

Letter from Beijing

By

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As my plane descended into Beijing's airport after a 14 hour-plus flight from Washington, D.C., the sight of smog blanketed mountains north and west of the city was a familiar one. Only, this was not the most prominent air pollution story in China during the week of June 1. That same day, new anti-smoking regulations took effect that banned smoking in public spaces, including hotels, office buildings, restaurants and schools. Government enforcers had already issued non-compliance notices to targeted facilities, who were subject to a 10,000 yuan fine (approximately \$1,700), but most of the people that I talked with seemed skeptical about enforcement. After all, two previous anti-smoking bans had flopped, and cigarette production is a revenue-raising state-run industry for China's 300 million smokers and the export market.

This was the first of several important paradoxes that I witnessed. The Chinese government has ramped up its participation in the international process to negotiate a climate change agreement in Paris by this December. The top leaders of the Communist Party, including General Secretary Xi Jinping and Prime Minister Le Keqiang have also been quite public in their support of the negotiations. Mr. Xi's trip to Washington later this year to meet with President Obama is expected to provide additional political momentum for the Paris talks.

Parallel to the international negotiations is a process to develop the 13th Five Year Plan in which climate change is expected to figure prominently. Towards that end, the Chinese government has been conducting 7 regional pilot project to develop an internal carbon market. On June 8, it convened an International Advisory Meeting to offer recommendations to a draft of the next Five Year Plan. Those invited to provide comments included Achim Steiner from the UN; former US Treasury Secretary Henry Paulson; Janez Potočnik, former European Commissioner for the Environment; Klaus Toepfer, former UNEP Director; and Lisa Jackson of Apple.

These are encouraging developments towards implementation of China's already announced climate commitments, but two bigger developments will likely limit China's achievements. First is the gap between China and the US and Europe in their respective innovation capabilities. Chinese universities graduate many times the number of engineers than US or European universities, but the quality of their university training is no match for their western counterparts. Nor is an innovation culture strongly embedded in China's private or public sectors. The Chinese are quite skilled at adapting western technologies to serve their own competitive purposes, but they're not in the big leagues of innovation-oriented societies.

Another limiting factor is the difficulty that China has experienced in transitioning to a consumer-led economy. State-owned companies continue to gain access to a large share of capital resources; meanwhile, on May 15, the State Council ordered a major relaxation of lending criteria for off balance sheet funding to municipal finance companies, whose history is to favor traditional, pork barrel style infrastructure projects and real estate investments that also just happen to support the political and economic interests of existing elite groups. These challenges of managing an economic transition to favor consumers are also occurring at a time when growth has declined from double digit levels to approximately 7% annually (or lower, if you believe unofficial reports).

Bottom line: While China's political leadership appears to maintain a high degree of political legitimacy, this is fragile and will continue to depend upon economic growth to improve living standards. While there is progress to report on climate change and other issues (I even saw a blue sky in Beijing on one day), the reality is that sustainability significantly trails the commitment to growth rather than reshaping the concept of growth. In a society facing such large and growing challenges from air pollution, water and soil contamination and the massive human and productivity toll resulting from such conditions, a strategy of economic growth primus inter pares will limit rather than expand the options of those guiding China's future. Or, as one official remarked to me, "we have let our environmental problems run away from us."

A handwritten signature in black ink, appearing to read 'L. H. Gao'.

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