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Rapporteur’s Summary

David M. Lampton, Ph.D.
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The seventh Aspen Institute Congressional Program conference on U.S.-China relations was conducted in the People’s Republic of China (PRC) between March 27 and April 3, 2005. Composed of twelve Members of Congress from both parties, both houses, and diverse regions of America, the delegation visited four localities, in three different regions of China—the dynamic eastern seaboard, Shanghai and its regional neighbor of Nanjing; the growing western city of Xian; and Beijing where the delegation met with China’s new-generation premier, Wen Jiabao. In the course of the seminars and site visits in which senior American, Chinese, and Taiwanese scholars participated, the principal themes explored were: security issues germane to U.S. interests and global stability, international economic and domestic economic development challenges; and issues of social and political change. Environmental challenges that cut across the social, economic, political, and international categories were addressed in discussions and site visits.

This conference took place in a particular domestic and international context. Domestically, the Chinese National People’s Congress (NPC) had just concluded its annual session shortly before the group’s arrival. Two principal outcomes of the NPC meetings were that the leadership generation of Hu Jintao and Wen Jiabao consolidated its position as the successor to the just fully retired Jiang Zemin. Moreover, the NPC took a number of initiatives aimed at stemming further widening of economic and social inequality in China.

Internationally, U.S. Secretary of State Condoleezza Rice had just completed a visit to China during which some areas of disagreement were apparent: U.S. concerns about a recently enacted “Anti-Secession Law” that promised the use of “non-peaceful” and “other means” if Taiwan moved indefinitely toward de jure independence; Chinese dissatisfaction with U.S. efforts to delay or abort European Union plans to end its “arms embargo” against Beijing (in place since the 1989 Tiananmen violence); and, Washington’s desire for Beijing to put more effective pressure on North Korea to end its nuclear weapons program(s).

The first discussion session was led by University of Michigan Professor Kenneth Lieberthal, and addressed security issues germane to U.S.-China relations, most particularly the North Korean nuclear issue and Taiwan. The second seminar was led by Johns Hopkins Professor Pieter Botelier and dealt with domestic and international economic concerns. The third seminar was led by Professor Tony Saich of Harvard University, and dealt with social and political development issues in China.

Supplementing these seminars were two speakers. The first dealt with environmental developments in the PRC, led by Dr. Elizabeth Economy of the Council on Foreign Relations. A second session was addressed by the Chinese professor and researcher Fan Gang, of the
National Economic Research Institute, on the topic of economic development and trade issues. Diversifying the learning formats beyond seminars, lectures, and discussions, the delegation spent a unique day in Nanjing during which bi-national teams composed of Chinese and American students at the Johns Hopkins-Nanjing University Center took small groups of delegation members on customized educational visits to locations in the city that normally would not be accessible to outsiders. The resulting interactions brought conference participants into contact with migrant laborers and battered women, into the homes of professors and others, into schools and factories, environmental monitoring facilities, and to various kinds of businesses in the rapidly expanding city, including a car dealer, row with about 40 dealerships check to jowd.

Professor Kenneth Lieberthal led the first conference session, focusing on the North Korean nuclear problem and Taiwan. With respect to North Korea, Lieberthal made several key points: To start, the “Six-Party Talks” that began in 2003 and have gone through three sessions since that time have “solved nothing.” Second, nonetheless, these unproductive discussions (from the vantage point of ending North Korea’s nuclear endeavor[s]) have their utility for each participant. For Beijing, the talks enhance China’s importance diplomatically, and also postpone the day when Beijing may have to make hard decisions about either doing something else or living with an awesomely nuclear Pyongyang. For North Korea itself, the talks provide a breathing space during which it can pursue its programs without sanctions. And, for the Bush Administration, the talks provide a welcome example of U.S. multilateral, diplomatic, patient efforts and also are a substitute for pursuing other courses the White House finds unpalatable or infeasible ranging from bilateral negotiations, to sanctions, to employing force. The Six-Party Talks, therefore, are helping avoid an acute crisis for now, but at the cost of doing little to stop North Korea’s nuclear program and the danger of proliferation. Third, if given the stark choice between a nuclear North Korea and stability on the peninsula, or a non-nuclear North and turmoil there, Beijing and Seoul would choose the former and Washington and Tokyo would choose the latter.

Lieberthal acknowledged that no one outside North Korea is certain of either the exact status of Pyongyang’s programs or its objectives, but there is a possibility that should be explored of completely shutting down the North Korean plutonium program, which is the only program currently producing weapons-grade material. This would be done through negotiations and would require that North Korea receive economic and other benefits in return. Were Washington to adopt this approach, it would find more support in both Beijing and Seoul. This approach would relieve the immediate proliferation threat from North Korea and allow the U.S. and others to pursue a negotiated end to North Korea’s broader nuclear efforts.

Among the questions raised by Members of Congress were the following:

- Does China fully understand what a nuclear North Korea may mean for both Japan’s conventional, and possibly nuclear, development over the next few years?
- How should one assess the American rationale for the Anti-Ballistic Missile system in light of North Korea’s ongoing programs and the seeming ineffectiveness of talks?
- Do the Chinese have the capacity to sufficiently pressure the North Koreans into ending their program(s)? Why is Beijing seemingly holding back on using its presumed leverage?

Turning to the Taiwan issue, there were several developments leading up to the conference: the December 2004 Legislative Yuan elections in Taiwan resulted in a legislature that will probably act as a restraining force on President Chen Shui-bian; there were direct cross-strait charter flights for the first time in about 55 years in January 2005, with the prospect of direct freight flights thereafter; there was the visit of PRC officials to Taiwan on a private visit to pay respects at the memorial service for the distinguished Taiwanese personality Koo Chen-fu; and there was the visit to China of a senior Kuomintang delegation led by the party’s vice chairman, Chiang Ping-kun. The one major development that was dubbed “unhelpful” by the U.S. Government during this period was the aforementioned March 2005 passage of the Anti-Secession Law by China’s NPC.

In the context of these developments, Lieberthal underscored a few points: 1) Although the probabilities of cross-strait conflict that would drag in America are relatively low for now, the negative consequences of such a development would be very high and mutual trust and understanding is so low between Taipei and Beijing that conflict through miscalculation is not out of the question. 2) Chen Shui-bian has concluded that the island’s de jure independence is not possible for the time being. For his part, China’s President Hu Jintao has concluded that reunification is not feasible anytime soon and that what must be avoided is permanent separation. This confluence of more realistic objectives on both sides of the Strait provides an opportunity to create a more stable long-term situation. 3) There is an opportunity for progress because there is a unique combination of politically secure leaders in all three capitals (George W. Bush in Washington and Chen Shui-bian in Taipei are in their second terms. Hu Jintao recently assumed all the major leadership positions that his predecessor formally had held.) 4) Hu Jintao may have bought himself some leeway from domestic forces that want a tough line on Taiwan by adopting the Anti-Secession Law. 5) President Bush has shown a determination to push Chen Shui-bian to stay within the bounds of the status quo.

All in all, unlike the North Korean problem, the Taiwan issue seems to at least have some positive potential, particularly if Washington can promote the adoption of a 20-30 year framework agreement for stability that would involve the PRC’s renouncing the use of force in exchange for Taiwan’s renouncing de jure independence as an option for the duration of the agreement. The international community might have a role in backstopping such a pact.

Among the questions and concerns raised by Members were:

- How much has China’s military modernization increased its capacity to coerce, or occupy, Taiwan? How can the People’s Liberation Army modernize without threatening the island?
- Is the EU arms embargo strategically significant to the United States generally, and in the more particular situation of the Taiwan Straits?
- Is Taiwan really among the top five to ten major foreign policy issues now facing the United States? Does it take our focus away from other, more pressing issues?
- How low is the probability of conflict over Taiwan? If there is a significant probability of miscalculation in each of three capitals (Taipei, Beijing, and Washington), isn’t something untoward inevitably going to happen eventually?
- Doesn’t China’s growing military and economic power, along with cross-strait economic and cultural integration, foreshadow that Taiwan eventually will be part of “One China?”

Economic and environmental issues were addressed during site visits and in seminar discussions. Scholars Pieter Bottelier, Elizabeth Economy, and Fan Gang each addressed different, as well as overlapping, aspects of these issues. Pieter Bottelier, professor at Johns Hopkins University’s School of Advanced International Studies, noted that it is better to look at China’s economic development as a video rather than a snapshot. A single frame is overwhelmed with the problems, but the motion picture reveals a
direction and rate of change. China's economy defies categorization as simply either a "developing country" or a "transitional economy" and its development course since 1979 has had some unique features among which are:

It followed a course of gradual price reform, going through a dual price phase, eventually resulting in a largely decontrolled price system.

Beijing did not lead reform with privatization; instead, privatization has emerged as a consequence of other economic reforms.

Moreover, there was no reform plan so much as a pragmatic leadership that set in motion an incremental process that unleashed unanticipated opportunities and local experiments to which the leadership has responded creatively.

China's government still plays a major role in the economy through its allocation of credit, its key role in the financial system more broadly, its control of "pillar" industries, and its influence over the mobility of aspiring officials.

Finally, China has used globalization as a driver for internal economic reform. Membership in the World Trade Organization (December 2001) has been a milestone in China's economic transition, providing both direction and impetus to completing the remaining reform agenda.

There is an enormous reform agenda that remains to be accomplished, including financial sector reform; fiscal reform, particularly revenue sharing with lagging areas; social security and social safety net reform, notably for China's rural populace; and, legal system development. Given this large, unfinished agenda and the many problems that stem from China's size and fragile regime legitimacy, many things could go wrong including social turmoil in response to unemployment and inequality—the rural areas still have 200-300 million people who need to be absorbed into the urban economy. Add corruption to these challenges and one has a potentially incendiary mix, particularly if the top leadership flies apart over policy or power issues. And then there is the challenge of severe environmental deterioration that has accompanied economic growth.

Nonetheless, one must be impressed with the fact that per capita incomes have grown dramatically over the last 25 years, 200 or more million persons have been lifted from absolute poverty, and China has moved from a minor player in the international economy in 1978 to America's second largest source of imports. The challenge that China presents to the United States is to stay competitive as so much relatively skilled, industrious, and inexpensive labor and brainpower comes into the global economy so quickly. This speaks to the need for America to assess its education system, health care costs, and other building blocks of national competitiveness.

Economist Fan Gang provided a Chinese perspective on the PRC's domestic and international economic development. Fan observed that Chinese official economic statistics have their inaccuracies, given obvious incentives for some officials to overstate economic growth. But, he cautioned that there also are incentives to understated growth—local authorities want to hide production from tax collectors; poor areas want to hide resources to meet criteria for central subsidies; and private-sector and service-sector growth are widely underreported. All in all, the "understated growth rate probably is not significantly overstated; it may be underestimated.

In Fan's view, and that of the Chinese political leadership, high growth is essential to deal with what most worries the Chinese leadership—unemployment. Fan stressed the enormous, protracted challenge of finding employment for 200-300 million "rural workers waiting to come out" of the countryside. Besides representing a huge employment challenge, this large reservoir of people represents a force to keep urban wage levels low for an extended period of time. "The whole world is talking about jobs going to China, but we are talking about where to get another 200-300 million jobs."

With respect to foreign trade, Fan reported that over 50 percent of China's exports come from foreign-invested enterprises, a fact that speaks to the still inefficient export performance of China's domestic firms, particularly the state-owned enterprises. The fact that such a high percentage of Chinese exports comes from foreign-invested firms shows, as Bottelier noted, how integrated China has become in global production chains—much of China's export value from these firms resides in the inputs these firms have bought from other countries throughout Asia. China, therefore, is the last stop in a multinational production chain. With respect to most exports from the PRC, the bulk of the products' total value is produced outside China. This means that to retaliate on "Chinese exports" is to inflict pain on a very extensive supply chain composed of many of America's partners. Moreover, American and other multinational firms exporting from China create distribution and other jobs in the United States. Job losses associated with Chinese exports are more visible than the many jobs created by those same exports.

Throughout the program, the topic of the environmental impacts of rapid economic growth and urbanization were discussed. These environmental consequences were visible to Monitor correspondents from Shanghai to Nanjing, Xian, and Beijing.

Elizabeth Economy, of the Council on Foreign Relations, elaborated on the scope, severity, and domestic and global implications of China's environmental challenges. In Xian, the group saw first-hand the desertification consequences of deforestation that occurred in the Ming Dynasty. Much of northwestern China was heavily forested, only to be denuded several centuries ago, resulting in severe wind and water erosion. More broadly, the environment is having important impacts on politics, health, social stability, and economic growth itself.

Dr. Economy gave Members both bad and good news. The bad news was that acid rain, air and water pollution, water shortages, and desertification are all problems that are getting worse. Part of the reason for this deterioration is rapid economic growth without correspondingly increased investments in environmentally-friendly technology and policies. And, even when correct national policies are in place, their effective implementation at the local level is problematic. The result is, as the World Bank has estimated, that China's real GDP growth rate would be lowered about 5-12% annually if environmental and other externalities (such as morbidity and mortality) were considered.

Rapid economic growth is occurring in a circumstance in which China is endowed with less than the world per capita average of many critical resources, most notably water—25% of the world per capita average. About 340 cities in the PRC are chronically short of water; PRC figures indicate that 300 million persons in China drink contaminated water, and water is becoming a major constraint on growth, particularly in north China. With respect to energy efficiency, industry in the PRC still wastes enormous quantities, being only 10-30% as efficient in energy use as more modern economies. The story is much the same for the use of water.

The good news is that there are signs that China's leaders are paying more attention to these realities, and not just because the Olympic Games will be held in Beijing in 2008. China now is publicizing various environmental indicators such as pollution levels in major cities. Moreover, China has raised the price on scarce resources, though water is still severely under-priced, thereby fostering waste. And, in academic and some governmental circles there is talk of calculating the GNP in ways that take account of environmental losses in the growth process. "Green GDP" as an environmentally-friendly performance indicator is being tested in ten Chinese provinces. Also encouraging is the growth of environmental "non-governmental organizations" and public demonstrations over environmental issues. For its part, Beijing is cooperating with international NGOs.

In the extensive discussion periods with Professors Bottelier, Economy, and Fan participants raised the following kinds of issues:
With respect to Chinese labor standards and practices in the manufacturing sector, is this not both a human rights problem and an unfair competitive advantage?

In the final seminar session, Dr. Tony Saich, of Harvard University's JFK School of Government, observed that China's new post-Jiang Zemin leaders seek to establish their own distinctive identity as populists interested in improving the lot of the common person, even though many of the current initiatives toward greater regional and urban-rural equality were begun prior to their assumption of power. Urban-rural inequality in China is the highest in the world, a gap that grows if one adds in the subsidies that urban dwellers receive. In the most recent Party and State meetings in Beijing, efforts were made to address this problem through various measures such as reduced agricultural taxes, reduced school fees, and improved access to rural credit. Looking to the future, we must monitor how these initiatives are implemented and assess their actual effects.

On the political reform front, Saich said that President and General Secretary Hu Jintao thus far appears more resistant to political change than his predecessor, though it is hard to know if he is feinting in the conservative direction in order to consolidate power prior to moving in the opposite direction in the future. Moreover, Saich argued, Hu does not share Jiang's relatively favorable inclinations toward the United States. But, even here one should recognize that Jiang built "strategic alliances" with other nations to hedge against U.S. power. Hu Jintao, it was asserted, shares deep anxieties about societal groups and is rather more inclined toward Party discipline. Within this framework of Party leadership, however, the new elite seeks to impose more accountability within the Party through competitive and auditing processes.

The biggest challenge facing the Chinese Communist Party, Saich argued, is "moral vision." While the leadership talks about "socialism" there is, in fact, little popular trust or faith in it. The combination of the Party's lack of faith in society and the society's lack of faith in socialism and the Communist Party has its origins in both past performance and the current absence of a shared vision of the transcendent goals toward which the Chinese state and the Chinese people should be striving—something beyond material prosperity (important as that is) is needed as a unifying idea.

This absence of shared moral vision is particularly important because, absent that, it will prove difficult to weather the four tumultuous transitions through which the PRC is passing: the urban-rural transition; the transition from command/planned economy to market economy; the demographic transition from a young to old society; and the shift from a formerly collectivist popular ethic to a more individualistic ethos. Each of these transitions can be disruptive—all four compressed into a short period of time require a great deal of social glue that seems absent. This raises concerns about future stability, particularly if economic performance stalls in the years ahead. "Don't underestimate the potential for sudden collapse."

Among the questions posed by participants were:

- How much do we actually know about China's new leaders and their priorities and how do we discern their intentions for the future?
- Why can't the central government in Beijing do more to control the behavior of local officials and the bottom tier of Chinese society?
- How can the international system create incentives for China to move ahead with reform, including political reform?
- President Bush has called for a U.S. national effort to promote democracy. Should we carve out an exception for China?
The Environmental Challenge to China’s Future

Elizabeth Economy, Ph.D.
Director, Asia Studies
Council on Foreign Relations

China’s Environmental Challenge

Let me begin by offering a brief snapshot of China’s current environmental challenges, then explore a bit why China’s leaders appear to be taking the situation more seriously today than ever before, and conclude with how the country is responding to its environmental problems and what this suggests for China’s future as well as for the global environment.

Environmental Snapshot

China’s environment is under stress on every front: air, water, and land quality all face serious threats.

In terms of air quality, China’s environmental vice-Minister Fan Yue stated this year that China possesses five of the world’s ten most polluted cities. Of the 340 cities that China monitors regularly for air quality, almost two-thirds fail to meet the country’s air quality standards. Acid rain affects 1/3 of China’s land and 1/3 of its agricultural land. Certainly much of the challenge to China’s air quality stems from the country’s overwhelming reliance on coal for almost 7/8 of its energy. China is the world’s largest consumer of coal, and China’s leaders estimate that coal use will double between 2000-2020. In addition, by one estimate, only 5% of China’s coal-fired power plants use desulfurization equipment, a critical component of any effort to address China’s acid rain problem. Most companies prefer to pay a fine annually for emitting more than the permitted level of sulfur dioxide, rather than pay for expensive scrubbers. Energy efficiency measures on the books since the late 1990s have been only sporadically implemented. The next greatest challenge to China’s air quality will undoubtedly arise from the transportation sector. Currently, China has only 25 million cars registered for private or government use; by 2020, that number is expected to reach at least 160 million cars, ensuring that China’s car market will be second in size only to that of the United States. Already, automobiles are taking an environmental toll on major cities such as Beijing.

If one were to ask a Chinese official, however, what s/he believed to be the most important environmental challenge currently confronting China, s/he would undoubtedly say “access to clean water.” About 60 million people have difficulty getting access to enough water to meet their daily needs. According to Chinese officials, five times that number drink contaminated water on a daily basis, and of those, 190 million drink water that is so contaminated it is making them sick. China’s water usage is also quite inefficient: the country loses up to 20% of its water just in the transmission process because of leaky pipes. Public buildings have largely ignored regulations concerning the implementation of wastewater treatment and recycling capacities, which adds to the burden. While agriculture is the country’s largest consumer of water—more than 80% of China’s
water goes to agriculture—industrial and consumer consumption have been growing more than 5% per year and are estimated to double between 1995-2020. While the problem of water scarcity has traditionally been greatest in the Northern part of China, even water-rich southern China is suffering from shortages due to overuse and pollution.

China also faces a serious challenge in terms of land degradation. The country, which is roughly the same size as the United States, is already 3/4 desert, and the desert is advancing at a rate of 1,300 square miles per year. Moreover, the dust storms, which frequently sweep across northern China during the springtime, are affecting not only Japan and South Korea but also the United States.

The point is simply to demonstrate that China’s environment is under stress on every front.

A New Leadership Vision?
Not surprisingly, the Chinese government has traditionally placed development as a top priority, with environmental protection a distant second. During the past year and a half, however, China’s leaders appear to have developed a new appreciation for the necessity of more thoughtfully integrating environmental considerations into the development process. Premier Wen Jiabao, State Environmental Protection Administration (SEPA) Vice-Minister Pan Yue, and others have increasingly called local officials and the developers of major infrastructure projects to account when they have failed, for example, to undertake proper environmental impact assessments. Premier Wen has brought several days to a permanent halt and forced delays on a number of other projects on environmental grounds. This newfound concern may stem from environmental considerations. More likely, however, it arises from a new understanding of how the environment is affecting other critical economic, social, and political aspects of Chinese life. These include continued Chinese economic growth, public health, and social unrest.

The Chinese Economy
In 1997, the World Bank produced a report that indicated that environmental pollution and degradation cost China the equivalent of 9.12% of GDP annually. Other Chinese and western economists were working on similar accounting efforts at the time and arriving at similar numbers, yet the impact on Chinese policy was negligible. Over the past year and a half, however, the Chinese media have been publishing statistics very much in line with the World Bank analysis, reporting that acid rain costs the Chinese economy $13 billion annually, water scarcity costs $28 billion in lost industrial output, and desertification costs $6 billion, etc. Moreover, there are numerous discussions of “changing local economies” in the Chinese press in Xinhua, for example, a Hong Kong company reported that its joint venture spinning mill is no longer viable because there is not enough water to grow cotton nearby; and in southern China, factories reported that water scarcity over the winter holidays led them to fulfill only 1/3 of their Christmas orders. When the environment begins to shape economic opportunities, this is where the rubber meets the road. In response, the Chinese government has begun a ten-province experiment to calculate a “green GDP,” asking the provinces to account for environmental pollution and degradation in their GDP statistics. While it is not clear how this will be accomplished, it is significant at the very least for the shift in consciousness that it represents.

Public Health
Here too, the World Bank completed a study that demonstrated that 300,000 Chinese die prematurely every year from respiratory disease related to pollution. The challenge with water pollution is probably far greater: there are anecdotal reports of towns all along China’s seven major river systems where the incidence of cancer, tumors, stunted growth, spontaneous abortion, and diminished IQ’s is much higher than normal. In many instances, villagers are not even aware that the water they are drinking is making them sick. A few months back, Chinese public health officials noted that birth defects had increased 25% in China during 2001-2003, they attributed a significant portion of this increase to environmental factors.

Social Unrest
Perhaps the most serious concern for the Chinese leadership is the relationship between environmental problems and social unrest. China today experiences upwards of 50,000 protests annually. In the mid-late 1990s, the Central Committee of the Chinese Communist Party released a report that suggested that the environment was one of the four leading causes of social unrest in the country. More recently, in September 2004, a survey of Beijing think tank, university and government experts indicated that the environment was one of the top five most likely sources of potential “major social upheaval” in China before 2020.

China’s Strategy: Environmental Protection as Economic Reform
The Chinese government’s approach to environmental protection is perhaps most easily understood as modeled on its economic reform strategy: maintain a limited central government, devolve authority to local officials, engage the international community, and rely on private initiative. In this case, nongovernmental organizations.

Certainly, China maintains a limited capacity to address environmental challenges at the central governmental level. There are only 300 full-time staff in SEPA in Beijing, compared with more than 6,000 for the U.S. Environmental Protection Agency in Washington. China devotes 1.3% of its GDP to environmental protection, well below the 2.2% that Chinese scientists have argued is necessary merely to keep the situation from deteriorating further. Overall, China’s central government is reportedly responsible for just over 10% of the overall environmental protection budget for the country, relying on local authorities and the international community to fund the vast majority of China’s environmental protection needs.

China’s reliance on local authorities to oversee the country’s environmental protection efforts has produced a patchwork of environmental protection, in which the wealthiest regions of the country with the strongest ties to the international community and most proactive officials are investing more of their own resources in environmental protection and beginning to produce results. The majority of the country, however, suffers from both lack of investment and leadership. Moreover, the political system in China, in which local environmental protection bureaus are nested within the local bureaucracies which pay their wages and provide their office space rather than responsible to the central State Environmental Protection Administration, has produced a system of conflicting loyalties and opportunities for corruption. When SEPA organizes its inspection sweeps through several provinces, it typically finds that one-third of the enterprises it inspect have the appropriate pollution control technology and are using it; one-third have it and don’t use it; and one-third don’t have it at all. This means that two-thirds of the inspected enterprises are not using appropriate technologies to manage their waste or emissions. Thus, local authorities control protection, while enabling a few areas of the country to advance the cause of environmental protection, has left many more struggling to keep from falling further and further behind.

A third component of China’s overall environmental protection strategy is to engage the international community in supporting the country’s environmental efforts. China has been extraordinarily successful in soliciting assistance from abroad: it has long been the largest recipient of environmental assistance from the World Bank, the Asian Development Bank, Japan, and the Global Environmental Facility. Moreover, every international NGO, from Conservation International to Greenpeace, has a presence in China. These international nongovernmental organizations consider it essential to be involved in China not only to assist China in responding to its domestic...
tic environmental challenges but also to pro-
mote proactive policy responses to global envi-
ronmental challenges such as climate change
and biodiversity loss. Finally, multinationals
increasingly are playing a leading role in envi-
ronmental protection in China. Chinese offi-
cials explicitly call on multinational corpora-
tions to raise the bar for the country’s environ-
mental practices, and for the most part, these
corporations play a critical role in advancing
environmental protection in China. They do
this through such things as enhancing stand-
ards for environmental impact assessments;
introducing new policy approaches such as
tradable permits; or supporting Chinese think
tanks or NGOs engaged in environmental pro-
tection activities. China rewards such support
with an extraordinarily high level of media pub-
llicity and public praise. It is not unusual for
long articles in the Chinese press to be devoted
to the environmental activities of one multina-
tional corporation or another. While SEPA’s
director Xie Zhenhua has criticized some coun-
tries for offloading their most polluting enter-
prises to China, for the most part, multinational
 corporations from Europe, Japan, and the U.S.
are considered good corporate citizens.

Perhaps the most exciting aspect of China’s
environmental protection effort is the very
rapid expansion of the nongovernmental sec-
tor. The first Chinese environmental NGO,
Friends of Nature, was registered in 1994.
Today, there are more than 2,000 formally reg-
istered environmental NGOs and probably at
least as many that are registered as businesses or
remain unregistered with the government.
Even more significant than the growth in the
number of NGOs over the past decade has been
the dramatic increase in the range of activities
that these NGOs undertake. In the beginning,
Chinese NGOs were overwhelmingly con-
cerned with environmental education and bio-
diversity protection—issues that were consid-
ered relatively political safe. A decade later,
these same NGOs are launching internet cam-
paigns that garner 15,000 signatures and bring
a dam to a halt or calling upon hotels in Beijing
and other cities to limit their use of air condi-
tioning in the summertime in order to conserve
energy. Greenpeace Beijing, a Chinese regis-
tered NGO, even pursued an undercover inves-
tigation of illegal logging in Yunnan that has
prompted the government to consider serious
sanctions against the Chinese and foreign busi-
ness officials involved. A number of Chinese
NGOs have also launched a boycott against
products produced by the offending company,
Asia Pulp and Paper. The media also work close-
ly with the NGOs to uncover and publicize envi-
ronmental wrongdoing; together they serve as
an important source of enforcement at the
local level for Beijing. Chinese environmental
NGOs are considered at the forefront of civil
society development in the country.

Why Does this Matter to Us?
China’s environmental protection efforts are
important at a number of different levels. First,
for basic humanitarian reasons, we care that 190
million people are drinking water that is so con-
taminated that it is making them sick. Beyond
that, we need to bear in mind how China’s develop-
tment trajectory is shaping the global environ-
ment and therefore our future as well. What China
does domestically on the environ-
mental front exerts an enormous impact on the
global environment. China is one of the world’s
largest contributors to global climate change,
ozone depletion, biodiversity loss and the illegal
timber trade. Most important, however, is that
the environment in China is directly contribut-
ing to shape the country’s potential for future
economic growth, well-being in terms of public
health, maintenance of social stability, and even
advances in political reform. Thus, for anyone
interested in what China will look like a decade
or two from now, it is critical to understand how
it is responding to its environmental challenges.

Security Issues: The War on Terror,
North Korea, and Taiwan
Kenneth Lieberthal, Ph.D.*
Professor of Political Science and William Davidson Professor of Business Administration
University of Michigan

War on Terror
China has generally supported the U.S. war on
terror. Immediately after September 11, Beijing
used its close ties with Pakistan to encourage
President Musharraf to cooperate with the U.S.
against the Taliban, helped America craft and
pass an anti-terrorism resolution at the United
Nations, and promised cooperation in other ar-
 eas. While China did not support the invasion
of Iraq, it proved far less obstructionist on the
UN Security Council than were France and
Russia. Beijing quickly recognized both that it,
too, had security equities in reducing interna-
tional terrorism and that support for the U.S. in
this area would provide substantial dividends in
overall U.S.-China relations.

Since 2001 the war on terror has on balance
contributed to improved U.S.-China relations.
The FBI now has an official office in Beijing.
China has cooperated in the container security
initiative, Beijing has adopted tougher measures
against proliferation, and the PRC has used its
diplomatic resources in ways helpful to the U.S.
when President Bush has sought to make
counter-terrorism more central to the agenda of
Asia-Pacific Economic Cooperation (APEC).
China’s cooperation does not reflect total
agreement with the U.S. In fact, Beijing is dis-
comforted at the extent to which Washington
has, through the war on terror, expanded its
military reach into regions along China’s west-
ern border, increased its security ties with India,
developed strong relations with Pakistan, and
encouraged Japan to further shift toward a
more robust military and foreign policy. And
China has refused to participate in America’s
Proliferation Security Initiative.

But China also has ample reason to feel satis-
ﬁed with the way the counter-terrorism issue
has played out to date. Beijing very much wants
solid strategic relations with Washington, and
the counter-terrorism effort has significantly
improved China’s ability to achieve this.

In addition, China has proven adept at tak-
ing advantage of Washington’s preoccupation
with Central Asia to assume some of the tradi-
tional U.S. role in East and Southeast Asia as an
agent of regional economic, diplomatic, and
security activity. Asians have both supported
the war on terror and hoped that Washington
would also pay serious attention to regional
issues. China has sought where possible to take
up the slack on regional issues, never frontally
confronting the U.S. or explicitly seeking to
remove it from Asia, but nevertheless adding to
China’s weight and stature at clear cost to the
U.S. role in the area. As popular support for
U.S. policies in this region has declined since
2002, popular views of China—especially in
Southeast Asia—have become more positive.

In sum, China has cooperated reasonably well
on counter-terrorism issues both regionally and
globally, and the Bush administration has in turn
regarded China overall as a constructive partner
in this broad effort. But China is not a frontline
state on this issue. It could become a major problem if Beijing actively sought to undermine American counter-terrorism efforts, but that will not occur. China does not want America to fail in this arena, but it is relatively content to have the U.S. preoccupied elsewhere in a way that creates more space for Chinese initiatives in Asia. For the U.S., the question is not so much how to elicit greater Chinese cooperation on counter-terrorism as it is how to regain more of the initiative on non-terrorism related Asian regional issues.

The overall cooperation on counter-terrorism has helped the U.S. and China to deal more amicably on the North Korea and Taiwan issues than otherwise might have been the case. But each of these latter issues poses important policy questions as the second Bush administration gets underway.

North Korea

The Bush administration regards Kim Jong-II’s North Korean government as a hostile, domestically and an unreliable negotiating partner internationally. The policy problem is that Kim has a proven small-scale plutonium production program in place and an alleged program in development to produce heavy enriched uranium (HEU). This is also a government with extensive, longstanding ties to international crime syndicates. Unfortunately, certain characteristics of the North Korean regime have made it impossible to collect the kind of intelligence on it that could clearly resolve longstanding disputes in the U.S. intelligence community about North Korea’s intentions and capabilities.

At U.S. urging, China has led a multilateral negotiating process that involves China, Russia, Japan, South Korea, North Korea, and the U.S., to address the North Korea issue. The fundamental dilemma in that process include the following:

- North Korea asserts that it needs to deal directly with the U.S. and will participate in the six-party process only as a vehicle for direct North Korea/U.S. talks. But the U.S. insists that this remain a multilateral process in substance as well as in name. North Korea in February announced suspension of its participation in the six-party talks.

- The U.S. believes that North Korea is utterly duplicitous. It therefore demands (in the only fairly concrete negotiating position it has put on the table) that North Korea first provide detailed and complete information on the location and content of its entire nuclear program and that, during the ensuing three months, international inspectors gain access to all of these facilities to verify North Korea’s claims. During this initial period, concerned countries other than the U.S. would provide aid to North Korea. This proposal stipulates that only after the initial three month period will the U.S. provide security guarantees in return for the complete, verifiable, and irreversible destruction of North Korea’s entire nuclear capability. North Korea, though, so distrusts the U.S. that Kim evidently regards this American position as asking, essentially, that North Korea provide the U.S. military with the bombing coordinates of all of its nuclear facilities in the hope of some time later receiving verbal assurances of security from Washington.

- The U.S. asserts that it has conclusive evidence of a North Korea program to build an HEU facility, although there is no agreement as to how far along that facility actually is. Some U.S. non-government specialists have raised significant technical questions about whether the evidence fully supports the U.S. position on this. North Korea denies an HEU program and China expresses doubt about it. Thus, even should North Korea commit to reveal all of its nuclear facilities, this may not resolve the uranium enrichment issue. It will, in any case, be difficult to devise verification procedures that are certain to capture all of North Korea’s efforts.

- American allegations about the HEU program led to a complete breakdown of the Agreed Framework, which had verifiably totally shut down North Korea’s proven plutonium program. As a result, since that breakdown North Korea has evidently reprocessed the 8,000 spent fuel rods that had been in storage pools and has put into operation its five megawatt reactor at Yongbyon that produces enough plutonium for approximately one nuclear weapon per year. This means that during the six-party talks North Korea has effectively fully re-started its plutonium program and is actually enhancing its nuclear capability every year.

- The result of the breakdown of the Agreed Framework is that North Korea has possibly gone from possessing enough plutonium for 1-2 weapons to having enough for about 60 weapons. The larger figure greatly increases the possibility of proliferation.

- In early February 2005, North Korea officially stated that it now possesses nuclear weapons. How should the U.S. proceed from here? The key considerations, with some suggested answers, are the following:

  - Will China prove willing to cut off food and fuel to North Korea if necessary to force Kim Jong-II to accede to American demands? China is putting a lot of diplomatic pressure on North Korea and clearly wants a nuclear-free Korean peninsula, but it is very unlikely to risk massive instability in North Korea through regime implosion, which it fears such sanctions could produce. The potential for future U.S.-China disagreement over this issue is real.

  - Can the U.S. prevent North Korean proliferation of nuclear materials/weapons to international criminal gangs or terrorists? The U.S. can try to deter North Korea with threats of massive retaliation should such proliferation be caught, but physical prevention cannot be assured for items of such small size.

  - Should the U.S. seek North Korean regime change, either through trying to squeeze North Korea to the point of regime change or sitting tight in the hope that the system will implode of its own accord? Actual scenarios for regime change in North Korea highlight the extraordinary risks (Civil war, loose nukes, massive population displacement, U.S. and Chinese forces operating in the same chaotic situation) that such a development entails, even if the regime proves vulnerable to being squeezed.

  - Will North Korea prove an honest negotiating partner if the U.S. adopts, as China and others have suggested, a step-by-step approach, with incentives at each stage, for identification and dismantlement of North Korea’s nuclear resources? North Korea’s past negotiating behavior makes clear that it is willing to sell almost anything, that it uses escalation as a tool of negotiation, and that it will cheat around the margins on any deal it signs. No negotiation with North Korea will be fully satisfying—the issue comes down to one of finding the least objectionable option where no truly “good” option exists.

  - Does the U.S. have an acceptable military option for dealing with North Korea? For many reasons, the answer is “No.” Among other constraints, America’s South Korean allies would never consent to such an option, and therefore use of force would end the U.S. alliance with South Korea.

  - Can the U.S. afford to turn the risk of ongoing North Korean plutonium production and proliferation in a world of terrorist threats? This risk will in theory increase as long as the U.S. and North Korea are unable to engage in a serious process of negotiation that first freezes and then dismantles the North Korea nuclear program.
China and Taiwan

The cross-Strait issue is probably the only issue that can potentially cause an across-the-board meltdown in U.S.-China relations that would last for years. Such a meltdown is not likely but is possible, and the consequences would be so severe that the issue of how to enhance cross-Strait stability is of vital importance.

China, Taiwan, and the U.S. all want to avoid conflict across the Straits, and therefore actual conflict would reflect fundamental miscalculations on the part of one or more of the parties. The Bush administration does not want cross-Strait tensions to rise, given America’s preoccupation with Iraq and the war on terror. It, therefore, constantly counsels Taiwan not to seek to change (America’s understanding of) the cross-Strait status quo and encourages Beijing to refrain from the threat or use of force. The U.S. is also virtually the sole provider of offensive arms to Taiwan, but seeks to do so in a way that does not encourage Taipei to take unnecessary chances of provoking conflict through pushing the cross-Strait political envelope.

Put simply, cross-Strait conflict is possible because each capital is making a series of assumptions that, taken together, could lead to war.

Many in Beijing believe that the White House seeks to encourage Taiwanese independence and uses its ongoing weapons sales to do so; that Taiwan can if necessary be defeated before U.S. military power can be brought into play; and that even if the United States did engage militarily, Beijing could force it to withdraw through a dramatic act such as sinking a capital ship.

In Taipei, meanwhile, many think that Beijing is so focused on economic growth, domestic political stability, and the 2008 Olympics that it will do anything to avoid a war (that is, that Beijing’s threats to use force are pure bluff). Even if Beijing does make good on its threats, the reasoning goes, Washington will step in to defend Taipei. And, in this view, Taiwan’s independent defense capabilities are largely irrelevant, since any conflict will end in either a quick Chinese win or a Sino-American war. Weapons purchases are therefore more important for their political symbolism than for their military utility. The Chen Shui-bian government has thus consistently reduced Taiwan’s defense budget (which is now lower in real purchasing power than at any time since 1992), even as it continually pushes the envelope on issues of identity and independence.

In Washington, finally, many officials believe that U.S. policy has “worked” for decades and remains robust. There is therefore no compelling need to engage the Chinese military to increase mutual understanding, and the mixed messages concerning Taiwan that unavoidably emerge from various parts of Washington are unimportant. Ultimately, if any cross-Strait conflict did erupt, the United States could settle the matter for the long term by achieving a decisive military victory.

The above assumptions merit scrutiny. Together, they make cross-Strait military conflict more likely. Individually, possibly every one is open to question.

The ideal solution for the U.S. is that China and Taiwan peacefully resolve all of their differences. The U.S., therefore, constantly exhorts both sides to begin a dialogue. But the politics in Beijing and in Taipei are such that, officials in both places privately acknowledge, no peaceful resolution of final status issues is feasible in this generation. Each side’s being trapped in the rhetoric of “reunification” and “independence” is thus, arguably, itself destabilizing, as it keeps the spotlight focused on the outcome that the other one most fears.

Any U.S. policy must take account of some fundamental realities. A sense of independent Taiwanese identity is growing, and the Chen Shui-bian government will continue to promote that trend in every way it can. On the Mainland, Beijing’s leaders feel they cannot put themselves on the wrong side of Chinese nationalism by agreeing to any development that seems to finalize the shift from total Taiwanese autonomy to actual Taiwanese independence. To do so, all agree, would bring down the government.

Beijing also feels, with some justification, that it lacks credibility in Taipei with its threat to use force should Taiwan “declare independence.” At the same time, Beijing has proven unable to articulate a clear “red line,” in part out of fear that it if does Chen Shui-bian will devise a way to tiptoe around that specific step while effectively moving Taiwan further toward independence.

Beijing’s strategy is thus to encourage economic and other ties across the Straits while affirming it will use military force to reverse or prevent actual independence and insisting on a “one China” principle as the only viable basis for actual cross-Strait negotiations toward peaceful resolution of final status issues. China’s adopting an “Anti-Secession Law” is intended, in part, to bolster the credibility of its threat to use force if Taiwan goes too far. Chen Shui-bian wants to avoid provoking military conflict but has repeatedly shown his willingness to push the envelope in acquiring more of the attributes of an independent country.

All of this is further confused by uncertainty as to what characterizes “declaring independence.” Taiwan’s leaders have for years asserted that Taiwan is in fact already “independent,” but no serious country has granted it recognition on this basis. In international law and practice, “independence” is conferred by the recognition of others; it cannot simply be self-proclaimed. Beijing nevertheless refuses to accept this common international view of independence as operational in this context.

At issue now is whether Taiwan will adopt a new constitution and, via that ultimate act of sovereign expression, establish juridical independence. Beijing has warned against doing this, especially if constitutional revision produces a new name, new territorial designation, and in other ways affirms an independent sovereignty for the island. But the dividing line between the acceptable and a can of worms remains vague. The danger is that Taiwan will take a step that Chen Shui-bian regards as not crossing a red line but that, in the political dynamics it touches off in Beijing, soon comes to be seen as having crossed the Rubicon, requiring a forceful response.

The ongoing failure to either resolve or fully stabilize the cross-Strait issue imposes enormous costs on all parties. Beijing expends tremendous diplomatic capital every year in shoring up its ability to keep Taiwan from obtaining any form of international recognition. China also invests very heavily in military development and training keyed to possible cross-Strait military action, and consequently the PRC is on the cusp of acquiring very credible cross-Strait military options. Taiwan is losing out badly as it remains cut off from nearly all of the multilateral trade and other regimes developing in Asia, and the tensions with China prevent it from fully leveraging its ability to access China’s large and rapidly growing economy. And the U.S. expends substantial resources in maintaining the military capacity to cope with cross-Strait war contingencies, in addition to having to deal with the consequences of being seen by many Chinese as acting to promote Taiwan’s independence.

Should force be used, moreover, the slope from controlled pressure to major war will be very slippery. The moves built into the military strategies of each side lead more easily to large-scale war than to rapid conflict termination.

There is, of course, a good chance that continuing with past U.S. policy will prove sufficient to sustain muddling-through strategies by Beijing and Taipei whose ongoing costs are limited to those noted above. But there is now also a political window of opportunity to push for something potentially more comprehensive and fundamentally stabilizing.

Chen Shui-bian is in the first year of his final term in office, and there is no major Taiwan election before 2008. Hu Jintao’s current term lasts until the fall of 2007 (and could well continue beyond that). And President Bush of course has just begun the first year of his final term in office. In all three capitals, therefore, there is now a very unusual opportunity to deal with cross-Strait issues with some political boldness.

In this context, it makes sense to ask whether there are modified approaches that will enable
the U.S. to maintain its commitment to Taiwan's well-being, remove the cross-strait issue as a major irritant in U.S.-China relations, and produce a far higher degree of stability across the Taiwan Strait. One such approach would be to seek a decades-long formal agreement on cross-strait stability between Beijing and Taipei. This would completely set aside final status issues for the next generation to negotiate and resolve. Its objective would be to establish credible commitments by both sides that would take both the use of force and formal independence off the table for the full duration of the agreement, thereby allowing the two sides to interact for a generation in a relatively relaxed, mutually beneficial fashion.

Both sides have internally seriously studied the idea of such an agreement. Only an actual negotiation would show whether their respective approaches are compatible enough to lead to an actual agreement. But as of now neither side can figure out how to get started, given the extremely deep mistrust across the Straits. A U.S. position explicitly encouraging such a negotiation might prove necessary to getting the process under way.

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1. The U.S. defines the status quo as Taiwan lacks sovereignty and independence but its ultimate relationship with the PRC should be settled through peaceful negotiations. Taiwan’s leaders, though, say the status quo is that Taiwan is a sovereign independent country and Beijing defines the status quo as Taiwan is a part of the PRC.

2. That policy has spurred Beijing that America will retain a "one China" policy and assured Taiwan that the U.S. will not negotiate away its interests. It has also warned Beijing that it cannot count on America's standing idly by if China uses force against Taiwan, even as it has suggested to Taiwan that America will not support a blatantly provocative move toward independence.

China's Economic Rise – What Does It Mean for the U.S. and for the World?

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China's Growth and Economic Reforms

China's meteoric economic rise during the past decade was a surprise to most. It surpassed Japan to become the world's third largest trader in 2004. Goldman Sachs predicted in 2003 that China would become the world's second largest economy somewhere around 2015 (third largest if the European Union is counted as one). China's growth was accompanied by massive poverty reduction, rapid urbanization and growing social inequality. However, the average per capita income is still only about $1,200.1

As a result of China's incremental, often unorthodox, home-grown economic reforms, the share of the state in manufacturing output fell from over 80% when the reforms began' to about 22% today. Price controls on almost all goods and services have been eliminated. The financial system, however, remains largely government-owned. Through state-owned financial institutions and state ownership of land, the government continues to exercise considerable control over the economy. The pace of development and the degree of state control over economic life is unequal across provinces. Some East coast provinces (Zhejiang, Fujian and Guangdong, with a combined population of 160 million) are already largely private-sector economies.

China has benefited from a large inflow of foreign direct investment (FDI)—especially from overseas Chinese. Nonetheless, it is one of the few developing countries which, in the aggregate, is a net-exporter of capital. At the macro-level, China has managed its economy prudently. Because China is so large, its rather sudden rise on the global economic scene presents major challenges, as well as opportunities for many countries, including the U.S. China’s entry into the World Trade Organization (WTO) enlarged the global labor force, linked through more or less integrated markets, in a relatively short time frame by 20-25%, an historical development without precedent.

China's Competitiveness and Global Economic Impact

Reasons for China's current competitiveness go well beyond low wages and a (mildly) undervalued exchange rate. They include: (1) the large size and growth potential of domestic markets; (2) a trade regime that is already remarkably open; (3) relatively high-quality physical and information technology (IT) infrastructure; (4) relatively low overheads and capital costs; (5) generous tax incentives for foreign investors; (6) political and macroeconomic stability; (7) consistency in economic reform policy; (8) availability of skilled or highly trainable, disciplined labor; (9) growing availability of local managers and scientific personnel for research and development; (10) extensive local networks of inter-firm supply chains.

The impact of China's rise is not equally distributed. For example, Mexico is proportion-
ately more deeply affected than the U.S.; and so are Taiwan, South Korea and even Japan. In light of the termination of the multi-fiber arrangements (MFA) on January 1, 2005, the most affected economies may be those that are heavily dependent on garments and textiles—products in which China has a strong comparative advantage—such as Bangladesh. Resource-based economies such as Russia, Canada, Brazil, Argentina and Australia experience fewer adjustment problems and enjoy more immediate benefits from China’s rise.

Neighboring countries in Asia that saw China as a potential threat only 5 years ago have begun to experience positive effects as well, especially in trade and investment. To exploit the opportunities more fully, several regional Free Trade Agreements have been signed or are under negotiation. Over the past decade China has not only become one of the most open large developing economies, but also an engine of regional and even global growth, along with the U.S.

China in the WTO

We now have three full years of experience with China as a member. Most agree that it has been good for China, good for the global economy and good for U.S.-China relations. China’s compliance with WTO conditions has been mixed, but on balance more positive than negative. China has done well with regard to lowering import and investment barriers, moderately well with regard to reforming its domestic legal and regulatory systems to ensure consistency with WTO norms, but not well at all with regard to the enforcement of intellectual property rights (IPR) laws.

In its most recent report to Congress on China’s WTO compliance (December 11, 2004) the U.S. Trade Representative states: “While some problems remain, China did a relatively good job of overhauling its legal regime. However, IPR enforcement remains problematic. Indeed, counterfeiting and piracy in China are at epidemic levels and cause serious economic harm to U.S. businesses in virtually every sector of the economy.” Partly in response to U.S. complaints, China recently put Vice Prime Minister Mme Wu Yi, known locally as the iron lady, in charge of strengthening IPR protection and lowered the threshold for criminal prosecution of violators. However, financial incentives and opportunities for piracy and counterfeiting in China remain abundant. With the convivance of local authorities, production and distribution of counterfeit products can be concealed relatively easily. Taiwan had a massive IPR protection problem only 15 years ago and still struggles with residual elements.

The Global Growth Model of Recent Years is Not Sustainable

The U.S. and China served as twin engines of global growth in 2004. Together they accounted for over 50% (provisional estimate) of total import growth and for the lion’s share of commodity price increases. China’s growth is primarily investment-driven; the U.S. relies more on consumption growth. The U.S. has been spending more than it earns for many years. This is reflected in its current account deficit—about 5% of gross domestic product (GDP) in 2004. China typically has a current account surplus and finances part of the U.S. deficit. After the Asian financial crisis of 1997/98, other countries in Asia have also been running current account surpluses; together they finance a much larger share of the U.S. current account deficit than China does. In the last few years U.S. imports were about 50% larger than exports. A fundamental factor underlying the large U.S. trade deficit is the extraordinarily low savings performance of the U.S. economy.

The global economic model that developed since the crisis of 1997/98 depends on large net flows of financial resources from Asia (and to a lesser extent from Europe and oil exporters) to the U.S. Asian central banks, led by the Bank of Japan and the People’s Bank of China, have been accumulating huge foreign exchange reserves, most of which is invested in the U.S. The limits of this “great while-it-lasts” model were reached when the value of the U.S. dollar began to drop against the Euro and other floating currencies toward the end of 2002.

China’s Growing Import Dependency for Scarce Commodities

Some predict a paradigm shift on global commodity markets as a result of China’s growing import needs—permanently higher prices. Others expect that global supply will ultimately catch up with global demand. The sharp price increases for oil, metals and ores, some grains and some other raw materials in recent years, have a lot to do with China’s rapid growth. The other important factor was economic recovery in the U.S. The leveling off of commodity prices in the second half of 2004 coincided with efforts by the Chinese government to cool down the country’s investment boom.

China became a net importer of oil in 1999 and currently depends on imports for about one third of its needs. It is already the second largest oil consumer after the U.S. Most comes from the Middle East. The security of its tanker transport to China depends in part on the presence of the U.S. Navy. International energy companies, including many U.S. firms, are actively engaged in the search for oil and gas in China. Chinese state-owned energy companies have been investing or trying to negotiate partnerships or concessions in Africa, the Middle East, Kazakhstan and elsewhere. Except for coal, China’s economy is relatively resource-poor. Its growing import needs for a wide range of natural resources and its ample financial resources suggest a growing presence on international commodity markets, not only as buyer, but also on the supply side in resource-rich countries.

China’s global search for raw material supply sources may sometimes clash with U.S. political and/or economic interests (Sudan, Iran). In other cases interests may overlap (Brazil, Argentina, Russia, Australia). In the interest of stable bilateral relations, the U.S. and China might explore ways to avoid possible future clashes over access to natural resources in third countries. It is a global economic interest that commodity markets remain open and transparent and that competition for scarce resources be conducted under agreed international rules.

The U.S.-China Bilateral Trade Gap—What is going on? How important is it?

China is America’s most rapidly growing large export market. Since it joined the WTO, U.S. exports to China have roughly doubled—they now account for 6% of the total—whereas exports to the rest of the world have more or less stagnated. The trade gap with China has nonetheless widened. There are two main reasons for this: (1) export trade surpluses with China U.S. was already very large when China joined, which means that U.S. exports to China would have had to grow much faster than imports from China for the trade gap to stabilize, let alone shrink; and (2) changes in intra-Asia trade flows. China has become the processing hub and a vital link in the supply chain for numerous Japanese, Taiwanese, Hong Kong, South Korean and other Pacific Rim-based manufacturing firms, including American ones. The shift in trade patterns is reflected in the rise of China’s share in U.S. imports from 5% to over 13% over the past decade and a decline in the share of other Pacific Rim countries from 54% to 21%.

U.S. firms involved in the China import trade control a much larger share of the value chain than their Chinese counterparts. Morgan Stanley estimated recently that corporate America earned at least $60 billion in profits from the final sale of imports from China last year, accounting for over 10% of S&P 500 profits. An estimated 4.8 million jobs in the U.S. are related to adding value to imports from China. Domestic value-added in China on exports to the U.S. is only a fraction of the value-added in the U.S. The value added balance tells a very different story than the bilateral trade balance.

China’s large and growing trade surpluses with the U.S. and with the European Union are more or less balanced by trade deficits with countries in Asia, in particular Japan, South
Korea and Taiwan. China's overall trade surplus averaged less than 2.4% of GDP in the last 5 years. Wholly Chinese-owned enterprises account for only about 40% of China's exports.

The share of foreign-invested enterprises located in China has risen from almost nothing 20 years ago to about 60% at present. China is not a major factor in the massive current account imbalances that characterize global trade at present. Of aggregate current account surpluses in the world in 2003, China accounted for only about 4.5%, compared to 22% for Japan, 37% for the rest of non-China Asia and 21% for Eurozone countries. By contrast, the U.S. accounted for over 90% of aggregate current account deficits.

China is undoubtedly a factor in U.S. manufacturing job losses, but it is certainly not THE major factor that some believe it is. More important is the fact that the U.S. current account deficit is matched—almost dollar for dollar—by a trade deficit in manufactured goods. Like other rich industrialized nations, the U.S. lost international competitiveness in many traditional (and some technologically advanced) industrial activities. Manufacturing job losses due to globalization and rising productivity are also common in Europe and Japan. Even China suffered a net loss of 6.5 million manufacturing jobs between 1998 and 2003.1

The large U.S. trade deficit with China may be undesirable from a political or security perspective, but it is not a negative economic factor per se. From an economic angle, the key issue is that the country's overall external balance, which points the importance of focusing on the nation's savings performance. Arthur, trade diversion along with adverse deficit with any particular supplier, is more likely to harm U.S. economic interests than to generate benefits. This does not mean, of course, that the U.S. can relax efforts to enforce fair trade rules with China. For many U.S. enterprises China's compliance with fair trade rules can make a big difference. The U.S. has adequate tools to protect such enterprises against unfair competition from China.

Is the RMB Undervalued? Does China “Manipulate” Its Exchange Rate?

By most indicators the RMB is undervalued, but not by a large margin. (The official name of China's currency is Renminbi Yuan—RMB for short.) An appreciation of China's currency would be much more helpful to the U.S. if it were accompanied by similar action in the region. This is so because China's exports are on average very import-intensive and most component imports come from other East Asian countries. In the absence of parallel exchange rate action in the region, a revaluation of the RMB would reduce China's export competitiveness by a much smaller margin than the amount of the revaluation.

When China unified its former messy, multiple exchange rate system on January 1, 1994 it announced the creation of a "managed, market-driven float." For some years thereafter, the RMB was allowed to appreciate slowly (about 5%) in line with market signals. The rate was frozen at the present level of 8.28 RMB to the dollar in December 1997, following the financial collapse of South Korea during the Asian financial crisis. This measure was taken to protect the Chinese economy against instability and to signal that China would not devalue as widely expected at the time. The international community applauded China's action as constructive, because a fixed exchange rate served as an anchor, making it easier for the crisis economies to recover. There was no pressure on China to revalue its currency until a few years ago.

So, when did China's exchange rate policy become unconstructive or "manipulative"? An alternative, and in the eyes of many more realistic, perspective on this question is that the growing U.S. trade deficit, including the gap with China, is primarily due to domestic monetary and fiscal policies in the U.S., not to anything China did or failed to do. Relaxed monetary policy combined with large fiscal deficits helped sustain demand in the U.S. and prevent a deep recession after the collapse of the "Dot Com" bubble in 2000, while at the same time causing the U.S. savings performance to deteriorate and the trade gap to widen. Indirectly, these U.S. policies also benefited other economies, including China's.

Another factor underlying China's large accumulation of foreign exchange reserves in recent years was the turnaround in international expectations concerning the value of the RMB. Prior to 2002 most people expected a devaluation of China's currency, causing capital flight when expected. When expectations turned around, China had to cope with huge unwanted capital inflows from people and companies who hoped to benefit from a Chinese revaluation. It would have been wise for China to respond to this speculative inflow with a revaluation. The accumulation of foreign exchange reserves by China and other East Asian nations is a reflection of global trade imbalances, not a cause. If countries like China hadn't been buying large amounts of U.S. Treasury bonds, interest rates in the U.S. would probably have been higher.

Prospects and Conclusions

All we can say with some confidence about the future of China's economy is that many of the factors which—with hindsight—played a role in the country's meteoric rise during the past ten years are still present today and may be around for a while. It seems reasonable therefore to expect that China's modernization, urbanization, industrialization and internationalization will continue, with ups and downs. Its relative economic importance in the world will grow before it stabilizes.

Domestic crises may occur, but a collapse of the Chinese economy is not likely. Many of China's current cost advantages (labor, land, capital, utilities, taxes, overheads) will only be temporary. In fifteen years the situation will be very different. Multilingual, experienced Chinese managers and technical specialists already command salaries that are approaching international levels. As costs are rising at unequal rates across its (country-sized) provinces, some of China's cost advantages will last longer than others.

The direct role of the state in China's economy will further decline. China will undoubtedly press the U.S. and the European Union for recognition as a "market economy" for application of their anti-dumping laws. The list of daunting challenges facing China internally is long: financial sector reform, corporate governance, unemployment, social security reform, corruption, growing social inequity, environmental degradation, serious water shortages in the Northern Plain, a tendency to over-invest and create excess capacity, the need for political reform, etc. The greatest threat to domestic stability in China probably lies in the country's rapidly-growing income and wealth inequality.

At the international level, maintaining constructive relations with the U.S. and with neighbors in Asia will remain a high priority for China. Intensified international competition for natural resources is unavoidable. It is as much a Chinese as it is an American interest that this competition plays out under agreed international rules. Reflecting significant economic complementarities between the U.S. and China, their economies are becoming increasingly intertwined. The potential for further mutual gain from trade and investment is huge.

1 Calculated on a market exchange rate basis. An alternative way of comparing income levels across countries is to measure how much people can buy with their money at local prices—purchasing power parity. According to the World Bank, China's per capita income on a PPP basis was about $4,500 in 2003. The comparable number for India was about $2,500.

2 The start of China's market reforms, December 1978, virtually coincided with full diplomatic recognition of the People's Republic of China by the U.S. and the first exchange of ambassadors since 1949.

3 In a speech to The Per Jacobson Foundation: "The U.S. Current Account Deficit and the Global Economy", 2004. Harvard President and former Secretary of the U.S. Treasury Lawrence H. Summers pointed out that net national savings in the U.S. in 2003 stood at between 1 and 2 percent of net national income, the lowest savings rate in American history and the lowest rate of any major nation.

4 The rapid expansion of employment in non-state manufacturing during this period failed to compensate for massive layoffs from state-owned factories.
Political Change in China

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Despite China's leaders' rejection of fundamental political reforms and their denunciation of Western-style separation of powers, economic reforms and the dynamics of a rapidly changing society have pushed forward significant changes in the style and the role of the governing apparatus. These changes are especially clear if the government's role is compared with the Maoist period when the economy was guided by the central plan overseen by a centralized political and administrative system. Now, there is far less direct involvement in the economy and people's lives, new and revamped institutions have been created to deal with law, international trade and a market economy, and the education and professional level of administrators has improved considerably.

These changes are considerable but the Chinese Communist Party (CCP) still retains an absolute grip on political power, treating any perceived threat harshly, and seeks to combine centralized political control with the material advantages derived from an increasingly marketized economy. Some refer to this as 'Market Leninism', a term that seems quite apt for General Secretary Hu Jintao's disposition. Others, focusing on the relaxation of party control over all aspects of life and the tolerance of more open debate on certain topics view the political system as shifting from 'hard' to 'soft authoritarianism', thus mimicking developments on Taiwan a generation ago.

The CCP's Response to a Changing Environment

The key feature of reform has been a significant liberalization of previous regime practice. Initially this came from the need to promote economic reform that created the desire for more expert advice and toleration of a wider diversity of views. Subsequently, this trend was reinforced by declining party and state capacity and the increased heterogeneity within society that the reforms brought about. This has resulted in more intellectual freedom than at almost any time since 1949. In addition to this increased intellectual space, government withdrawal from providing many public goods and services and the financial limitations of most local governments have also opened social space for the development of service oriented nongovernmental organizations (NGOs).

However, this increased liberalization is instrumental and is to fuel economic growth and should not be mistaken for moves toward democratisation. Indeed there are clear limits to the permissible, and any organization seen to challenge the party's monopoly on political power or moral guidance will be crushed. Recently, the climate for academic debate has turned harsher and there have been attacks on the concept of 'public intellectuals' who are seen as creating a moral space independent of the party.

Yet this has not prevented the party from encouraging experimentation with limited elec-
tions and attempting to improve government accountability and transparency. The best known example of electoral reform is the direct election of village leadership. The program was set up primarily because of the need to restore some kind of governing structure in the countryside following the collapse of the collective structures during the early reform period. Two caveats should be noted. First, the village does not constitute a formal level of government administration and attempts to raise the level of direct elections to formal levels of the government administration have been rejected by senior leaders. Second, real power in the village does not lie with these elected committees but with the party secretary and committee members who are not subject to popular election but are appointed from above.

This has stopped pressures building for local party officials to enjoy greater credibility; experimentation has continued with indirect elections and developing performance feedback mechanisms. Many elected village heads are recruited subsequently into the party as a way to rejuvenate it and enhance its legitimacy. It is increasingly common for local party members to vote on the acceptability of a proposed candidate for party secretary. The vote is indicative but the formal power of appointment remains with higher party authorities. There are similar attempts to circumvent strict controls by using indirect elections for township heads. This is significant because the township forms the lowest level of state administration and is the key interface between state and society. Party-approved candidates are presented to voters and the results are shown to the party and state authorities who provide final approval. This ensures a degree of feedback on candidate viability while not amounting to a direct election.

Recent CCP attempts to appear relevant, representative of a broad constituency, and concerned about the needs of those who have not benefited so well from reforms are seen most clearly in two developments.

First, the CCP has redefined the nature of its representation to reject the old claim that it was a party only for the workers and peasants. The CCP now portrays itself as not only leading the new and dynamic areas of the economy but also the newly emerged technical and economic elites. Important in this respect was the push to admit private entrepreneurs into the party. However, the continued need to cover policy direction with the fig leaf of socialism makes it difficult to outline what future society would look like and how the relationship between state and society will change.

Second, the new leadership under Hu Jintao and Wen Jiabao has turned up the rhetoric about the tensions that have arisen from the inequality that are part and parcel of the reform. During the reform era China has shifted from being one of the more equitable societies in East Asia to now being one of the most unequal. The urban-rural differences are the highest in the world and public goods and services that were more generally available in the 1980s have become more dependent on income in the 1990s. The provision of goods and services to certain privileged sectors of the population (government officials and elite urban workers) while denying them to others (migrants and the rural poor) raise serious questions about the meaning of citizenship in contemporary China. Chinese media and academia have been full of anguished discussions about the potential for instability that may stem from these inequalities. The leadership has responded by trying to improve the agricultural terms of trade for farmers, integrating migrants into urban services and launching a major investment program to develop the poorer Western provinces.

If the CCP cannot provide a moral framework for society it will increase the centrifugal tendencies. People are more likely to seek spiritual guidance in alternatives or simply adopt a ‘me-first’ or ‘family-first’ approach to life. The breakdown of a civic morality in the Cultural Revolution has produced a highly instrumental view of personal relations in the present. The resultant conflicted morality with a raw capitalist outlook under the rhetoric of an existing socialist system presents a problem for any future leader as there is no civil society that might provide a bond in the event of CCP collapse.

China’s new leaders are aware of the need for change and have argued that the party needs to come to terms with the fact that it is the ruling party and no longer a revolutionary party with its continued rule tied to improving its capacity to rule effectively. The government has undertaken a number of practical measures to try to improve the capacity of both party and state institutions. The focus has been on administrative turnover, improving the quality of public officials, amendment of the rule of law, firm party control over the reform program, and a tightening of the party’s grip over the state sector. The party prefers in-house methods to improving the quality of its officials and in fighting problems such as rampant corruption rather than opening up the system to public scrutiny and control.

The Prospects for Future Political Reform

While hope springs eternal and observers both inside and outside China have expected significant political reforms to be introduced at the last two party congresses, they have been disappointed and are likely to remain so. It should not be forgotten that the primary purpose of the CCP is to remain in power for as long as possible, and its leaders are not going to introduce any changes that might threaten their position and foment instability. This viewpoint has been strengthened not only by their own domestic challenges in 1989 and the split that this caused within the party elite but also by their observations of post-Soviet Russia and the problems that they feel market economics and democratic politics have brought. In particular, the fall of Subharto in Indonesia caused many in the elite to re-think any significant political opening. The message seemed clear—keep economic growth booming and keep a tight lid on any potential dissent.

Despite long-term benefits that would come from significant political reform in terms of ameliorating corruption and the non-transparent political system, there are strong countervailing pressures. First, as noted above, China’s leaders interpret democratic reforms as essentially destabilizing, underestimating both social stability and economic growth. It is important to remember that the bottom line of CCP legitimacy is its capacity to deliver the economic goods. It has sought to buttress this with a strident nationalism that is popular with urban elites and reliance on reviving traditional Confucian views toward benevolent authority.

Second, the party’s monopoly on power allows it to dispense patronage fueling the corruption that is a feature of contemporary political culture. Gradualism in reform has brought significant economic benefits but has allowed the party to co-opt new elites into the party structure thus reducing external pressure for political change. The party is now seen as a bastion of privilege that represents the new haves over the have nots. In a 2003 national survey I conducted we found that satisfaction with government performance dropped dramatically the closer it was to the people. This is important as it is local government that provides the vast majority of public goods and services. Of the respondents, 39.1 percent felt that local officials were friendly while 38.9 percent felt that the attitude of local government was cool and indifferent. A majority of citizens saw local officials’ attitude when implementing policy as more receptive to the views of their superiors and closer to those with money than to ordinary people. In major cities the situation is somewhat better where 41.9 percent say that while implementing policy, officials are arrogant while 42.4 percent feel that when implementing policy they think they are helping ordinary citizens. These percentages are 51 percent and 26.8 percent respectively for respondents living in villages. In major cities, 41.4 percent felt that policy execution favored those with money while only 39.9 percent thought that it took care of households in difficulty. By contrast in the villages these percentages were 54.7 and 23.6 respectively.
Third, the Chinese system is extremely decentralized, and it is often difficult for the Center to control what local officials even if they should wish to. The theft of state assets, the corruption, and the use of official position to pursue personal wealth are all most marked at the local level of government. Thus local governments have little incentive to make their activities more transparent or accountable to the public at large.

Fourth, with rapid economic growth continuing, the new urban elites appear to have little interest in more democratic reform. Not surprisingly, as they have fared well under the existing system they see no compelling reason to change it. There is no strong constituency that favors political change. Private entrepreneurs benefit from official connections to the party, or may be former party officials themselves. The laid-off workers are politically marginalized and while there has been an upsurge in farmer protest there is no evidence that the protests have gone beyond the local. Indeed, most evidence supports the view that they retain trust in the national leaders and see the problems as purely local aberrations rather than systemic flaws. A recent survey has shown that the new migrants to urban China are also relatively well satisfied with their lot as their point of comparison is with those left behind in the villages.

Six Scenarios for Political Change in Search of a Chinese Reality

There are a number of potential scenarios for China's political future and one cannot rule out systemic collapse even though this seems unlikely.

1) In the early 1990s, there was considerable discussion of whether China might break apart with the differential regional impacts of the reforms leading to richer Southern and coastal provinces pushing for greater autonomy. This was an unlikely scenario then and is even more unlikely now. It is hard to see what benefits provinces would derive from separation from the center. The only circumstances that might precipitate such an outcome would be following a severe economic crisis that resulted in a political crisis at the center. If the Center floundered, then regions may see more benefit in staking out their own futures. The two provinces that might wish to take advantage of a weak Center are Tibet and Xinjiang where local histories and culture are at odds with the Han-dominated 'national society' that might take power. The most probable outcome would be rule by the new economic elites backed by the military in the name of preserving social stability and national sovereignty. A strident nationalism might provide a minimal level of social glue to give the new regime a residue of support. A more likely variant would be the emergence of a pre-democratic Latin American-style political system. This is a highly possible scenario and has prompted much debate within China. Under this scenario the inequalities would continue to rise with the party becoming the preserve of the elites and with their power backed up by the military. The lack of political reform would produce a permanent underclass in both urban and rural China that would be portrayed as a threat to stability and continued economic progress.

2) Collapse at the Center might lead to a takeover by the military. If the party fails in its capacity to provide social cohesion, the army would remain as the only national institution. It might be tempted to intervene to restore order and assure national sovereignty. Again this is not a highly likely scenario as the army has generally accepted its subjugation to party leadership and control. Recent reforms have instituted a stronger professional ethos that further strengthened the army's desire not to dictate policy outside of a narrow band of issues such as security and Taiwan.

3) Given the fact that there is no strong reason for political change absent crisis, one of the most probable ways for significant political change to occur would be systemic collapse. History does not offer much comfort for a peaceful transition as communist regimes, unlike some other authoritarian systems, have only changed with the collapse of their ancient regiments. There are potential causes that could trigger systemic collapse and while both are possible, they are not probable in the foreseeable future. The first would stem from economic collapse. While there are systemic distortions in the economy and an extremely vulnerable banking system, wise policy choices should ensure continued high level economic growth for another decade at least. The second cause would be if the social tensions and inequalities led to sufficient unrest to force the leadership to undertake some political reforms to retain control. Such a political opening once begun would be difficult to control and might lead to further reform. Whenever protest is an everyday occurrence in China, there is no evidence to date that suggests it is a fundamental threat to the regime or that it will exceed the party's capacity for control.

4) Systemic breakdown might not lead to a democratic breakthrough but, more likely to 'fascistoid' rule. The CCP maintains that, without it, chaos would ensue. By consistently cracking down on alternatives and restricting the growth of a vibrant civil society that could form the basis for a new system, the CCP has created the 'nomenklatura' to replace the 'unpolitical society' that might take power. The most probable outcome would be rule by the new economic elites backed by the military in the name of preserving social stability and national sovereignty. A strident nationalism might provide a minimal level of social glue to give the new regime a residue of support. A more likely variant would be the emergence of a pre-democratic Latin American-style political system. This is a highly possible scenario and has prompted much debate within China. Under this scenario the inequalities would continue to rise with the party becoming the preserve of the elites and with their power backed up by the military. The lack of political reform would produce a permanent underclass in both urban and rural China that would be portrayed as a threat to stability and continued economic progress.

5) Optimists would like to see China following in the footsteps of its East Asian neighbors with a transition to 'soft-authoritarianism' followed by a democratic breakthrough. For the reasons outlined above, this does not seem likely. It would require a section of the ruling elite to be willing to break with the old order and to form a new compact with progressive forces in society. One could argue that there was such an opportunity in 1989 but that it was rejected by orthodox party members. Some argue that economic growth is creating a middle class that will support change and that the increase of marketization will cause the rule of law to be taken more seriously. However, it is hard to see what would cause the current elite willingly to reject the current beneficial system.

6) The most likely scenario over the short to medium term is a continuation of the politics of muddling through. Bold initiatives are unlikely. An essentially technocratic approach will prevail while the leadership tries to maintain an authoritarian political structure combined with growing economic liberalization. Minimal reform is likely in the political system with a continued focus on strengthening the legal system and building capacity and skills within public administration. The main potential for promoting reform would lie with the ability of people and organizations to exploit the deliberations of official pronouncements to experiment with cautious reform initiatives.

Concluding Comments

Whether this politics of muddling through and administrative professionalism will be sufficient for the next period is debatable, and pressure may still force the new leadership to take a more dynamic approach. There are pragmatic benefits that would derive from political reform in ensuring a better environment for the economy and helping mediate potential social unrest. Greater transparency and accountability would help deal with corruption that saps the party's moral authority. A more open political system that allowed participation by the lower-middle class would provide a political alternative to the existing system.

However, this would require an elite consensus that institutions to increase social inclusion and to integrate interest articulation would be beneficial. To date, CCP leaders, thinking that they have learned the lessons of their first-developing neighbors in the region, have applied political coercion in fits and starts, combined with growing economic liberalization. This is a misunderstanding of development and may not produce a long-term stable environment. The requirements for China for continued high growth are high information, declining coercion, less hierarchical inequality by means of representative institutions and a marketplace in which priorities of goods and services in the economic sphere are balanced by needs and wants in the political sphere. With the fastest growing economy in the world this is a difficult argument to make but it would be better for the leadership to address these issues now rather than waiting until economic growth slows or an economic crisis occurs.
U.S.-China Relations

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Shanghai, Nanjing, Xian, Beijing
March 25-April 3, 2005

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CONFERENCE AGENDA
Shanghai, Nanjing, Xian, Beijing
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The Environmental Challenge to China's Future
Remarks by Elizabeth Economy, Council on Foreign Relations

Security Issues: Taiwan, North Korea, and the War on Terror
Kenneth Lieberthal, University of Michigan

Discussion Questions

• What are the best current assessments concerning North Korean nuclear capabilities, Pyongyang's intentions, and its proliferation behavior to date? What would be the effects of a North Korean decision to actually test nuclear weapons and what will be the consequences for future proliferation if North Korean programs and capabilities are not dismantled fairly promptly? And, how would one assess China's role to date in trying to resolve this problem, what would the U.S. like Beijing to do in the future, what are Chinese interests, and what can be expected?

• With respect to Taiwan, how would one assess the security circumstance of the island and its options for the future? Why is the Taiwan legislature seeing resistance to American arms purchases at the same time PRC military capabilities increase? Is Taiwan acquiring offensive weapons capability a good idea? Are present plans for constitutional change in Taiwan a fundamental threat to the status quo? What policy options are open to Washington to maintain peace and stability in the area?

• How would one assess Beijing's utility in the war on terror to date, both in terms of dealing with critical third parties, in multilateral organizations, and bilaterally in initiatives such as the Container Security Initiative? Where are areas the U.S. might expect, or push for, further Chinese cooperation? Do the Chinese have concerns about American policy and what, if anything, are they doing about it?

China's Economic Development
Remarks by Fan Gang, National Economic Research Institute

Economic and Trade Issues: From Deficit to Global Demand for Resources
Pieter Bottelier, Johns Hopkins University

Discussion Questions

• How big of a problem is the current, huge U.S. trade deficit with China, what are the fundamental
origins of the problem, and what remedies have been sought to date with what effect? What policies might be adopted to deal with the problem in the future, including exchange rate changes?

- What are the central economic challenges currently facing China and what stake does the United States have in resolution of these challenges? For instance, is China likely to be able to "cool overheated sectors" without producing a hard landing that would hurt the regional and global economy?

- Is China making progress in solving its financial sector/banking problems?

- How big a factor is China becoming in the global economy in various industries and sectors, particularly in commodities and strategic materials?

- How would one evaluate China’s performance in meeting its WTO obligations?

- What does the United States need to do to position itself to effectively meet Chinese competition?

- Is China’s purchase of American debt instruments a significant factor in the bilateral relationship?

Political Change in China
Anthony Saich, Harvard University

Discussion Questions
- In September 2004 the Chinese Communist Party held its annual meeting of the Central Committee. At that meeting General Secretary Hu Jintao mentioned political reform in his speech to the gathering. What are the prospects for political change across levels and sectors of the political system, and at what pace?

- What is the significance of Jiang Zemin’s move farther toward the political sidelines in late-2004 and how would one evaluate his successor’s performance to date?

- How would one describe the character of, and dimensions of, the popular discussion over political change in China? What is known about the contours of public opinion in China? Does public opinion matter?

- Is China looking at external models of political systems? If so, what is it concluding?

- Have there been any changes in the policy-making process in the Chinese Government/Party, and what significance may these changes have?

Meeting with The Honorable Wen Jiabao, Premier, People’s Republic of China