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## Quote Of The Month

*"On the basis of ensuring the people's position as masters of the country, we will expand socialist democracy, build a socialist country under the rule of law and develop socialist political civilization to enhance the vitality of the Party and the state and arouse the initiative of the people."* ~ Chinese President, **Hu Jintao**, delivering his political report to the 17th National Congress of the Communist Party of China. "Democracy" was mentioned sixty times in President Hu's report. He commented that, *"As an important part of the overall reform, political restructuring must be constantly deepened along with economic and social development to adapt to the growing enthusiasm of the people for participation in political affairs."*

Source: *Xinhua*, October 24, 2007

## Trivia Question

How many millionaires does China have? (cont pg 3)

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## FEATURE ESSAY

### The Unbearable Tightness of Beijing

BY CHARLES W. FREEMAN III

The attention of much of Washington's foreign policy and trade community was focused on Beijing this October. As the dust settles on the 17th Party Congress held there this past month, commentators are varied in their interpretations. Either President Hu Jintao consolidated his leadership position and established his policy imprimatur for the next five years or failed to achieve absolute decisionmaking primacy and was forced to accept a compromise candidate as his anointed likely successor in 2012.

In either case, there is general agreement that leadership in Beijing under the new administration will be consensus driven. No individual or group seems to have either the clout within the party or direct popular appeal to embark on radical new political ventures. "Caution" and "stability" have been the watchwords of Chinese politics under the first five years of President Hu. Having earned the right to govern for five more years, Hu seems poised to enshrine "caution" and "stability" as his political legacy. In this climate, one can all but rule out bold political decisions that might have unforeseen, destabilizing effects.

Beijing's political and policy emphasis has pointedly changed during President Hu's first term. As China prepared to join the World Trade Organization in late 2001, Chinese policymaking could be quite adventuresome and outward looking, in keeping with the expansionist mood of the "development at any cost" times. As President Hu's government has become seized with managing the domestic dislocations of that go-go era, the mood has become decidedly more cautious and the focus has become unambiguously more inward looking. This is understandable: the gains to China from 30 years of runaway growth have been abundant, but the costs have been mounting and, if not managed, could swamp Chinese society and the individuals who have been privileged to govern it.

(cont pg 2)

## In The News

**BEIJING** The Communist Party of China (CPC) concluded its 17th Party Congress with a new leadership lineup and a newly amended Party Constitution to reflect the scientific outlook on development. The newly elected Politburo Standing Committee of the CPC Central Committee, the Party's top leadership, consists of four new members – Xi Jinping, Li Keqiang, He Guoqiang, and Zhou Yongkang. The new lineup appears to reflect a balance among key factional groupings within the Party. The 17th Party Congress has further strengthened President Hu's authority by enshrining his "scientific development concept" in the newly amended Party Constitution, which signals the Party's goal to develop the country in a more balanced way.

**WASHINGTON** The United States has sought a World Trade Organization (WTO) probe over Chinese restrictions on the sale of American copyrighted goods. This is the fourth WTO case Washington has launched against Beijing in little over a year. In the meantime, European Union's top trade official, Peter Mandelson, has called for a more aggressive stance – in line with Washington – toward China over trade. Mandelson stressed that Europe should be more ready to take case against China to the WTO. His comments came amid growing concern about the scale of Chinese imports and its effect on jobs in Europe.

For American policymakers, the tenor of Hu Jintao's Presidency is a double-edged sword. On the one hand, given other international and regional challenges in Asia, a regime in China that is primarily concerned with domestic stability and that operates through cautious consensus is, on balance, vastly preferable to other alternatives. On the other hand, a regime that is clearly consumed by domestic concerns will balance interests differently than one that is more outward looking. This is particularly true when short-term domestic interests conflict with short-term international interests.

This is not to suggest that Beijing's outward-looking overtures to Africa or Russia or South-east Asia are not genuine. Neither is it to suggest that Beijing does not recognize the enormous importance of China's external trade relationships, including that with the United States. These do not stack up against domestic issues for Beijing, however, no matter how much importance Washington or the rest of the outside world thinks Beijing should attach to them.

These days, China looms large in the American political imagination, whether because of trade frictions, long-term competitiveness uncertainties, product safety or intellectual property concerns, or security issues. Managing the domestic political fallout from these tensions requires an inordinate amount of time and resources on the part of the current Administration. A China that is increasingly less receptive to U.S. concerns because of its own internal dynamics, and less inclined to take decisive action because of its gradualist "caution-first" imperative, is not good news for a U.S. administration seeking "deliverables" for a Congress anxious to punish China for a range of perceived misdeeds.

Take, for example, China's approach to the value of its currency, the RMB. By any reasonable measure, the RMB is significantly undervalued against the dollar and other major currencies and China's central bank has to massively intervene in currency markets to keep the values relatively low. Whether or not a more realistic RMB value would have much of an impact on the U.S. trade deficit with China, as some U.S. politicians claim, is an open question. However, almost every responsible economic official, including in China, recognizes the importance of moving the RMB to a regime that more accurately reflects market values. Ultimately, China's economic policymakers need a flexible currency to better manage their own economy.

Despite the recognition of this essential fact within policymaking community in China, China's leadership has been exceedingly cautious in moving to a more flexible regime. Under intensive political pressure – from threats of sanctions to multilateral oversight changes to moral suasion – the RMB has risen to 7.49 against the dollar from 8.13 in the summer of 2005. But because of the collapse of the dollar, the value of the RMB has actually fallen on global markets since the issue began to rise in prominence. Clearly, the political forces in China have determined that a more drastic rise in the RMB's value might have a destabilizing domestic effect. The gradualist path they have chosen is inward looking, cautious and deeply frustrating to American policymakers.

On October 24th, U.S. Treasury Secretary Hank Paulson, in an address in Washington, D.C., called on China to undertake bold new policies to manage its internal difficulties, and pledged an era of openness and cooperation between the United States and China. Given the breadth of the challenges faced by President Hu and his government, they will be hard pressed to avoid making the occasional bold decision, despite their obvious preference not to. The jury is still out on whether these decisions will be taken with reference to a desire for greater cooperation with the United States. One thing is clear, the voices from Washington demanding attention from Beijing are getting louder and louder, but it is becoming harder to tell if Beijing is paying attention.

**Charles W. Freeman III holds the Freeman Chair in China Studies at CSIS. Previous to CSIS, he served as managing director of the China Alliance, a collaboration of law firms that help clients devise trade, investment, and government relations strategies in the United States and China. Prior to the China Alliance, he was assistant U.S. trade representative (USTR) for China affairs, the United States' chief China trade negotiator.**

## PUBLICATION

"China's Response to HIV/AIDS and U.S.-China Collaboration," CSIS, October 2007

By **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS, and **Bates Gill**, Director, Stockholm International Peace Research Institute

The report provides new information on the status of HIV/AIDS in China, response to the epidemic by the Chinese government, and U.S.-China bilateral initiatives on HIV/AIDS. The report provides several key policy recommendations for the President's Emergency Plan for AIDS Relief (PEPFAR) reauthorization and broader U.S. government support to stem HIV/AIDS in China.

[Click here for a PDF copy of the article.]

## CONFERENCES AND EVENTS

**November 27**                      Establishing New Habits of Cooperation in the U.S.-China Economic Relationship: The Strategic Economic Dialogue and Beyond

**Ambassador Alan F. Holmer**, Special Envoy for China and the Strategic Economic Dialogue, will discuss the possibilities of establishing new ways of cooperation between the United States and China after the two countries concluded the second round of the U.S.-China Strategic Economic Dialogue in May 2007. For more information, please contact Savina Rupani at [srupani@csis.org](mailto:srupani@csis.org).

**October 22**                      Hong Kong on the Move: American and Hong Kong Perspectives on the First Ten Years of the Hong Kong Special Administrative Region

CSIS and the Hong Kong Economic and Trade Office of Washington, D.C. hosted an all-day conference commemorating the tenth Anniversary of Hong Kong Special Administrative Region (HKSAR). Keynote speakers included **John C. Tsang**, Financial Secretary of the HKSAR, **Rep. Donald Manzullo** (R-IL), **Ronald Arculli**, independent and non-executive chairman of the Hong Kong Exchanges and Clearing Limited, and **John J. Hamre**, CSIS President and CEO. Panelists analyzed political, economic, security, health and cultural developments in Hong Kong over the past ten years since reunification with mainland China, and their implications for the future.

## WHAT'S NEW

We are pleased to welcome James (Jim) Loi, who has recently joined CSIS as a visiting fellow with the Freeman Chair in China Studies. Previously, at the U.S. Embassy Beijing, Mr. Loi headed a unit responsible for economic policy analysis and World Trade Organization compliance and implementation. Mr. Loi served several Washington-based assignments, including a detail to the Office of the United States Trade Representative (USTR) where he was a director for China and Japan trade. His previous overseas assignments with the State Department include Pretoria, South Africa, and Bucharest, Romania. Before joining the State Department in 1995, he worked for an asset management firm in Philadelphia. Mr. Loi was a surface-warfare officer in the United States Navy based in San Diego and is now a commander in the U.S. Navy reserves. He received a B.A. in international relations from Cornell University and speaks Mandarin Chinese and Romanian.

## TRIVIA ANSWER

**China had 345,000 U.S. dollar millionaires as of 2006, the second-most in Asia after Japan, according to a new study by Merrill Lynch.** China also has 4,935 extremely rich people, or "Ultra-HNWIs" (Ultra-High Net Worth Individuals), defined as those with financial assets of more than 30 million dollars.

**Source:** "China has 345,000 millionaires," *Agence France-Presse*, October 17, 2007

## PUBLICATIONS FROM THE FREEMAN CHAIR 2006/2007\*

\* Please visit our website to access archived publications dating back to 2002.

### 2007

#### October

"China's Response to HIV/AIDS and U.S.-China Collaboration," CSIS, October 2007

By **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS, and **Bates Gill**, Director, Stockholm International Peace Research Institute

#### September

"Assessing China's Growing Influence in Africa," China Security, vol. 3, no. 3, Summer 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS, **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS, and **J. Stephen Morrison**, Director of the Africa Program, CSIS

#### August

"The Mist Lifts over China's Sky-high Railway," Asia Times, August 29, 2007

By **Eve Cary**, Research Assistant, Freeman Chair in China Studies, CSIS

#### July

"Demography of HIV/AIDS in China," CSIS, July 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS, **Yanzhong Huang**, Director of the Center for Global Health Studies, and **Xiaoqing Lu**, Research Associate, Freeman Chair in China Studies, CSIS

"China's Activism Faces Persistent Challenges," Comparative Connections, CSIS Pacific Forum, vol. 9, no. 2, July 2007

By **Robert Sutter**, Visiting Professor of the School of Foreign Service at Georgetown University, and **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS

"U.S.-Hong Kong Relations: Prospects for a Unique Partnership," CSIS, July 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS, and **James Tang**, Associate Professor, The University of Hong Kong

#### June

"Setting the Course," South China Morning Post, June 28, 2007

By **Melissa Murphy**, Research Associate, Freeman Chair in China Studies, CSIS and **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS

"The Tenuous Hold of China Inc. in Africa," The Washington Quarterly, Summer 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS, and **James Reilly**, East Asia representative for the American Friends Service Committee

"An Overview: The China Balance Sheet," CSIS Strategy Report, Vol. 2, No. 19, June 12, 2007

By **Melissa Murphy**, Research Associate, Freeman Chair in China Studies, CSIS, and **Chietigj Bajpae**, Research Associate, International Security Program, CSIS

#### May

"China's Space Odyssey: What the Anti-satellite Test Reveals about Decision-Making in Beijing," Foreign Affairs, May/June 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS, and **Martin Kleiber**, Research Assistant, CSIS

"China and HIV – A Window of Opportunity," New England Journal of Medicine, vol. 356, no. 18, May 3, 2007

By **Bates Gill**, Freeman Chair in China Studies, CSIS, and **Susan Okie**, Contributing Editor, New England Journal of Medicine.

#### April

"Cebu Meetings, U.N. Veto on Myanmar," Comparative Connections, CSIS Pacific Forum, vol. 9, no.1, April 2007

By **Robert Sutter**, Visiting Professor of the School of Foreign Service at Georgetown University, and **Chin-Hao Huang**, Research Assistant, Freeman Chair in China Studies, CSIS

## FREEMAN FACTS:

### The Communist Party of China

1. The number of Party members had reached 73.36 million by the end of June 2007, an increase of 6.42 million over 2002.
2. 3.18 million Party members work in private business, accounting for 4.3% of the Party membership.
3. Compared with 2002, the number of Party members in private business was up 113.4%.
4. As of June 2007, the number of Party members under the age of 35 reached 17.38 million, or 23.7%. There were 38.84 million members, or 52.9%, aged between 36 and 59.
5. The Party has held 17 congresses and 2,213 delegates attended this year's 17th Congress.

**Sources:** China News Service, Reuters, People's Daily, Xinhua

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Center for Strategic and International Studies 2007

### THE FREEMAN CHAIR IN CHINA STUDIES

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The *Freeman Chair in China Studies* was established at the Center for Strategic and International Studies in 1994 to advance the study of China and to promote understanding between the United States and the countries of the Asia Pacific region. The Freeman Family—Luther Freeman as a clergyman, Mansfield Freeman as a scholar-business leader, and Houghton Freeman as a corporate executive in a global enterprise—have established a tradition of contributing to international understanding through practical experience in East Asia and China.

The United States has a long-standing relationship with China and the countries of East Asia, which play increasingly important roles in future international economics, politics, culture, and security. In the diplomatic, public policy, business, and government fields, the peoples of both China and the United States will benefit from greater mutual appreciation and understanding through broadly based international exchange.

The Freeman Chair's active policy-oriented agenda is dedicated to delivering informed public policy debates, expert briefings, and strategic policy recommendations on Greater China and East Asia to the diplomatic, policymaking, business, and government arenas.

### Current Research Projects

- China's domestic challenges and their consequences for U.S.-China relations and U.S. strategic interests
- The emergence of Chinese civil society and nongovernmental organizations
- China's HIV/AIDS crisis and its implications for U.S.-China relations
- Examining the economic, trade, and financial tensions in U.S.-China relations
- China's relations with key regions—including Central Asia, Europe, and Africa—and their implications for the United States
- China's military modernization and its impact on regional security
- U.S.-China-Taiwan relations

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