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Is it possible to have market
expansion and ecological
civilisation in China?

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Is it possible to have market expansion and ecological civilisation in China?

Bonn, Würzburg, 18 November 2013. The much anticipated results of the third plenary session of the Central Committee of 18th Congress of China's Communist Party met with a mixed response when they were released last week, with some seeing too few political reforms, a failure to tackle state-owned enterprises and a lack of specific action. The one clear signal that was sent out was China's intention to further expand the role of markets and competition, a message which was welcomed, for example, by German companies operating in the country.

However, these responses to the outcome document do not fully grapple with its content. The document calls not only for the expansion of market mechanisms and competition, but also for the establishment of an "ecological civilisation", devoting an entire paragraph to this topic. At first glance, these two goals appear contradictory. Given the devastating damage being done to the environment in China, a number of environmentalists and climate activists would likely claim that market activity and ecological civilisation are incompatible, expecting environmental protection to fall victim to the economic pressures associated with market expansion. I take a different view, believing that a commitment to market expansion and fair competition could hold the key to a greater degree of ecological civilisation in China and do more for the environment and the climate than the diplomatic commitments currently being negotiated at the Warsaw Climate Change Conference.

Ecological civilisation

Market expansion and increased competition alone are insufficient to guarantee responsible stewardship of the environment, the climate and natural resources, which is why the paragraph on ecological civilisation, cumbersome though the term may sound to our ears, is particularly relevant. It states the following: "A system of ecological civilisation must be established and developed in order to systematically protect the environ-

ment. Healthy systems are needed to regulate property rights and the use of natural resources. A red line must be drawn in order to protect the environment. A system needs to be created whereby people pay for the use of resources and compensate for any damage caused to the environment. Ecological and environmental administration must be reformed."

These words are driven by a desire for regulation that seeks to create an environmental policy using market instruments and universally applicable rules. This marks a departure from the state-led green industrial policy pursued under the leadership of Hu Jintao and Wen Jiabao in the ten years leading up to 2012, which sought to tackle environmental and economic challenges using methods that were rather dirigiste in nature.

China's environmental problems

Hu and Wen were well aware of the environmental problems resulting from China's rapid economic growth before the reports on alarming smog levels in the country's metropolises were published. But China's environmental problems are not limited to air pollution and greenhouse gas emissions. Water is extremely scarce in vast areas of the country, with water tables falling in many dry regions, while many lakes, rivers and coastal waters show high levels of pollution. Food safety scandals and outbreaks of illness are commonplace as a result of soil becoming contaminated with pesticides and industrial waste being inadequately disposed of.

For a long time, these problems were not considered to be dramatic, with a widespread belief in the country that it could 'develop first and clean up later'. This contributed to keeping the bar low when it came to environmental standards and greatly restricting the implementation of these standards. In this way, low environmental standards have also helped China to out-compete other countries when it comes to the price of its manufactured goods. Limited environmental requirements led to lower production costs, which

was one of the reasons that the industry for the extraction of rare earth elements was almost entirely relocated to China in the 1990s, for instance.

From green industrial policy to the market

The last five years of the Hu-Wen decade were characterised by the major economic programme that was set up to counteract the global financial crisis. The programme was accompanied by a wave of industrial-policy documents and plans, which aimed among other things to equip China to succeed in the race for green competitiveness. Consequently, support was provided to a number of sectors, including renewable energies, electric mobility and other environmental technologies.

The last few years have shown the problems that industrial policy can create when it is out of step with the market. Firstly, industrial-policy approaches in China are resulting in state-owned enterprises gaining the upper hand over private companies in the sectors in question (such as the solar industry). Secondly, industrial policy requirements are hindering innovative entrepreneurship. As soon as a dedicated industrial policy is introduced for a strategic industry, that industry is subjected to greater political and administrative interference and more licences and permits are required in order to work within it. This makes it

harder for innovative lateral entrants and start-ups to get a foot in the door of environmental technology industries, as seen in the case of electrical mobility in China.

After entering office last winter, the new Chinese leadership has already made efforts to distance itself verbally from these approaches to industrial policy, instead adopting more of a classic regulatory approach, which seeks to dismantle market barriers, promote fair competition and ensure equal treatment for private and state-owned enterprises. This is also the emphasis in the outcome document of the third plenary session.

Putting this regulatory policy into practice will be a major challenge for the Chinese Government. If it succeeds, the consequences will be far-reaching, in terms of both protecting the environment and limiting the power of state-owned enterprises. When it comes to environmental policy in China at least, it could turn out that the problems of the past owe more to state failure than to market failure. And "ecological civilisation" doesn't sound all that bad, just unfamiliar. If such an approach were adopted at global level, then international climate negotiations would be a lot simpler...or perhaps not even necessary.



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