ENVIRONMENTAL GOALS

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HONOLULU (March 13) – China’s Prime Minister Wen Jiabao told the ongoing session of China’s parliament that the government missed its goals last year of cutting energy use per unit of gross domestic product (GDP) by 4 percent, and reducing emissions of major pollutants by 2 percent. That should come as no surprise. It is almost impossible to achieve very stringent energy-saving and environmental targets when officials’ promotions are largely based on increased economic performance, especially in the year running up to the once-in-every-four-year Central Committee meeting, as was 2006. The next Central Committee meeting is set for this fall.

While China reversed a rise of 0.8 percent in energy use in the first half of the last year and achieved a 1.2 percent cut over the entire year, this is far short of the target of 4 percent. In fact, sulfur dioxide (SO2) emissions rose by 1.8 percent, and chemical oxygen demand (COD) increased by 1.2 percent. The government did slow the growth of these pollutants significantly last year, but still missed goal of reducing these emissions by 2 percent (towards an ambitious 10 percent cut planned for 2006 to 2010).

Last year, the Chinese government made concerted efforts to meet its goals. The 163 proposed projects worth 774.6 billion yuan, half of which were in highly polluting and energy-intensive industries, were put on hold. Signed energy-saving responsibility agreements with 30 provincial governments and 14 central state-owned corporations. The government also put pressure on power plants to increase their desulphurization capacity, boosting it to more than the combined total over the past 10 years.

The failure to meet the goals despite these efforts was in part due to over-optimism in the goals themselves. Also, the annual targets were only set in March last year and enforcement efforts only announced after that. It takes time for such measures to take effect, but apparently this was not adequately taken into account. Similarly, China had missed its environmental goals for the period 2001-2005, in part because those goals were not incorporated in the national five-year plan for that period.

But thirdly and perhaps most important, China’s economy last year grew at a much higher rate than planned. The goals of energy-saving and emissions reductions were based on a GDP growth rate of 8 percent, but China’s GDP actually grew by 10.7 percent. Highly polluting and energy-intensive industries grew at even a faster rate. Accordingly, emissions of pollutants also exceeded the estimates.

China has long valued economic growth above environmental protection, and has taken economic growth as the predominate criteria for evaluating local officials’ performances. This past year was no exception, despite growing calls for incorporating environmental performance into the overall evaluation of local officials’ performances.

Failure to meet energy-saving and environmental goals has put China in a difficult position. Looking at current trends, it seems likely that China will miss its goals for this year also. That would make it unlikely that the goals incorporated (for the first time) in the national 2006-2010 plan will be met. That would in turn bring a blow to the images of President Hu and Prime Minister Wen, who have made building a “harmonious society” through “scientific development” the guiding principle of development. As Hu and Wen seek another term in office, the failure on these goals will hurt their re-election credibility.

The question then is whether there are ways out of this potential crisis for China’s two top leaders. In my view, time has not yet run out. They still have options, but implementation will not be easy.

Fundamentally, the central government must change China’s currently energy-inefficient and environmentally-unfriendly pattern of economic growth. Inefficient and highly polluting plants must be shut down, and the frenzied expansion of highly polluting and energy-intensive industries must be controlled. Local officials will strongly resist, because these companies provide jobs and create tax revenues as well as personal payoffs. Forcing companies out of business could even trigger local unrest.

As always in China, what the center wants isn’t necessarily what the center gets. An old saying goes, “The mountains are high, and the emperor is far away”. Clearly, the central government needs local officials’ cooperation, but the lack of such cooperation has been a major reason for the failure to meet energy efficiency and environmental goals to date.

To gain local officials’ cooperation on the environmental issues, incentives need to be provided. Under the current evaluation criterion for officials in China, typically, local officials have been promoted based on how fast they expand their local economies. To correct the currently distorted incentive system that tempts officials to disregard environmental costs of growth, environmental performance has to be considered in evaluation criteria as well. This should help local the officials realize that they have a very real stake in meeting environmental goals.

A second measure would be the State Environmental Protection Agency (SEPA) should further tighten conditions for the approval of construction projects by expanding the scope of the so-called “regional permit.” While Hu and Wen gave the SEPA, which was for years seen as a powerless entity, a new lease on life and elevated it to full ministerial status, the SEPA still does not have the authority to suspend proposed projects or to remove officials for nonperformance. It also lacks authority over local environmental bureaus.

Fines must also be raised. The maximum fine of 200,000 yuan (about US$25,000) is hardly a deterrent to companies. Many environmental laws exist only on paper, and are weakly enforced. But there is some good news here. On January 10 this year, the SEPA made an unprecedented move, suspending for appraisal of new construction projects in four cities and four major national power-generating groups until they bring their existing facilities into compliance with environmental regulations. As a result, no new construction projects are allowed in these cities and by these groups until they are all in compliance with environmental regulations. Local governments are fully aware of the consequences of the suspension of their right to approve new construction projects. To disregard the environmental problems in their regions now can cost them a lot.
Thus far, the new regional permit restrictions seem to be effective. Only one month after the suspension, one city quickly came into compliance and recovered its rights.

The restriction of regional permits is the strictest administrative measure ever taken by the SEPA in its 30 years of existence. In 2006, only Beijing, Jiangsu and four other provinces and metropolitan areas met energy-saving and emissions-cutting goals. SEPA could use its newly-asserted power to suspend the right to approve new construction projects in all other provinces if they continue noncompliance.

The central government is also exploring other ways to enhance the efficacy of environmental monitoring and compliance. From April 1 this year, SEPA will work with the People’s Bank of China (China’s central bank) on a new credit evaluation system under which environmental compliance records of companies will be incorporated into the Bank’s consideration of whether or not to provide loans. The Bank could turn down requests for loans from firms with poor environmental records.

Hu and Wen incorporated energy-saving and environmental goals into the five-year economic blueprint to clearly distinguish their vision of China’s development from that of their predecessors. This is a test of their leadership. Last year’s results were disappointing, but encouraging signs are now being seen. I am cautiously optimistic that China will be able to meet the goals. Meeting these goals in turn could help put the country on a more sustainable development path. In my view, if Hu and Wen can make China “green,” history will record their contribution as equal to Mao Zedong’s achieving China’s independence, and Deng Xiaoping’s creation of a more prosperous country.

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