



THE CHINA CLIMATE CHANGE CONUNDRUM

Global peace and prosperity are at stake

By Professor Jean-Pierre Lehmann - October 2009

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In his presentations to the IMD Executive MBA classes in Shanghai, the Chinese economist Fan Gang underlined that China was facing simultaneously three major transformative challenges: (1) from a closed to an open economy; (2) from a central command to a market economy; (3) from a rural “developing” economy to a fully industrialized economy. As China celebrates the 30th anniversary of its reform program, the score-card on all three of the challenges is pretty impressive.

Looking to the next decade, a fourth challenge will loom over all the others: China must transform itself from being the world’s number one emitter of carbon-dioxide to becoming a low-carbon economy and thereby meet highly daunting targets in order to prevent the worst threats of climate change.

WATCH THIS SPACE! Climate change generally and China-US relations in respect to climate change more specifically will without doubt be the number one issue of global political economy in the next few decades of the 21st century.

At his speech last month at the World Economic Forum “Summer Davos Summit” in Dalian, China, Premier Wen Jia-bao set out four priorities for world leaders:

1. Tackle climate change
2. Oppose trade and investment protectionism
3. Promote sustainable recovery of the world economy
4. Protect intellectual property rights

In fact all four of these priorities are closely inter-connected and the success of one depends considerably on the results of the others. In assessing these, however, first it is useful to do a quick summary of some of the key elements in respect to China and climate change.

Though China is the world’s biggest emitter of carbon-dioxide, a few qualifications must be made. This is true in aggregate; in per capita terms, China’s emissions are less than one-fifth those of the US and well below those of other industrialized nations. Furthermore, China’s emissions are recent, reflecting its rapid economic growth and industrialization. There never has been a case of “green industrialization”. The problem, Chinese (as well as Indians and others from the developing world) assert, has been caused primarily by the heavy Western emitters over the last several centuries since the industrial revolution began in Britain in the late 18th century. As the West rose industrially, the economies of Asia became poor and backward – in part due to the imperialist policies of the industrializing powers. As China is still a country of primarily poor rural people, its growth ambitions, indeed imperatives, must not be thwarted.

Furthermore, the China carbon picture is by no means as dark as is alleged. It is true that China’s economy depends heavily (80%) on energy derived from dirty coal and to that end it is still in the business of frequently opening new coal-fired power stations. However, as in respect to many things in China, there are two sides to the picture. China’s investments in

renewable energy since 2007 have been second only to Germany's and ahead of countries such as the US, France and Japan¹.

China seems to be turning the climate challenge into a business and economic growth opportunity. In the words of a August 25th New York Times headline : "China is racing ahead of US in drive to go solar". Indeed, several studies converge in estimating that by the next decade China will emerge as the world leader in clean energy production, specifically in solar, wind and hydropower. The Chinese are also investing quite a lot in clean rail and grid technologies. And perhaps in the latter part of the next decade, global and especially Western highways will be seeing a growing traffic predominance of Chinese electric cars. Just as the oil crisis of the early 1970s provided the opportunity for Japanese auto manufacturers to conquer global markets with their much more fuel-efficient cars, so the Chinese may hope that the climate change challenge will provide the opportunity for their auto manufacturers to emerge as key global players.

Returning to Premier Wen's four priorities, there can be no doubt that the Chinese leadership recognizes that climate change is number one. This is not out of global altruism, but out of clear enlightened national self-interest. However, there is a widespread and deep suspicion in China (and elsewhere in Asia) that the West may use climate change as an excuse for imposing what is referred to as "green protectionism"; hence priority 2. The challenge of climate change requires more trade, not less. Thus protectionism would present a major setback to the climate change agenda. In the meantime, clearly, priority 3 cannot be ignored, as the world economy must be able to recover in order to avert the many social, political and environmental calamities that might ensue.

Priority 4 may seem incongruous in view of China's reputation as the number one bad guy in violations of intellectual property rights. By no means is this reputation unjustified, and indeed China probably still deserves this dubious distinction. However, China's situation in respect to IPR must be seen in a broader historical context. ALL nations that have industrialized have "borrowed" (to use the usual euphemism) others' technologies at early stages of the process. In the late 19th and early 20th centuries, the most egregious violator of IPR was the US, a position overtaken by Japan in the course of the 1950s and beyond, followed by Korea and Taiwan, etc. Just as there is no precedent of a green industrial revolution, there is no precedent of industrialization without violation of IPR. China conforms to a pattern. However, as the Chinese advance in technologies and given the huge investments they are making in R&D, they are becoming much more concerned about IPR.

¹ See The Climate Group, *China's Clean Revolution II*, 2008, http://www.theclimategroup.org/assets/resources/Chinas_Clean_Revolution_II.PDF

The whole climate change issue is absolutely fascinating as well as frightening. If we get this right, we may be able to leave our children and grandchildren a suitable planet in which to live. If we get it wrong, future scenarios appear truly Orwellian .

As the debate preceding the forthcoming Copenhagen Climate Change Conference sadly illustrates, however, much of it is ill-informed and emotionally charged. In fact, instead of looking as to how the key nations of the world can cooperate on this most daunting of all issues, the debate has degenerated into a blame-game. As a result, not only is the climate change agenda threatened – which is bad enough – but multilateralism generally, and especially the multilateral trade system, is being put into jeopardy.

Global business leaders must focus seriously on this issue. Climate negotiations are too important to be left exclusively to climate negotiators. While business could be held responsible for the failure to mitigate climate change, it also could play a determinant role in promoting success. Partnerships between Chinese and other global relevant climate change stakeholders – including business, but also researchers, think tanks and civil society – constitute an important and constructive platform. Global peace and prosperity are at stake.

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