence on the trading scene. Rather, China's perceived culpability for U.S. manufacturing woes stems from a reorientation of trade in Asia. Manufactured products may now be produced and assembled across a number of countries but are listed as products of whichever country applies the finishing touches. Goods that were formerly finished elsewhere in Asia are now being completed in China. This is reflected in the trade data; China's share of the U.S. trade deficit has soared while broader Asian measures that include China have held steady or declined. It is also an illustration of why bilateral balances are economically meaningless [4].

Yet, the U.S. trade imbalance with China continues to be a politically central issue, even when China enjoyed relatively balanced trade with the rest of the world. In the last several years, as China has piled up international reserves, the bilateral deficit has climbed dramatically. The popular culprit is the yuan-dollar exchange rate. While China began to allow some movement in the exchange rate beginning in the middle of 2005, that movement has been carefully controlled and limited (*China Daily*, October 18, 2005). China's buildup of reserves is the best evidence that its exchange rate continues to be misaligned globally.

There are systemic reasons to be concerned about these imbalances, but the bilateral impact is far more political than economic. Even one of the strongest advocates of Chinese currency appreciation estimates that in a best-case scenario, a 25 percent appreciation of the yuan against the dollar accompanied by currency appreciation throughout Asia would result in a 20 percent reduction in the global U.S. current account deficit [5].

Nonetheless, exchange rate movement has virtually become the sole indicator of the health of the Sino-American economic relationship to many U.S. observers. The Strategic Economic Dialogue is judged a failure when China refuses to take bold action on its currency. At the conclusion of the recent meeting, the U.S. side did present classic "deliverables," such as a new air services agreement for more passenger flights and air cargo and a tempering of China's financial services barriers. Beyond this, participating Cabinet secretaries described numerous conversations on topics of mutual concern. These topics included the exchange rate but also precautions against pandemic influenza, cooperation on social safety nets, energy and the environment. None of this, however, won them plaudits from Congress.

In the standard political calculus of summitry, little credit is given for frank and open discussions. Yet, Treasury Secretary Henry Paulson has stated clearly that beyond short-term results, the SED is important for building

confidence and improving the relationship over the longer term [6]. And though the cynical might view this as a way of lowering expectations, there are real differences in views between the United States and China on economic matters. These often involve issues in which the United States and China share ultimate goals—a cleaner environment and energy security are two examples—but have not settled on the means to achieve these goals. A healthy dialogue would seem to be a valuable way of overcoming these differences. The payoff will come only over a long period, though, and may be more likely to manifest itself in disputes that are avoided than in flashy new policy announcements.

In this light, the SED was successful as one step in laying the foundation for a stronger bilateral economic relationship in the future. Political impatience and misplaced priorities, however, may preclude any building on that foundation. Following the conclusion of the SED, bills were introduced in Congress to increase pressure on the Treasury Department to label China a currency manipulator. The Chinese have indicated that such bilateral pressure would be unwelcome.

Even before the SED in May, a number of new irritants emerged to threaten the economic relationship. On March 30, the Commerce Department announced that it would reverse its long-standing policy and permit countervailing duty cases against alleged Chinese subsidies [7]. After that precedent was changed, a number of cases have been filed challenging Chinese practices and requesting trade protection. Then in early April, USTR filed two World Trade Organization cases against Chinese intellectual property rights practices. Both of these actions addressed strong pressures from the Congress and both drew negative responses from the Chinese (*People's Daily*, April 10). The negative response on the WTO cases was particularly noteworthy since China had earlier been very responsive to U.S. WTO filings. In this case, the Ministry of Commerce warned that the cases would “seriously damage” bilateral cooperation (*Financial Times*, April 10). This reaction seemed to come from a sense that the United States had abandoned dialogue and turned to litigation instead [8].

The United States would certainly benefit from greater protection of intellectual property in China and would likely benefit from fewer Chinese subsidies and an appreciated yuan. It is not at all clear, however, that the more confrontational approach being pushed by U.S. legislative leaders will deliver these benefits, and there is a risk that it will destabilize cooperation across a much broader range of issues. To the extent that this confrontational approach is inescapable and politics trumps economics, difficult times loom ahead for the Sino-American economic relationship.

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NOTES

1. Source: U.S. Department of Commerce, Bureau of Economic Analysis. Calculations used GDP deflator.
2. A selective account of progress toward those commitments is in the United States Trade Representative's 2006 Report to Congress on China's WTO Compliance, December 11, 2006.
3. Whalley, John and Xian Xin, “China and FDI,” May 3, 2007. Presented at the Brookings Trade Forum, Washington, DC.
4. See *The Economic Report of the President, Washington: Government Printing Office, 2004*, Chapters 2 and 11. Subsequent data is available from the Bureau of Economic Analysis website at <http://bea.gov/index.htm>.
5. Goldstein, Morris, “A (Lack of) Progress Report on China's Exchange Rate Policies,” Peterson Institute Working Paper 07-5, June 2007, p. 8.
6. See Treasury Secretary Hank Paulson's opening remarks at the SED, available online at: <http://www.treasury.gov/press/releases/hp414.htm>.
7. See Department of Commerce press release for the details of the Anti-Subsidy Law: http://www.commerce.gov/opa/press/Secretary_Gutierrez/2007_Releases/March/30_Gutierrez_China_Anti-subsidy_law_application_rls.html.
8. On the subtleties of this case see Philip I. Levy, “China and the WTO: Handle with Care,” *Forbes.com*, April 16, 2007.

Taiwan's 2008 Presidential Candidates: Resolving the Cross-Strait Imbrolio?

By Denny Roy

The Democratic Progressive Party's (DPP) choice of Frank Hsieh (Hsieh Chang-ting) as its candidate for Taiwan's 2008 presidential election immediately brought cheers from outside analysts hoping for a reduction in cross-Strait tensions. In a typical commentary, *The Economist* magazine noted that Hsieh "wants better relations with China." Taiwan's President Chen Shui-bian, by contrast, "favoured...a tougher stance towards China" (*The Economist*, May 10). Based on Hsieh's track record, some observers have concluded that China might even be willing to restart cross-Strait talks under a Hsieh presidency (*The Straits Times*, May 19). Given that the other major candidate is the Kuomintang's (KMT) Ma Ying-jeou—whose platform upholds his party's traditional commitments to the one-China principle and to eventual unification with the mainland—this suggests the possibility of an improvement in cross-Strait relations when the embattled Chen yields the presidency to either of these possible successors. Nevertheless, while such an expectation may be valid, it is perhaps oversimplified due to a number of additional factors—ranging from identity and party politics to corruption charges—that may alter the landscape of the presidential race.

First, there is a degree of uncertainty surrounding the Hsieh-Ma match-up stemming from the suspicions of wrongdoing shrouding both men. Ma was indicted for corruption in February 2007 and has been charged with misusing over \$300,000 of public funds while he served as the mayor of Taipei. Ma responded to the scandal by resigning from his post as KMT chairman, though he did not give up his presidential candidacy. The negative publicity stemming from Ma's indictment has eaten into his opinion poll numbers, which a few months ago indicated he had a sizeable lead over his potential rivals. Meanwhile, Hsieh has been linked to high-level corruption during the construction of the mass transit system in Kaohsiung while he was serving as the city's mayor. The case is still under investigation, so it is possible that evidence against Hsieh could surface in the months before the election. Increased suspicion that he took bribes might damage his chances of being elected to the point where the DPP seeks to replace him as their nominee. It is therefore not inconceivable that one of these two men might be forced to drop out of the race.

Regarding the element of identity politics, pan-Green politicians have found it difficult to succeed at the national level without gaining the approval of the staunch pro-Taiwan constituency that insists on eventual independence. In the run-up to the election in March 2008, Hsieh will come under intense temptation to employ the tactics for which Chen became well-known: making bold anti-China or pro-independence statements to energize pan-Green voters, hoping for the additional benefit of drawing an angry response from China. If this approach proves popular, Ma will have to follow suit by shifting his positions to the left. Beijing will definitely be listening closely, and will likely hear rhetoric unpleasant to Chinese ears from both candidates. Beijing seems to have learned by now that it is counterproductive to threaten or scold Taiwan during the island's electoral campaigns. If what the Chinese hear, however, plays to their fears that Hsieh is another Chen or that Ma will compromise on unification in order to be elected, this will have negative consequences for cross-Strait relations under the new president.

More importantly, with the presidential campaign yet to reach its heated climax, it is already possible to anticipate the coming Chinese disillusionment with either a Hsieh or Ma presidency.

A NOT-SO-GREAT DIVIDE

The differences between Hsieh, 61, and Chen are easily overdrawn. Hsieh's positions on Taiwan's proper political status vis-à-vis China and the international community have many similarities with Chen's. Hsieh, like Chen, began his political career as one of the defense lawyers for the anti-KMT political activists indicted over the Kaohsiung Incident of 1980. He was the DPP's vice-presidential candidate and the running mate of famous dissident Peng Ming-min in the 1996 election won by then-KMT member Lee Teng-hui. Hsieh served as premier of Taiwan and as mayor of Kaohsiung, Taiwan's second-largest city and a pan-Green stronghold.

To be sure, in his approach toward the People's Republic of China (PRC), Hsieh has been more pragmatic and cautious than Chen. One of his slogans when he served as premier was "coexistence and reconciliation." He favors lifting the restrictions on direct air and sea travel between Taiwan and China. Hsieh has even drawn criticism from other senior DPP leaders for allegedly being too receptive to the one-China principle.

China, nevertheless, would find much of Hsieh's agenda repugnant, and consequently it is not clear that Beijing would accept him as a negotiating partner. Hsieh supported the change in a basic DPP position on cross-Strait relations.

Originally, the party's platform stated that its eventual goal was independence for Taiwan. In 2000, DPP leaders shifted to the line that it was not necessary for Taiwan to formally declare independence. Hsieh said at the time, "As we perceive Taiwan as already an independent country, independence is a de facto reality that nobody can deny or change" (China News Agency, September 6, 2000).

Hsieh said in June 2007 that China and Taiwan "must conduct negotiations under the principles of equality" and respect for Taiwan's "national dignity" (*Taipei Times*, June 4). The requirement that China treat Taipei as an equal and as a national rather than a provincial government has been a perennial sticking point in cross-Strait relations. These sensitivities make bilateral talks difficult to implement, because the very procedures and mechanics of diplomacy are full of implications about the respective status of either side. China would resist Hsieh's demands for equality and national dignity precisely because China's goal is to force Taiwan to accept that it is not equal and not a nation.

Hsieh advocates on record the removal of language in the Republic of China (ROC) constitution that upholds the notion that Taiwan is a part of China; he maintains that Taiwan is at present a "sovereign, independent country;" and he promotes the view that Taiwan should "become a normal country"—meaning the rest of the world should recognize that Taiwan is a separate country from China, and specifically it should be known as "Taiwan" rather than the "Republic of China" (Taiwan News, May 7).

MA AS THE ANSWER?

There is no question that the election of the 56-year-old Ma as president would bring great relief to the Chinese after eight years of the Chen administration. The way would seemingly be cleared for deeper cross-Strait economic relations, a resumption of cross-Strait talks and the scaling back, if not cessation, of many policies that have irritated China. Born in Hong Kong of Hunanese parents, Ma has sought to balance his "Mainlander" origins by emphasizing his upbringing in Taiwan and by speaking in the Minnan (Taiwanese) dialect at certain public gatherings. He has cultivated a dispassionate and relatively neutral style, considered by some a strength and by others a weakness.

Ma says he supports the "five no's" previously laid out (and, some would argue, later violated) by Chen: not declaring formal independence; not changing the name "Republic of China"; not changing the ROC constitution to reflect the idea that Taiwan and China are separate countries; not holding a referendum on independence from China; and not abolishing the National Unification Council. He

adds an additional "five do's." These include resuming semi-official cross-Strait negotiations on the basis of the alleged "1992 consensus," which is that talks can proceed as long as both sides accept that there is one "China," with each side allowed its own interpretation of what "China" means. Beijing has publicly affirmed that it accepts the terms of the alleged consensus; it is Chen's refusal to recognize the one-China principle as a starting point that prevented cross-Strait talks during his presidency. With Ma as president, this obstacle would disappear. Ma also favors working toward cross-Strait confidence-building measures and an economic common market with China, allowing direct travel and transportation between Taiwan and the mainland and increasing cultural and educational exchanges.

It should be noted, however, that Ma's willingness and ability to accommodate China are bounded. Ma could be considered a moderate within the pan-Blue camp. He was, for example, more vocal than other KMT leaders in his opposition to China's March 2005 Anti-Secession Law, which authorized the Chinese government to employ "non-peaceful means" to bring about cross-Strait unification if other means proved unsuccessful or if "incidents entailing Taiwan's secession from China should occur." When Chen won re-election in 2004 by a tiny margin hours after an assassination attempt, Ma did not join the KMT members who publicly accused Chen of staging the shooting and who challenged the result of the election.

In June 2007, Ma said, "If the two sides of the Strait are to resume negotiations, reach any peace agreement or negotiate any kind of military or mutual trust mechanism, I will first request that China withdraw the missiles deployed along its southeast coast because we are not willing to conduct peace negotiations while we are threatened by missiles" (*Taipei Times*, June 5). The demand that China "withdraw" its missiles (which are already on PRC territory) as a precondition to stabilizing cross-Strait relations is strongly reminiscent of Chen Shui-bian's long-standing demand. It also implicitly challenges China's "right" to use force against Taiwan, which Beijing has closely linked with its position that the Chinese central government has sovereignty over Taiwan. Delivering what Ma asks for would be a substantial concession on the part of China, difficult to obtain in any case but especially if Beijing is put on the defensive by what it views as "provincial" authorities overstepping their proper bounds.

Although Ma maintains that he and his party stand against Taiwan's independence and for eventual unification with China, in February 2006 the KMT purchased an advertisement in Taiwan's *Liberty Times* newspaper in which Ma acknowledged that "independence is an option

for the Taiwanese people” (*Taipei Times*, January 28). This reportedly caused great consternation among many KMT leaders, such as former chairman and presidential candidate Lien Chan, but it demonstrated that Ma feels compelled to compromise the pan-Blue agenda to accommodate Taiwanese nationalism. As president, he would continually face this kind of domestic pressure.

Recent changes in China’s cross-Strait policy should not be overlooked in a prognostication of bilateral relations under the next presidential administration. On balance, they appear conducive to improvement. The Anti-Secession Law was broadly condemned as a negative development, and rightly so. If this was, however, the culmination of several years of seething Chinese anger and frustration over perceived Taiwan independence drift, it was a comparatively mild outburst. Soon afterward, the visits of KMT leader Lien Chan and People’s First Party leader James Soong to China, where both received flattering treatment from the CCP leadership, suggested that Chinese leaders had found an alternative to military coercion to influence Taiwanese politics. By reaching out to the unification-leaning opposition parties, Beijing realized that it could marginalize the influence of the pan-Green coalition. At the same time, Hu Jintao suggested that cross-Strait talks could occur if both sides agreed to the formulation “two shores, one China,” an apparent concession to Taiwan’s demands that the one China principle should not equate “China” with the PRC and should not imply that Taipei is subordinate to Beijing. China is certainly not prepared to capitulate on these issues, but appears willing to consider laying them aside until talks get underway.

The prospect of a new era in cross-Strait relations leads to an oft-debated question about Beijing’s “timetable” for recovering Taiwan: is there a firm deadline, or are China’s leaders willing to wait indefinitely, provided Taipei does not force their hand by taking further steps toward *de jure* independence? If Hu and other high-level CCP officials merely want to keep the Taiwan issue quiet while they concentrate on economic development and cultivate a favorable international image, a Hsieh or Ma presidency is likely to provide them with more political cover than the Chen presidency has done. On the other hand, if Hu’s government decides it is not satisfied with the more modest goal of preventing further moves toward *de jure* independence and wants to see what it would consider progress on the Taiwan issue, Beijing would likely discover that Hsieh is not as moderate nor Ma is as Chinese as Beijing had hoped.

There is reason to look for improved cross-Strait relations beginning in 2008, but these expectations should be kept circumspect. The Chinese might quickly conclude

that Hsieh’s program is a longer-term, less directly confrontational version of Chen’s program. Ma would be more sympathetic to China’s agenda, but he is constrained by a Taiwan polity that is proud of its distinctive political and economic achievements and resentful of Chinese threats. The real goal—a peaceful, mutually agreed and permanent settlement of the dissatisfaction across the Strait—still appears out of reach through Taiwan’s next presidency.

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China’s Climate Change Strategy

By Joanna I. Lewis

China released its much anticipated National Climate Change Program report on June 4, 2007 [1]. This plan comes at an important time, as nations are debating next steps in the international climate effort and China has likely just become the largest greenhouse gas emitter in the world [2]. The majority of the policies described in the plan were already in place, and they cannot achieve the emissions reductions that will eventually be needed from China to make a serious contribution to the global challenge. Nevertheless, China’s climate challenge is considerable, and its efforts to date should not go unrecognized. The plan is significant, furthermore, in that it indicates that climate change has now captured the attention of political leaders within the largest developing country emitter of greenhouse gases.

CHINA’S CLIMATE CHANGE CHALLENGE

The Coal Challenge – China’s greenhouse gas emissions are growing very rapidly (reportedly up by nine percent in 2006 from 2005 levels), and much of this growth is fueled by the country’s heavy reliance on coal. Coal has been China’s answer to domestic energy security; its substantial resource base and relatively low cost has made China the largest global coal consumer and producer in the world. As a carbon-intensive fuel, coal contains almost twice the amount of carbon per unit of energy compared to natural gas, and about 20 percent more than petroleum. China relies on coal for over two-thirds of its energy needs as well as approximately 80 percent of its electricity needs. In fact, there are more coal power plants installed in China than in the United States, the UK and India combined. China’s coal fleet is expected to more than double in size by 2030, representing an additional carbon commitment of about 86 billion tons [3]. Changing China’s emissions trajectory

will require either a substantial shift away from coal or massive investments in capturing the CO₂ emissions from coal-based energy sources.

The Industry Challenge – The majority of China’s energy use, and consequently greenhouse gas emissions, stems from industry. Industrial energy demand consumes 70 percent of China’s energy, and China’s industrial base supplies much of the world. For example, China today produces 35 percent of the world’s steel and 28 percent of aluminum, up from 12 percent and eight percent, respectively, a decade ago [4]. It is increasingly difficult for China to rein in its greenhouse gas emissions growth as investment surges continue in heavy industry, a key component of China’s economic growth.

The Energy Intensity Challenge – Between 1980 and 2000, China quadrupled its gross domestic product (GDP) while only doubling its energy demands—an unprecedented achievement for a developing country. Without this reduction in the energy intensity (energy use per unit GDP output) of the economy, China would have used over twice the energy it did during this period. Between 2002 and 2005, however, this trend reversed and energy growth surpassed economic growth for the first time in decades.

CLIMATE ACTION IN CHINA

China has ratified the primary international accords on climate change—the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol—but as a developing country, China has no binding emission limits under either accord. China is, however, an active participant in the Clean Development Mechanism (CDM) established under the Protocol. The CDM grants emission credits for verified reductions in developing countries, which can be used toward meeting their Kyoto targets. This provides lower-cost reductions for developed countries and generates investment in clean development in developing countries. China is by far the largest source of CDM credits, accounting for over 40 percent of those generated to date [5].

The vast majority of the efforts that have served to moderate China’s greenhouse gas emissions growth have come in the form of domestic programs that are not climate policies per se, but policies implemented throughout the economy, and particularly in the energy sector, that have the effect of reducing greenhouse gas emissions. Many of these policies are enacted to help the country meet its broader economic development strategies, and if implemented effectively, will also serve as policies to mitigate China’s greenhouse gas emissions.

ENERGY EFFICIENCY

With the hope of achieving a similar energy intensity improvement between 2000 and 2020 as it did during the previous two decades, China has a broad national goal of quadrupling economic growth while doubling energy consumption [6]. China’s 11th Five-Year Plan includes a near-term goal of reducing energy intensity 20 percent below 2005 levels by 2010. The government projects that meeting this target could reduce China’s greenhouse gas emissions by 10 percent below the status quo; researchers estimate that over 1.5 billion tons of CO₂ reductions would be achieved [7]. Implementation of such central government targets has proven challenging, particularly at the local level. In an attempt to improve local accountability, the National Development and Reform Commission (NDRC) is allocating the target among provinces and industrial sectors, and energy efficiency improvement is now among the criteria used to evaluate the job performance of local officials. Following increases in energy intensity each year from 2003 to 2005, the trend was reversed in 2006, although the intensity decline achieved was short of the goal for that year [8].

Additional programs have been established to help meet this national intensity goal, including a program established in 2006 to improve energy efficiency in China’s 1,000 largest enterprises. The “1,000 Enterprise Program” includes the largest energy users in the energy supply sectors (coal, electricity and oil) and in the largest energy-using industrial sub-sectors (including iron and steel), which comprised 33 percent of national and 47 percent of industrial energy usage in 2004 [9]. Another government effort targets the elimination of 50 gigawatts (GW) of small, inefficient power plants, totaling around eight percent of China’s total generating capacity, by 2010—approximately 40 GW of coal-fired and 10 GW of fuel oil-fired capacity (PlanetArk.com, February 1). Similar plant closings are planned across the industrial sector, including inefficient cement, aluminum, ferro-alloy, coking, calcium carbide and steel plants (PlanetArk.com, March 2; PlanetArk.com, March 5).

In addition, the 1997 Energy Conservation Law initiated a range of programs to increase energy efficiency in buildings, industry and consumer goods. China has efficiency standards and labeling programs in place for many key energy-consuming appliances and is adopting energy standards for buildings in regions with high heating and cooling demands. In the transport sector, China’s fuel economy standards for its rapidly growing passenger vehicle fleet are more stringent than those in Australia, Canada and the United States (though less stringent than those in the European Union and Japan) [10]. The average

fuel economy of new vehicles is projected to reach 36.7 miles per gallon in 2008.

RENEWABLE ENERGY

Under the National Renewable Energy Law adopted in 2005, China has set a target of producing 16 percent of its primary energy from renewable sources (including large hydropower) by 2020, up from about seven percent at present. For the electricity sector, the target is 20 percent of the capacity from renewables by 2020, including 30 GW of wind power, 20 GW of biomass power and 300 GW of hydropower capacity. The Law offers financial incentives, such as a national fund to foster renewable energy development and discounted lending and tax preferences for renewable energy projects. It also reduces risks for project developers by mandating grid interconnection and guaranteeing minimum prices for certain types of renewable energy. Large-scale hydropower capacity is projected to more than double by 2020, requiring the equivalent of a new dam the size of the Three Gorges Project every two years.

Policies to promote renewable energy also include mandates and incentives to support the development of domestic technologies and industries, for instance, by requiring the use of domestically manufactured components. Spurred by a requirement that newly installed wind turbines contain 70 percent local content, Chinese manufacturers are now producing about 40 percent of the wind turbines being sold in China and three percent of the wind turbines being sold globally. Tax and other incentives have targeted the solar photovoltaic (PV) industry, stimulating a six-fold growth in PV production from 2004 to 2005. A recent market study estimates that the Chinese PV industry will dominate the global market within five years; China is currently the third largest producer of solar photovoltaics for the global market (Solarplaza.com, March 7, 2006).

Industrial Policies – The recent surge in energy consumption for heavy industry in China has caused the government to implement measures to discourage growth in energy-intensive industries compared with less energy-consuming sectors. In November 2006, the Ministry of Finance increased export taxes on energy intensive industries. This includes a 15 percent export tax on copper, nickel, aluminum and other metals, a 10 percent tax on steel primary products and a five percent tax on petroleum, coal and coke. Simultaneously, import tariffs on 26 energy and resource products, including coal, petroleum, aluminum and other mineral resources, will be cut from their current levels of three to six percent to between zero and three percent (*China Daily*, October 31, 2006).

Climate Change – With growing political attention addressing climate change, the Chinese government released its first *National Assessment Report on Climate Change* in late 2006. The assessment was conducted as a collaborative effort between nine government departments, which included the Ministry of Foreign Affairs, the National Development and Reform Commission, the State Environmental Protection Administration, the Ministry of Science and Technology, the China Meteorological Administration and the Chinese Academy of Sciences; it took four years to complete [11]. Structured similarly to the assessment reports of the Intergovernmental Panel on Climate Change (IPCC), the Chinese assessment consists of three parts: the past and future of climate change, the impact and adaptation of climate change and the socioeconomic impact from the slowdown of climate change.

Following this National Assessment, the government released its National Climate Change Program in June 2007, delayed from a previously announced release date [12]. The National Climate Change Program report lays out an array of actions that China is taking to mitigate its greenhouse gas emissions, as well as its plans to support adaptation to the reported impacts it is likely to face from a changing climate. According to the report, regional administration systems are being established to better coordinate work dealing with climate change, energy efficiency and renewable energy across agencies. Also announced in the plan was the establishment of a high-level “National Leading Group on Climate Change,” headed by Premier Wen Jiabao. While the plan establishes several specific targets and timetables for policy action, almost all of these were in place before the release of the plan, including those previously mentioned.

ENGAGING CHINA ON CLIMATE CHANGE

As the aforementioned policies and targets illustrate, China is taking significant domestic action that serves to moderate its greenhouse gas emission growth. Certainly, much work remains to be done. Recognition of China’s achievements to date and a better understanding of the nature of its domestic policy agenda on climate change, however, can inform the upcoming international climate negotiations.

In the view of developing countries, absolute greenhouse gas targets like those under the Kyoto Protocol amount to a cap on their economic growth. China’s intensity-based targets illustrate the importance of a metric that includes not just absolute energy use but the efficiency of economic growth, an indicator that is particularly important to developing economies as formerly discussed. China’s climate plan has also laid out an array of domestic policy

activities. Such policies could form the basis of a policy-based commitment made under the UNFCCC [13]. Policy commitments as part of a multilateral climate agreement could allow developing country governments to identify ways that emissions mitigation fits or advances national priorities such as economic growth, energy security and public health, while such commitments would help to achieve broad participation in an international effort to reduce greenhouse gas emissions.

It is important that the international community increase collaboration with China surrounding shared energy and environmental concerns. Recognizing the unique challenges that China faces in addressing climate change can help in designing a roadmap for international engagement. China's own climate change plan has clearly identified its priority areas for international collaboration, including cooperation on advanced coal technologies, energy efficient building technologies, clean vehicle technology and advanced industrial technologies [14]. Experience developing and deploying these technologies is important not only for China but for the other major emitters as well. The United States and China in particular share a common interest in determining a way to continue their reliance on coal while moving toward more efficient coal combustion and gasification technologies, and by capturing and storing the emissions from coal power plants.

China must be a part of any global solution to address climate change. Understanding the challenges China faces in addressing its own greenhouse gas emissions is the first step to engaging China on climate cooperation. Effective engagement with China, however, will only be possible if the major emitting developed countries lead by example. Most crucial to China's engagement is likely to be serious U.S. engagement. It is incumbent upon the United States to lead both by strong action at home and by actively and constructively reengaging in the international climate effort. Only with strong U.S. participation and leadership can a fair and effective global response to the critical challenge of climate change be achieved.

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