

China Analysis

Les Nouvelles de Chine

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Carbon tax: How the debate has fared

Analysis by Thomas Vendryes based on:

- Xiong Jianfeng, ⁽¹⁾ "Experts debate the carbon tax: Can China bear the burden?", *Diyi caijing ribao - China Business News*, 16 October 2009.
- Tan Yao, ⁽²⁾ "Which carbon tax system should China adopt?", *Zhongguo jingji bao*, 27 October 2009.
- Fan Gan, ⁽³⁾ Liu Chunyan, ⁽⁴⁾ Sun Lijian, ⁽⁵⁾ "Time is ripe for China to adopt carbon tax," *Guoji jinrong bao* no. 8, 13 October 2009.
- Carbon Tax Research Team of the Research Institute for Fiscal Science, "Feasibility of imposing a carbon tax in China," *21 Shiji jingji baodao*, 16 July 2009.

In 2007, China emerged as the world leader in greenhouse gas emissions. Two years later, it undertook a fairly detailed discussion of the feasibility of imposing a carbon tax. Several prominent individuals in the administration, especially in the finance and environmental protection ministries, as well as researchers, voiced opinions as to the need, feasibility, and methods of implementing such a tax, in the context of the run-up to the UN-sponsored climate change conference in Copenhagen in December 2009.

Officials and intellectuals seemed to agree that action was needed to reduce emissions. Behind this consensus lay international pressure. According to Tan Yao, member of an official working group on global warming, China had to share the burden of the fight against greenhouse gases in order to be a "responsible member of the international community." Proactive introduction of a carbon tax would strengthen Beijing's hand in international negotiations on global warming and generally boost its credibility in the world arena.

A more immediate and pressing catalyst for initiating a carbon tax was the threat from Western countries to impose a carbon tax at the border, endorsed in principle by the World Trade Organisation (WTO). Xiong Jianfeng, Tan Yao, Fan Gan, and Liu Chunyan all refer to this. However, while from now on, importing countries will be able to impose differentiated customs duties on products from countries with weaker environmental constraints, "double taxation" is disallowed. This explains the lively discussion over a carbon tax: by imposing its own tax, the People's Republic of China seeks to prevent its main trading partners from doing so and

using this pretext to apply breaks on Chinese exports. This strategy is clearly deemed a "counter-attack" against international pressure; China should have first-strike capability in order to prevail, in Fan Gan's words. Preoccupation with environmental diplomacy has thus taken precedence over environmental concerns as such.

This has led to the emergence of a consensus favouring the introduction of a carbon tax, set at a low percentage and reach at the outset and gradually increasing and expanding in scope. The carbon tax research team of the Research Institute for Fiscal Science has stressed the need for a gradual approach to extending the tax so that the Chinese economic system can adjust to it without too much pain. The team suggested fixing the initial level of the proposed tax at 10 *yuan* per tonne of carbon in 2012-2013, and increasing it gradually in line with the country's development. Journalist Xiong Jianfeng has noted that the institute's final report recommended introduction of the tax in 2010 at a level of 20 to 100 *yuan* per tonne, and doubling it by 2030. Xiong also noted that in comparison, the price level for a tonne of CO₂ on the Chinese carbon credits market as part of the Clean Development Mechanism under the Kyoto protocol is around six dollars. Another point of comparison: In the

1. Journalist.
2. Member of the working group on global warming and sustainable development at the Environmental Protection Ministry's international relations centre.
3. Economist and professor at the Chinese Academy of Social Sciences (CASS).
4. Law professor, Tongji University, Shanghai.
5. Professor of finance at Fudan University, Shanghai.

European Union's pollution rights market framework, a tonne of carbon could fetch about 10 euros in early 2010. Meanwhile, Sweden's carbon tax is a high 27 euros.

Gradual introduction of a carbon tax in China should help mitigate its negative effects, but its overall consequences are as yet unclear. The Research Institute for Fiscal Science, as Xiong has noted, appears optimistic on this score. Even at the highest level suggested, namely 100 *yuan* a tonne, its cost should not exceed 0.5 percent of gross national product – and this without taking account of the beneficial effects of such a tax, especially the diversion of energy sector investment towards emerging industries. Of course, much of the apparently painless nature of this tax stems from the fact that, as in Europe, it is meant to affect price structure and not income; it makes carbon more expensive without making economic agents poorer. The tax proceeds are thus meant to be redistributed, one way or another. This necessitates a policy mix that is far from easy to put in place, as Tan Yao has stressed. It could be used directly by the state as public investment, as Xiong has noted, or it could be used to reduce fiscal pressure on households and businesses through a focus on the most disadvantaged, as Tan Yao and Fan Gang have said.

However, sceptics such as Cai Fang and Sun Lijian stress that while the experience of Western countries certainly indicates that the consequences of introducing a carbon tax can be relatively painless, or even positive, China's situation is quite different. China is still in an initial stage of development, its industry and its economy still highly focused on heavy industry and the energy sector. Furthermore, with

900 million employable people, China's main worry has to be job creation. As Xiong has said, quoting Cai, China's economic system, average educational level, and state of available technologies preclude hopes of carbon taxation leading to the creation of "green jobs" in substantial numbers. In 2004-2007 alone, he says, emission reduction policies would have cost 370,000 jobs. After all, carbon taxation poses a serious distributive problem. On which economic agents should the tax be imposed, and whom should it favour? As Tan has argued, letting the tax burden fall directly on consumers could prove unpopular; but if it is the big energy firms that are made to contribute, they would most probably have the means, given their dominant position, to pass on the burden to their clients, especially small businesses. Moreover, if a carbon tax is introduced without the simultaneous adoption of an effective redistribution policy, it could aggravate regional imbalances in China's development. In fact, it is the most developed regions that are best placed to seize the opportunities and benefit from the incentives offered through such taxation, whereas the central and western provinces, which are more dependent on heavy and energy industries, are likely to end up paying more.

Thus China appears to be heading towards the adoption of a carbon tax under trade threats. It is likely to be introduced gradually, in stages stretching up to 2030. Meanwhile, many issues need sorting out, the most crucial being the sharing out of the tasks for reducing greenhouse gases among different national economic actors.

• Translated by N. Jayaram

Fighting the Chongqing mafia

Jockeying for position ahead of the 18th Party Congress?

Analysis by François Schichan based on:

- Luo Bing, "Anti-triad drive and the 18th Party Congress: Setting the stage for the princeling faction," *Cheng Ming*, January 2010, no. 387.

Over the space of a few months, the anti-triad fight has emerged as a major theme on the Chinese political horizon. The Hong Kong monthly *Cheng Ming* has characteristically sought to view the crackdown in the context of an inner-Party power struggle. When he proposed the ambitious action plan in mid-2009, Chongqing Party Secretary Bo

Xilai succeeded in imposing his agenda and policy themes on his potential rivals (He Guoqiang, Wang Yang, and Xi Jinping).⁽⁶⁾ It is precisely the consequences of this insertion

6. See François Schichan, "Bo Xilai, the anti-corruption fight at Chongqing and the 18th Party Congress of 2012," *China Analysis*, September-October 2009, no. 25.

of the anti-triad campaign into the national discussion agenda that the *Cheng Ming* article analyses.

Many senior officials and leaders of the state and the Party have worked in Chongqing at some point in their careers. They include He Guoqiang,⁽⁷⁾ Wang Yang,⁽⁸⁾ and Bo Xilai. By deciding to launch a frontal attack on the Chongqing triads, Bo Xilai deliberately highlighted his predecessors' poor record in this matter. The *Cheng Ming* article views his action through the prism of the political change set to take place in 2012. It might be noted in addition that Bo Xilai boosted his image as a statesman capable of taking on problems afflicting society, the state, and the Party while at the same time gaining enormously in the eyes of public opinion through the use of communication techniques that have revolutionised Chinese politics.⁽⁹⁾ The Hong Kong publication's analysis shows that the anti-triad fight is a serious theme, taking precedence over the management of the effects of the global financial crisis as the Party prepares to induct new blood into its topmost leadership rung in 2012. The magnitude of the shockwaves set off by Chongqing's anti-triad campaign is revealed by the Party Politburo's repeated reactions to it. The Politburo has already effectively ordered an end to intra-Party conflicts on three occasions. The last order contained a highly important provision: all reports or criticisms of officials at the provincial or ministerial level, as well as of Politburo members, including those who have retired, would henceforth be handled directly by the Central Committee secretariat. *Cheng Ming* said that since May 2009, the secretariat has received thousands of reports and letters denouncing senior party leaders (including members of the Politburo and the Central Committee and provincial governors as well as retired leaders).

The Politburo sounded its first call to order in September 2009, during the fourth plenum of the current Central Committee's term. According to *Cheng Ming*'s sources, this injunction was clear as to the nature of the conflicts affecting the Party: the Politburo underlined the obligation to abide by the Central Committee's directions as regards the anti-triad strategy and prohibited public denunciation or defamation of leaders suspected of collusion with triads.

These injunctions, issued at the highest level of the Party, reflected the extreme tension among those jockeying for position ahead of the 18th Party Congress. Many leaders have something to gain – but also, and in most cases, to lose – in the anti-triad battlefield.

Thus, according to *Cheng Ming*, the Politburo restrained the Party's propaganda chief, Liu Yunshan,⁽¹⁰⁾ who wanted to organise a national meeting to take stock of policies aimed

against triad gangs. He Guoqiang, a Politburo member and former Chongqing Party secretary frequently accused of having colluded with or at least tolerated triad gangs in the city, was to have been a high-ranking invitee. This would have allowed Liu to highlight the mediocre record of He, who beat him to the Politburo post during the 17th Party Congress.

But then, another Politburo member, Zhou Yongkang, launched several attacks against former Chongqing leaders with regard to the anti-triad fight. His speech in October 2009 to leading officials of the judiciary set off a wave of protests within the Party: Zhou denounced the characteristics common to triads in the five main provinces affected by their activity (Guangdong, Hubei, Chongqing, Henan, and Shanxi): presence of triad groups within the Party and state apparatus, inside the public security department, and in private and public enterprises; existence of an action programme seeking to preserve triad influence inside these institutions and to protect their interests; triad activity in all sectors of public and economic life; and most worryingly, the existence of an influence and protection network within all these institutions. This last issue raised the ire of leaders mindful of their prospects ahead of the 18th Party Congress, and of former leaders in the five provinces, especially Chongqing municipality. Bo Xilai, riding on a political and media wave in Chongqing, contented himself with watching the blaze he had stoked and that was now consuming most of his rivals.

Cheng Ming has noted that the number of such attacks has caused top party leaders, including Politburo Standing committee members (Li Changchun and Li Keqiang), to become concerned over accusations of feckless handling of the triad menace, if not outright collusion with gangs. After having woken up to the ineffectiveness of its earlier call to order, the Politburo in November 2009 convened a meeting in Beijing of the leading officials from the five provinces so

7. He Guoqiang, born in 1943, has been a member of the Party Politburo Standing Committee since 2007 and is in charge of the Central Commission for Discipline Inspection. He is linked to the Jiang Zemin "faction."

8. A Politburo member since 2007, Wang Yang is currently Party Secretary in Guangdong. He headed the Party in Chongqing between 2005 and 2007 and is said to be close to Hu Jintao.

9. Bo Xilai rejuvenated political communication by using traditional methods on a grand scale (for instance, the well-reported anti-triad trials sometimes took on romantic overtones), while developing new modes of communication (such as sending 14 million mobile phone text messages during the 60th anniversary of the People's Republic's founding).

10. Liu Yunshan, born in 1947, has been a member of the Party Politburo and director of the Party Propaganda Department since 2002. He worked for two decades in Inner Mongolia, dealing with propaganda matters. He served as deputy head of the Propaganda Department between 1993 and 1997.

as to draw their attention to Party discipline requirements. After some months of tension, according to *Cheng Ming*, most leaders appear to be seeking to calm the waters. Thus, President and Party General Secretary Hu Jintao personally set about restoring order, fearing that his leading lieutenants could lose their influence and credibility in these internal struggles. At the same time, Wang Hongju was removed from the posts of mayor and vice-chief of the Party in Chongqing in view of his poor showing in the anti-triad drive, but he was not subject to disciplinary action. Guangdong Party secretary and Politburo member Wang Yang sent a delegation to Chongqing to promote economic cooperation and appease local leaders by offering, according to *Cheng Ming*, a 500 million *yuan* subsidy in order to buy their silence. Wang wanted to avoid close scrutiny of his record in Chongqing between 2005 and 2007. Here again, according to *Cheng Ming*, Hu Jintao's hand was discernible: the reputation of those close to him, Wang Yang in particular, had to remain unsullied in preparation for their promotion to the Standing Committee during the 18th Party Congress.

This power struggle among three rival factions,⁽¹¹⁾ with the anti-triad campaign as the focus, is a "remake" of the celebrated Chinese classic *Romance of the Three Kingdoms*, according to *Cheng Ming*. The main beneficiary of this struggle appears to be Bo Xilai, who succeeded in imposing the anti-triad theme on Party forums as much as on public perception, greatly increasing his popularity both within and outside China as a result.⁽¹²⁾ In the process, however, he confronted the Party apparatus and earned the wrath of the three factions. The monthly *Lianzheng Liaowang*⁽¹³⁾ has stressed the exemplary nature of the anti-triad battle in Chongqing. Writing in its February edition, a Party school teacher, Liu Yifei,⁽¹⁴⁾ points to lessons that can be drawn regarding the need to strengthen the anti-corruption drive, especially in view of popular backing for an official crackdown. It is abundantly clear that even though the anti-triad fight appears to be intimately linked to the anti-corruption campaign, it has supplanted the latter in the Chinese political agenda. The anti-triad suppression no doubt has another objective: diverting public opinion from the highly sensitive issue of corruption within the state and the Party, where crackdowns have yielded far from brilliant results. Thus, within a few months, thousands of officials and Party cadres were arrested and tried (including the former head of Chongqing's judiciary and vice-chief of police, Wen Qiang). In *Cheng Ming's* analysis, the anti-triad fight has thus emerged as a veritable campaign theme in the run-up to the

18th Party Congress. It has the double advantage of implicating political leaders by focusing on their records and of mobilising public opinion at both the local and national levels. In this respect, the crackdown is an innovation in inner-Party struggle in the context of the induction of new blood through the 2012 meeting. Bo Xilai and, to a lesser extent, Wang Yang (see above) have gained an especially high profile through their agile political manoeuvres, which makes them well-placed to bid for membership of the Politburo Standing Committee or an even higher position. But the road to 2012 is still long. •

• Translated by N. Jayaram

11. The three political factions are: those close to Jiang Zemin, those around Hu Jintao, and "princelings," or children of past Party elders.
12. In 2009, CNN listed Bo among people who "mattered the most in Asia." <http://www.cnn.com/explorations/none/who-mattered-most-2009-regional-978863>. It was reported in *People's Daily* thus: <http://wz.people.com.cn/GB/139029/10953112.html>.
13. The monthly (the title of which can be translated as "honest government outlook"), published since 1988 in Sichuan, touts itself as an "inspiration source" for the anti-corruption fight in China. Over the past decade, it has turned into a national-level review backed by many top leaders, including Politburo Standing Committee member Zhou Yongkang. With a print run of about 100,000, it mainly addresses Party and state cadres.
14. Liu Yifei teaches at the Party school in Chengdu and has written many articles on the organisation and functioning of the Party in several specialised journals.