

CHINA: REFORM IN THE AIR?

DAVID A. PARKER AND MATTHEW P. GOODMAN

Two Chinese think tanks recently declared Beijing “nearly uninhabitable” due to air pollution, the latest in a string of high-profile reports on the capital’s smoggy skies. High concentrations of airborne particulate now routinely produce choking haze and grounded flights along China’s coast, and the country’s bad air has been shown to cause pollution spikes as far off as California. But the realities of China’s political economy are likely to frustrate even dedicated efforts to clean up the air for some time to come. To bring the blue back to Beijing’s skies, top leaders, as part of their overall economic reform efforts, will need to change the incentives facing local officials and encourage a shift away from rapid, industry-led growth and toward a more sustainable development model.

China’s approach to environmental protection has come a long way since just June 2012, when public awareness of air quality readings released on the Twitter feed of the U.S. embassy in Beijing first exploded across the Internet. At the time, Chinese officials reacted angrily to the hourly posts, which tracked concentrations of the harmful particulate matter—known as PM2.5, for lung-penetrating particles matter less than 2.5 microns in diameter—most responsible for the visible aspects of Beijing’s bad air, declaring the embassy’s actions “illegal” and warning Washington against interfering in China’s internal affairs.

In a major about-face, today China’s Ministry of Environmental Protection (MEP) routinely releases its own statistics on PM2.5 for over 100 Chinese cities. To meet new President Xi Jinping’s goal of creating an “ecological civilization,” the central government last September announced plans to spend \$277 billion on combating air pollution over five years. In January this year, Beijing ordered the publication of real-time data on air and water emissions by 15,000 large industrial companies—information once regarded as a “state secret.” Local officials are also getting in on the action: last November the Beijing municipal government destroyed 500 open-air barbecue pits and even considered a ban on fireworks during Chinese New Year celebrations.

But travel to Hebei, the industrial province that geographically encircles Beijing and coastal Tianjin, and it becomes clear what the authorities are up against. In the decade following China’s accession to the World Trade Organization, Hebei’s economy grew more than fivefold, primarily due to the explosive growth of its industrial sector. Today the province accounts for more than 11 percent of *global* steel production capacity and is a major center for other energy-intensive heavy industries, such as petrochemicals. To power its factories, officials in Hebei were forced to turn to coal, the only source of energy available cheaply, locally, and in large supply.

This has contributed to the rapid increase in air pollution not only in Hebei—which boasts 7 of the 10 most polluted cities in China, according to MEP data—but in the surrounding areas. According to one estimate, outside sources of pollution account for roughly 30 percent of the PM2.5 in Beijing’s air, ahead of both auto emissions and construction. And while Hebei’s leaders still aim to reach 8 percent growth in 2014, coughing fits in Beijing are increasingly translating into headaches for Hebei.

Along with the capital and Tianjin, Hebei province is expected under the 2013 air pollution reduction plan to achieve an ambitious 25 percent decrease in average ambient PM2.5 levels by 2017. Moreover, the three localities have been required to sign an “air pollution control and target responsibility contract” with the MEP, tying performance to leaders’ salaries and promotions. Serious efforts to meet this target will inevitably curb growth in all three provinces, even with the addition of a \$1.65 billion central government fund to incentivize cooperation. But the pain will inevitably be worst in Hebei, where gross domestic product (GDP) per capita is less than half that of its wealthier neighbors.



Upcoming Events

- March 4: China’s Reform Program and its Implications for China-U.S. Relations (CSIS)
- March 5: G-20 Australia: A Sherpa’s Perspective (CSIS)
- March 5: National People’s Congress annual session (Beijing)
- March 14: WTO General Council Meeting (Geneva)

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Already the MEP has announced the closure of more than 8,000 “small, high-polluting firms” in the province, and leaders have been ordered to dramatically reduce steel production and coal consumption and even to demolish existing infrastructure.

But in China’s war on pollution, there are clear limits to the effectiveness of these command-style tactics. Color-coded alert systems mandating shutdowns of industrial activity and curbs on automobile usage when smog is especially fierce may be good ways to brighten skies for a day, but they are no match for the ingenuity of China’s polluters. Factory owners long ago learned to run their operations at night, among other means of evading heavy-handed restrictions. And the need for tax revenue coupled with the fear of mass unemployment will inevitably prevent officials from pushing too hard to enforce structural adjustment. As many as 400,000 people in Hebei’s Tangshan city alone still depend on the area’s steel industry for their livelihoods.

Efforts to change the incentives facing local party and government officials through a shift away from “GDP-obsessed” performance assessments are also likely to have only mixed results. These new evaluations, which play a major role in promotions, now include quantitative performance targets for environmental management, such as change in average ambient PM2.5 levels. But come evaluation season, the more important target for local leaders is number of industrial plants closed, which will hit jobs and revenue and likely run counter to another key indicator of official performance, GDP growth.

For Beijing to succeed in tackling its environmental challenges, it will not only need to fight pollution directly; it will also need to adjust existing policies

to enable an alternative growth model for regions like Hebei based more on services. One important step will be changes in policies that directly and indirectly promote investment in heavy industry, such as price controls that keep energy costs below market rates. Fiscal reform, both to remove current incentives for propping up loss-making enterprises and to create new incentives for cultivating environmentally friendly sources of revenue, is another essential element of a comprehensive antipollution campaign. Finally, Beijing should continue to empower its environmental watchdogs and advance measures allowing them to impose the full cost of pollution on industrial enterprises.

None of this will remove the near-term tension between economic growth and environmental damage. Reforms are certain to produce pain before visible progress, and serious opposition from vested interests—including both industry and their local government patrons—is inevitable. To turn their provincial counterparts from opposition to allies, central government officials will need to provide a careful mix of fiscal carrots and disciplinary sticks, particularly in poorer regions. Already stories are emerging of cash-strapped counties flirting with unrest by levying unsanctioned “air pollution fees” on residents. But even in industrial areas like Hebei, central efforts will also find local allies in citizens fed up with smoggy skies. Helped by Beijing’s recent move toward greater transparency, there seems reason to hope that change is in the air. ■

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Simon Says...

At the end of last year, the state-affiliated *Global Times* issued a sunny take on the nation’s air pollution problem, highlighting an often overlooked benefit: smog’s ability to protect the mainland from guided missile attack. China Central Television also came forward with its own analysis revealing five unexpected benefits of the smog, which included making Chinese people more united, humorous, and knowledgeable—primarily about air pollution. Simon is impressed with the ingenuity of China’s state news agencies but has to wonder whether this isn’t taking the concept of “area denial” a bit too far... ■

Zhou Shengxian, China’s minister of environmental protection, made headlines last year with his surprisingly candid ranking of his own agency as among the “four major embarrassing departments in the world.” Chinese netizens quickly supplied their own suggestions for the other three—including the navy of landlocked Mongolia—but it’s not an entirely unfair assessment. According to Yale University’s Environmental Performance Index, Beijing ranked 176 in a 2013 survey of air quality in 178 countries, just behind India and Pakistan. On a positive note for Mr. Zhou and the MEP, the sky’s the limit for improvement... ■