

**THE CNA CORPORATION'S
CHINA STUDIES CENTER**

**CHINA'S ENVIRONMENTAL CHALLENGES
AND THE ROAD AHEAD**

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DR. DAVID FINKELSTEIN: (In progress) -- sponsored by the CNA Corporation's China Studies Center. For those I haven't met before, welcome. I'm Dave Finkelstein, the director of the center. I'm delighted to welcome all of you here this afternoon for what promises to be a fascinating discussion.

I'd especially like to recognize Bob Murray, who's the CEO and president of the CNA Corporation. Bob is with us today. Ambassador Jonathan Moore, who's with us today. Jim Kelly, formerly of State Department, one of our senior fellows. And last, but certainly not least, a special guest, Professor Cui Liru, president of the China Institutes of Contemporary International Relations.

Welcome to all of you.

The mission of the China Studies Center is to provide the public, business leaders and government officials with the best possible insights into the dynamics and implications of an ever-changing China. Whether conducting public events or written analyses, the center adheres to the CNA Corporation's hallmarks of non-partisanship, empiricism, and inclusivity. As a 501(c)(3) non-profit, our programs are made possible through the generous support of foundations, grants, individual charitable donations, and, of course, corporate sponsorships. So today we gratefully recognize the support of the Sariff (sp) Family Foundation of Los Angeles.

This afternoon we're going to continue our year-long expert lecture series entitled, "China's Challenges and the Challenge of China." The series, aimed at highlighting the daunting domestic challenges facing China's leaders today and why these challenges matter for a larger global constituency, to include here in the United States.

And so today we turn to the subject of China's environmental challenges. And we are indeed fortunate to have as our speaker one of the nation's foremost specialists on this topic, Dr. Elizabeth Economy, whose book, as I'm sure you are all aware, entitled, "The River Runs Black: The Environmental Challenge to China's Future" -- was named one of the top 10 books of 2004 by the Globalist. A recognized specialist on Chinese domestic and foreign affairs, U.S.-China relations, and global environmental issues, Dr. Economy is currently the C.V. Starr Senior Fellow and Director for Asia Studies at the Council of Foreign Relations up in New York City. She is, of course, widely published and often sought out by the media. You're as likely to see her on television as you are here in Washington or up in New York. And we are absolutely thrilled to have her here today. So please join me in welcoming Dr. Economy. (Applause.)

DR. ECONOMY: Thanks very much, Dave, for that lovely introduction, and thank you also for inviting me, here, and Kristen, too, for making all the arrangements. I really appreciate it.

I am delighted that all of you made the trek here at a somewhat odd hour to talk about this issue. I think when Dave talks about daunting challenges that confront China, and daunting

challenges that confront China that will have an impact on the rest of the world and necessitate a global response, the environment certainly ranks among the most significant of those.

So I thought what I'd do is just begin by giving you a snapshot of China's environmental situation today. I was there last month, and I did something I've never done before, which is to actually accompany a U.S. corporation, a very large U.S. corporation that sources an enormous amount of stuff from China, that otherwise will remain nameless. But I went with them to set up meetings with environmental officials and NGO activists to give them the environmental lay of the land in China. And I'm happy to talk about some of the things we learned on that trip as well in the Q&A, if you're interested.

But to begin with, let me just give you a snapshot of what China's environment looks like today, then talk a little bit about why I think the Chinese government cares more about the environment now than it has in at least the 15 or 16 years that I've been looking at this issue, what they're trying to do about it, and maybe, if there's time, a little bit about some potential areas of cooperation between the United States and China.

To begin with, for those of you that have been to China -- I'm sure most in this room have been to China before -- the most immediately visible aspect of China's environmental challenges is air quality. And China has 16 of the world's 20-most polluted cities. About a quarter of China's land and a third of its agricultural land are affected by acid rain. Not surprisingly, China is the largest emitter of sulfur dioxide, which causes acid rain, because, of course, China is the largest consumer of coal in the world.

One of the interesting things I was just thinking about the other day was back in 2000, China had said it anticipated doubling its coal consumption by 2020. And back then, when I was working on this issue I was like, "Oh my God, they're going to double their consumption by 2020." And lo and behold, they've actually achieved that goal this year -- 2007, they will have doubled their coal consumption, which only goes to show in some ways the inadequacy of our forecasting and ability to project this really extraordinary economy and what it's doing. And you can see that, of course, reflected also in the issue of global climate change and carbon dioxide emissions and the fact that, again, for years we've been talking about China surpassing the United States as the largest emitter of CO₂ by 2020, and the IEA came out and said it's going to be 2009, and now they're saying actually this year. So coal is a big problem for China's air and for the climate of the rest of the world.

Inefficiencies within China's industrial sector and its building sector are also problematic. Chinese industry, especially in the sort of most energy-intensive industries, is anywhere from three to six times more inefficient than industry in Japan and even India. It's one of the great embarrassments for Pan Yue, the vice minister, that India is more energy efficient in some key industries than China. And their buildings are about two-and-a-half times less efficient than those in comparable climates, like Germany.

Looking forward, some of the greater challenges that China is going to have for its air quality will be the transportation sector. China has about 33 million cars. You know again, the estimates have been roughly that China will have 130 million cars by 2020, probably surpass the

U.S. by 2040, 2050. In some discussions I had this morning, the analysts were talking about China surpassing the United States by 2020. So the Chinese are laying 85,000 kilometers of new highways. McDonald's is planning to have half of all of its new restaurants in China be drive-throughs. China is legitimately becoming a car culture.

And then urbanization -- I think that's the other challenge that's emerging now and certainly for the future. China plans to urbanize 300 million people between now and 2020, or some will say 400 million by 2030. No matter, urban residents -- and the statistics I've always had were that urban residents use two-and-a-half times more energy than their rural counterparts, but I was in Brussels last week and there was an expert, very impressive expert, Shi Yaodong from the State Council's Energy Group, and he said no, in fact it's three-and-a-half times more energy. So unless Chinese buildings and Chinese consumers become far more energy efficient and far more oriented toward energy conservation, their energy use is going to skyrocket.

The second significant challenge for China is its land. China, due to centuries of deforestation and over-grazing and over-intensive agricultural practices, has the highest soil erosion rate in the world. Estimates of the rate of desertification are wide: some say the desert is advancing at a rate of 1300 square miles per year others say 1900 square miles. No matter, the effects are clearly being felt in the north and the west. The State Forestry Administration says that desertification affects 400 million Chinese. You can see some of the more entrepreneurial Chinese in China's west are turning their villages, which have been submerged in sand, into these kinds of sand theme parks with rides and other kinds of things to try to attract tourists, which is great. You can go on the Web and see these pictures. But the truth is that for tens of millions of Chinese, this process of desertification means that they've become, in essence, internal environmental refugees and forced to leave their villages in search of new homes and new livelihoods.

Soil contamination, I think, is obviously going to become a bigger issue for the rest of the world. And in China, they're just about to release their first-ever survey of soil contamination. The early reporting says that about 10 percent of land in China is contaminated with heavy metals, and about 2.5 billion tons of grain are affected. So I think that soil quality is going to be an issue that is going to rise on the agenda both in China and here.

But finally, the most important issue for China, of course, is water and access to clean water. The Chinese say that about two-thirds of their cities don't have enough water to meet their daily needs, and 110 cities out of 660-odd cities consider themselves to be severely water-short. Agriculture still commands the largest percentage of China's water, about 66 percent, but as a relative share, this is declining and urban consumption is actually rising the quickest. It jumped 6.6 percent just between 2004 and 2005. And again, no big surprise. First of all, you have more urban residents than ever before. But beyond that, you know, they're water-intensive consumers: there are showers, there are washing machines, there are second homes with lawns that need to be watered, and there are a lot of golf courses in China as well.

Here, too, you find that inefficiencies and waste are a problem. In China's urban areas they lose up to 20 percent of their water through leaky pipes. This is a challenge that the Ministry of Construction in China has pledged to address. There are some statements saying that all of the urban pipe infrastructure in China is going to be replaced between 2007, 2010. That would be

astonishing, but nonetheless, it's an important sort of aspirational goal. They do recognize there's a problem.

One of the other challenges of China's growing water use is subsidence. And this is particularly a problem in China's coal-rich areas and in the coastal areas of China -- Shanghai, Beijing, Tianjin -- literally the cities are sinking. In fact, Shanghai and Tianjin have sunk six feet in the past 15 years. Apparently in Pudong some of the buildings are tilting a little. And in Beijing, they're concerned even about the airport because of the subsidence. So this is a real problem. And as you can imagine, with the looming prospect of climate change on the horizon as well, and the potential for the rising sea level in Shanghai--for 20 years it has been expected that Shanghai could be one of the most affected by climate change--so the fact that you have this process of Shanghai sinking and the sea level rising, this could be a very, very serious problem.

Pollution -- water pollution in China is, of course, a very serious issue. And we here in the United States read a lot about it in our media in terms of the villages along China's river systems where they have all the horrible what they call "cancer villages" and public health challenges. About 70 percent of the water that runs through China's urban areas is not fit for drinking or fishing. Up to about 30 percent of the water that runs through China's seven major rivers and their tributaries is not considered suitable for agriculture or industry. Only about 23 percent of Chinese cities treat their sewage properly. That's based on a 2005 survey. And about 700 million people in China, primarily in the rural areas, drink water that is contaminated by human or animal fecal matter. So it's a very serious issue. And I'll talk a little more about the public health implications in a couple of minutes.

But even if you look how two of China's most important rivers, really the Yellow and the Yangtze, you begin to see how great this emerging challenge is. In just the past year, the Chinese government has announced that two-thirds of the water in the Yellow River, which provides water for 150 million Chinese, is not drinkable, and a third of their fish species have become extinct because of water pollution and damming. And in the Yangtze -- this is an interesting thing, and I saw one report about this, and I haven't followed up on it -- but that, in fact, you know, they had the major river diversion project, that they're planning to take water from two and then eventually three points along the Yangtze River and divert it up to Beijing and Tianjin. The first part was supposed to be completed by 2010. And I recently read that they're delaying the project, delaying the construction because of the water pollution, in large part. And Tianjin earlier had complained about why do we want this polluted water anyway? What's the use of transferring some really polluted water to us?

So China itself faces a raft of very serious environmental challenges. But of course, as with any country and as with any environment, what China does domestically has implications and serious implications globally. So let me just tick off a couple of those. Obviously, most affected are those in China's backyard. Japan and South Korea have long been concerned about the acid rain and the toxic yellow dust storms that come and dump tons of toxic yellow sand on their land. The pollution in China's coastal seas, the World Wildlife Fund has said now that China's the largest polluter of the Pacific. And if you look at the statistics coming out from the Bohai or the East China Sea, you can see why. In the Bohai Sea, the level of heavy metal contaminants in the sediment is 2,000 times the acceptable national standard. In East China Sea, which is one of the

world's most important fisheries, 81 percent of the water is not considered suitable for fishing, and this is up from 53 percent in 2000. So the really bad thing about that, of course, is that the trajectory is clearly moving in the wrong way, even though they've been trying to address this problem, just without much success. All those industries all along the coast simply dump their waste water and their sewage right into the rivers that flow into these seas.

For the United States, we have become concerned about transboundary air pollution, and so we have the scientists on the West Coast and the EPA tracking these giant pollution clouds that come across the Pacific. And we see spikes in visits to hospitals in Los Angeles. The US EPA also says that 25 percent of the particulates in LA on any given day emanate from China. Then mercury is another challenge. So again, as China has been developing rapidly and greatly, it's having an environmental impact globally.

I think for the developing countries -- Latin America, Southeast Asia, and Africa -- there is a set of emerging environmental challenges arising from Chinese multinationals, who are seeking to access resources abroad to continue to fuel China's very impressive growth. At the same time, you end up with these MNC's degrading the environments of their countries. So you can see that in terms of -- especially in terms of the timber trade, where China is the largest importer of illegally log timber in the world. It is estimated that about 50 percent of the timber that China imports is illegal. And of course China is the largest producer of plywood and floor boards and other timber products for export. We here in the United States apparently import about \$3 billion worth of illegally logged wood products from China. So that shows that we have a role to play in this illegal timber trade as well.

But what you find in terms of the timber trade really is that in some cases, the Chinese companies are colluding with the host governments, as in the case of Cambodia. A lot of times these governments themselves either have weak capacity or are corrupt or whatever. There was a recent case in Cambodia, for example, where the Cambodian government granted this Chinese logging company a 99-year plantation concession that was 20 times larger than that's allowed by Cambodian law. And so that spurred some local protests, but nothing's changed and the logging company continues to spray noxious herbicides and pesticides and pollute the water and this kind of thing.

And in other cases, even in Myanmar, Indonesia, you find that it is the local governments that are in cahoots with the Chinese logging companies, and that sometimes the central governments get unhappy, maybe because they're environmentally oriented, or maybe because they're just not getting the revenues from this logging because it's taking place at the local level. And so both Indonesia and Myanmar in the past have lodged protests with China, and they've gotten some temporary relief, but then things resume.

Certainly Chinese mining companies, oil and gas also, have run into problems. Shougang in Peru -- miners were protesting the water pollution and the labor conditions. In Gabon, the government recently closed down Sinopec's activities in Loango National Park because of what they were doing environmentally.

So, with all of this on the domestic front for China and on the global front, what does Beijing think? As I said at the outset, I've looked at this issue for a long time and it's clear to me that this particular government at this particular time cares more about the environment than any in the past. And it's the rhetoric, it's the investment, it's the targets -- they're just much more focused on the environment. Why is this? I think there are a couple of different reasons, many of which have nothing do with the environment itself, but they have to do with issues of China's reputation, global reputation; with how the environment affects the Chinese economy, how it bites back into economic growth; what it does to Chinese public health, to the health of the Chinese people; and what it means for social unrest. So let me just say a couple of words about each of those.

The Olympics. In 2001, when China won its Olympics bid and promised a green Olympics, there were a lot of people that were running around talking about how the Olympics were going to be a transformative event for China in the environment; that it was somehow going to just leap-frog, and this kind of thing. I have to say I wasn't one of those people that thought that was going to happen, although I did say maybe it would have an impact in Beijing. And I think that's what has happened; I think it's had an impact in Beijing, but really not much beyond that. And so when you go into Beijing now, it's beautiful. You drive in from the airport and there are just rings and rings of trees; it's more green than ever before, and it's really lovely. They're putting solar-powered lamps along some of the major roads. They've got hybrid taxis and buses starting to go into Chinese streets. And they've got the Olympics village, in which some of the buildings are models of energy efficiency. It's all very good and it represents some of the best of what you can do.

On the other hand, the fundamentals of Beijing's environment haven't changed that much. And so although certainly they've made progress -- in terms of air quality, they've moved out a lot of the polluting industries, et cetera -- they haven't made as much progress as they wanted to make. And it's interesting. So they're going to have to do some stop-gap measures, but I think that was to be expected. They're going to ban a million cars. They've asked all factories that are still in the environs to halt production -- this is interesting, I just saw this report that some of the factories are balking and saying no, we're not going to halt production; we will reduce our manufacturing, but we're not going to stop for the duration of the Olympics. Which, as a political scientist, I have to say I find astonishing because one thing you would think about the Olympics in China would be that the sense of national pride and everything, the focus on China of the international community, nobody would dare to say something like that. But sure enough, they're reporting that some of the factories are resisting -- I think they'll be shut down anyway. But it's interesting to see sort of capitalism run amok.

And then the water issue. China had promised to have drinkable water for the city. Now they've stepped back from that and said the Olympic village will have water that's safe to drink from the tap, but they're not going to manage it for the city.

So in some ways I think the Olympics represents again sort of the symbol of what China could do, could be -- the green Olympics. But at the same time, sort of the systemic challenge that they face if they really want to turn the situation around.

The economy. One of the great concerns for the Chinese leadership, and certainly for regional officials too, is how the environment begins feed back into economic growth. So on the one hand you have the development affecting the environment, and on the other hand, the environment comes back to feed back into the economy. And here the Chinese numbers are all over the place, so I hesitate to use them. It's not just Chinese numbers, it's Western numbers too. But, you know, pollution and environmental degradation cost the Chinese economy 8 to 10 percent of GDP annually. SEPA did it's "Green GDP" experiment. It was a partial study, and it came out and said 3 percent -- but it's just partial -- 3 percent of GDP. Chinese media have all sorts of statistics: water pollution costs the Chinese economy \$35 billion -- it could be in industrial output or -- lost industrial output or, you know, spoiled crops, or people getting sick and having to go to the hospital. These are the kinds of things that are included in the numbers. Acid rain costs \$13.3 billion, et cetera.

I think the actual numbers in some way are less important than what they signal and what they signify to the Chinese leadership and the Chinese people, which is just the sense that this isn't sustainable; that somehow the environment is going to pull the brakes on all of this economic growth. And again, regionally you begin to see this, so that you have the north and the west of China and this process of desertification and people having to move, that's a real economic impact. Where you have Chongqing saying that water pollution is costing us 4.3 percent of our local gross product. Or Shanxi saying that we -- this was a great one -- that Shanxi a major coal-producing region for the country, and saying, we have suffered tremendously in Shanxi because the trees are withered, there is subsidence, there is no water, the air is filthy polluted -- Shanxi has four of those 16 of those most-polluted cities in the world—they say we have suffered, and we estimate the cost to our economy to be 10.9 percent of GDP. And so Shanxi's officials tell Beijing that they want to be compensated for their sacrifice and contribution to the growth of the country. I don't think they got anything for it, but I thought it was a very good tactic. But again, it shows the changing mentality at the regional level and understanding of what environmental degradation and pollution can do to their future economic growth.

Health. I think this is one of those sleeper issues. And Jennifer Turner and her crew have been doing a lot of really great writing on this particular issue. But all of a sudden you start to see the Ministry of Public Health becoming a real environmental actor and doing these epidemiological surveys. And you never had good data coming out on the health side, really. But they just came out with a new study, for example, that said that air and water pollution they estimate between 2005 and 2007 had caused a jump in cancer cases in urban areas by 19 percent and in rural areas by 23 percent. The Ministry of Water Resources said 190 million people in China are drinking water that's so polluted that it's making them sick. And the World Bank just came out again with a study, just about a month ago or so, a new study on China and the environment and looking at a lot of air and water pollution. And one of their findings was that in the rural areas of China, two-thirds of the people don't have piped water. And they attribute the very high rate of diarrheal disease, which is the leading cause of death among children under the age of five, to this polluted water.

So, this issue of health I think is very rapidly rising on the agenda both within the government and certainly among the Chinese people.

The final reason that I think the Chinese leadership cares so much about the environment today is because it is an important source of social unrest. Complaints about the environment in China are going up and up and up, and they're increasing at a rate of about 30 percent per year. And these are formal complaints through the government system, the governmental system, through the local environmental protection bureaus and on up. So this year they estimate it will be somewhere over 450,000 complaints. According to one report, less than 5 percent of those are successfully resolved, successfully and happily resolved. So that produces a situation in which, as Zhou Shengxian, who is the minister of China's State Environmental Protection Administration, said in 2006 that in 2005 there were 51,000 environment, quote, "disputes." And, what are these disputes? Well, in some cases they can be small-scale protests, relatively peaceful demonstrations--some farmers in Fujian blocking a road to protest factories that they believe are polluting their crops and their water, because for a couple of years they couldn't get any real redress. Or it could be also in Fujian province hundreds of villagers storming factories, leather-tanning factories that they believe are polluting their water and their land and causing \$11 million in damage and forcing those factories to close down, also after several years of peaceful protest and not getting any real response. Or it can be a protest like they had in Zhejiang, where you have 30,000 to 40,000 people storming 13 chemical plants. Why? Again, because what you had to begin with were some old ladies protesting the pollution, and then some roughing up of them, and that just caused the entire thing to spill over and sort of explode.

So, to my mind, most of this protest is really the result not of just, "Oh, this water is polluting us, let's go smash some windows in the factory." It's not like that. It is years of not getting the problems resolved through the local EPBs, through the local court system; feeling as though there's no other avenue to get attention and to get change. And again, much of this has to do with loss of economic opportunity: farmers can't farm their land, their crops are spoiled. Or mothers and fathers realizing that their children are sick. Or in the case of Zhejiang, that they felt like the villages were having a higher incidence than normal of stillborn births. So these two things feed into the social unrest.

I think for the Chinese government, they're certainly not happy about this kind of unrest, but to some extent they have lots of issues to deal with. And as long as they can be put out like fires, sometimes peacefully and sometimes with People's Armed Police, not so peacefully, then they're local problems that are dealt with by local officials. And the usual end result is that some local officials are punished and the leaders of the protests are also arrested together. So that's how they usually resolve it.

I think what's more worrisome potentially is the potential for this kind of protest to spill over provincial boundaries or to be linked to broader issues, calls for political reform. And the reason why that's possible, I think, is not just because of what we've seen in other countries, where certainly the environment has been a rallying point for pushes for broader political reform, but because what is needed in terms of systemic political reform in China for the environment; namely, official accountability, transparency within the system, and the rule of law, also speak to broader issues of political reform in the system. So there's a sort of a natural connectivity between the two in some ways.

I think in these most recent protests that we saw in Xiamen in the first weekend of June, where -- some of you I know are aware of these protests. Just to make it not too long, students in Xiamen University and other places were text-messaging, sending a million text messages to call on the local people to protest peacefully the planned siting of a petrochemical factory very close to the city center. And the legal limit is like a hundred kilometers, and this was like, I don't know, 14 or something. It was much too close. And so they got a lot of people out to protest--some estimates are 7,000, 20,000 -- you can go on the net and look at Chinese websites and see the pictures; they're extraordinary. And you can hear them chanting, "Protect Xiamen! Save Xiamen!" and calling this plant an "atomic bomb." It's actually quite moving.

And at the same time there was an incident in Wuxi city, where Taihu Lake, which is the third-largest lake in China, had this toxic blue-green algae bloom and the water was disgusting. And again, you can go on the Web and see the pictures of the water. I mean, it's truly unbelievable. And so the local officials in Xiamen told people, "It's okay, don't worry, you can still drink the water." And people basically said, "You've got to be out of your mind!" So you have all these pictures of the people in Wuxi going into the stores and taking all the bottled water; there's a run on bottled water. And just like in the United States, the stores start jacking up the price of bottled water. And you see people going outside the city to other towns to try to get clean water.

What's interesting about this -- there was just an email letter that came across from an expat Chinese calling on people in the west to help the people of Wuxi, and one of the things he says in this long letter is, is that in fact the official Chinese media in Chinese told the Chinese people: It's okay, drink the water. But the English language official Xinhua News said: Don't drink the water. And in the hotels and in the apartment complexes where the foreigners live, plunk, they cut the taps. I think that's very disturbing.

But back to the main story.

So, there's a very interesting Chinese video which you can see on YouTube. And in this video, this young woman, Chinese woman, links the two events, the one in Xiamen and the one in Wuxi, through pictures and through a story. And toward the end of the video she says the Xiamen protests are the first genuine parade since Tiananmen Square. And then a number of postings after that reference June 4th, and "Never forget June 4th," and this kind of thing.

Now, you know, nothing has blossomed out of this or anything like that. The point of the story really, though, is just to show that this kind of political linkage, this across-provincial boundary linkage and linkage into broader political issues within the Chinese system, that this can happen, and now it already had happened. And I think that this is of the greatest concerns, when you think about this unrest, the greatest concern to the Chinese government that something like this could then be blown up in to something much bigger.

All right, so quickly. I haven't left myself much time -- sorry -- to talk about what Beijing is doing about all of this.

As we've seen just in the past year or two with the launching of the 11th 5-year plan, Beijing has set out a number of very ambitious targets, very favorably received in the international

community: Reducing energy intensity during 2006 to 2010 by 20 percent. Ramping up the role of renewables in the energy mix -- and the numbers are all over the place, but let's call it 16 percent by 2015. There are all different numbers for that one. But nonetheless, impressive. Reduce key pollutants by 10 percent by 2010. Decrease water consumption by 30 percent -- truly extraordinary -- by 2010. Increase the level of investment in environmental protection from 1.3 to 1.6 percent of GDP. So all very good, all very impressive. Only one problem is that China often sets very ambitious targets, very laudable goals, and then the reality ends up someplace down here.

And so, for example, in terms of SO₂, what we saw between 2002 and 2005 was that the Chinese government pledged to decrease sulfur dioxide emissions by 10 percent. Instead, they went up by 27 percent. No big surprise. Coal use was increasing dramatically. And now, when we look at these targets, we can already see that there are going to be some problems. So it's already been made -- a lot of deal has been made of the fact that they've already missed the first year target for the reduction in energy intensity, for the reduction in pollutants. They've scaled back the target for water so it's not going to be 30 percent, it's going to be 20 percent.

Even in renewables, there is an interesting interview with an official from Suzlon, which is a wind power company in India, major wind power company. And he was talking about the wind market in China, which is growing amazingly rapidly. But he said that of the projects that were accepted in 2004, projects that were initiated in 2004, only 34 percent of them have come to fruition. And he said the reason behind that is that a lot of them were given to people who weren't really capable of fulfilling them, or some of them decided the economics didn't really merit it.

This is all by way of saying that to understand the challenge that China faces, you first have to begin from the reality on the ground. You can't begin from the laudable targets at the top because that will take you in a completely different direction. And that -- you know, it's important when we think through how best to cooperate with China, it's important for a whole host of reasons. And why does this happen? I think it happens because of the nature of China's approach to environmental protection, which is to say, you know, modeled on its approach to economic reform: Maintain a very small central government, decentralize authority so that most environmental authority rests with local officials. Yes, you engage the international community, certainly. You allow room for private sector initiative. You allow NGOs to develop and flourish. But by and large, the important point of environmental protection rests at the local level.

So small central government -- SEPA has about 300 people in its Beijing office, maybe a couple hundred more now spread out in its regional Environmental Protection Offices. One of the interesting things that you see SEPA doing -- the State Environmental Protection Administration doing -- is recognizing its weak capacity on the ground. The types of laws that it's been passing over the past few years, environmental impact assessment law, public disclosure law requiring officials to let the Chinese people know what are the pollution statistics, who are the offenders, what are you doing about it -- these are all laws that engage the Chinese people, that draw the Chinese people into the environmental protection process, as directly as SEPA can do it. And I think a large part of the reason behind that is because it knows that the people are going to be a very important force, a very -- potentially an important watch dog and pressure point on the local officials.

Decentralization of authority, of course, can be a very positive thing, and it's what allowed China to flourish economically certainly. It allows for a lot of experimentation. And so you see, for example, that the World Bank has its GreenWatch Program going on in Jiangsu with NRDC. I'm happy to talk about that. But it's basically auditing 12,000 factories and doing public disclosure and all kinds of things. So you can have this kind of experimentation province by province or locality by locality. But by and large, you don't end up with a very good overall outcome. So according to SEPA, only about 10 percent of China's 660 cities, or so, do an effective job of protecting the environment, and that's measured on a list of about 20 to 25 different kinds of standards and objectives.

Wang Canfa, who is one of China's premier environmental lawyers, one of the few environmental lawyers, in fact, says that he believes China only effectively enforces about 10 percent of its environmental laws and regulations. The reasons behind this are not so surprising. Corruption is a huge problem, obviously. Relations between local officials and factory owners, or direct local official financial stake in a factory that's polluting, not forcing it to close down. SEPA complains a lot about local officials turning a blind eye to what's going on in terms of the pollution their locality.

And what's interesting, I think, too, and unfortunate, is it's not just what's happened in the past, but even in terms of providing incentives to continue to pollute. In Zhejiang, for example, one of the incentives that some officials in one locality were offering from companies that would produce a million dollars of output or more a year -- to get those companies into this industrial park, one of the incentives was that they would not have to suffer government inspections without prior knowledge. Of course, this is illegal.

One of the other interesting things is that the Chinese Academy of Environmental Planning has come out with this report that looked at the diversion of funds, of environmental protection funds. And it's the first -- I haven't seen the real report, I've only seen the report on the report. But it's the first report that I know of that is a systematic study of this issue. So what does it show? They looked at from 2001 to 2005, what happened to this 1.3 percent of GDP that was going into environmental protection. They discovered that slightly over half, so .7 percent, was going into things not related to the environment; it could be factory production lines or some of it went into parks, which is sort of close to environmental protection. Other money went into -- I'm trying to remember now -- oh, taxi upgrades. Anyway, all sorts of interesting things not related to the environment. So again, when you're thinking about the fact that China is upping its investment to 1.6 percent, it's important. But what does that translate into reality? That translates into something quite a bit different. So this kind of diversion of funds is another issue.

I won't talk about the Green GDP Project, SEPA's Green GDP Project. I'm more than happy to do it. It's a good example of how hard SEPA tries and how hard it is to make change.

Let me just make a few more comments about the role of the international community, NGOs, and then I'll wrap it up.

China has been very, very open to international cooperation on the environment from any vantage point. So that, frankly, the World Bank and the Asian Development Bank, they fight to

work in China, they fight to be part of the clean development mechanism in China. And that's great.

Japan has done a lot of work with China. Right now they're very actively engaged in trying to up the efficiency of China's steel production, because the Japanese are world leaders on that.

You have virtually every international non-governmental organization related to the environment -- Environmental Defense, NRDC, World Wildlife Fund, CI, the Nature Conservancy -- everybody is in China. Everybody is pouring human and financial resources into China. China is the great frontier; it's the great frontier because you have a country that's undergoing this kind of urbanization process of 400 million people -- it's going to transform the entire country. So the opportunity to get it right is hugely exciting; to accomplish something that's never been done before is amazing. So they're all there trying to advance that kind of transformation. And then the other reason is, of course, because of the impact that China has on the rest of the world, because what China does matters so very much to the global environment.

And then there are multinationals. And here, there's a little bit of an interesting story to tell. I will make it brief. But there are many corporations, I'd say Europeans and Americans, Japanese, that by and large try to do the right thing. Coca-Cola just announced that it wants to be a net-zero consumer of water -- they announced this in Beijing -- in all their processes. I mean, that's a terrific aspirational goal. Wal-Mart has on its books now plans to announce a major initiative on compact florescent lights -- educational initiative, sales initiative. I mean one after the other, the environment is an area where multinationals have actually taken this on board, not in terms of just the way they do their business, but also in terms of funding Chinese NGOs, community efforts, tree planting -- whatever it can be, it's an area that multinationals have gravitated toward in China. And China has recognized this, and multinationals can get a lot of rewards for the kinds of things they do, and some positive press in the newspaper, and nice stuff like that.

But I'd say in the past year-and-a-half is when I first started hearing different kinds of sounds coming out of China. And different kinds of sounds were really just Chinese officials saying that the international community has made China the manufacturing center of the world, and therefore, the pollution center of the world, and thus, it is incumbent on the international community to do something about this.

Most recently, a friend of mine, Ma Jun, developed this terrific pollution map, and this map is a map of factories in China that have been cited by local Environmental Protection Bureaus for water pollution violations. And in the first cut of this, which came out last October -- because I was there in Beijing -- there were about 3,000-some factories that were on this list. Now it's up. I just saw him last month. It's up to 5,000 and some. The first cut was 3,000, of which 33 sourced to multinationals -- okay, so 33 out of 3,000-some-odd companies. The media frenzy that ensued in China over those 33 factories that sourced to multinationals was extraordinary. And it was as though the rest of those factories, Chinese factories, didn't exist. And all the Chinese newspapers were trying to get interviews with the multinationals saying, what are you doing, why are doing this, do you have some kind of response, et cetera. And Ma Jun said it wasn't his intention to have all of that focused on multinationals.

And truth is, of course, there's nothing wrong with this, right? Multinationals should be taking care of the factories from which they source, although as I learned on this past trip, sometimes you have 10 companies sourcing from one factory – some are European, some American, some Chinese; it's a difficult thing to do in some cases, and sometimes they're so far down the supply chain, they don't even know the factories they're sourcing from. And that's actually a huge problem. You don't even know. You have some first tier factories, but then what happens as you go down the supply chain? From the clothing to the spinning down to the dyeing, et cetera, so it's a real challenge.

The point of all of this is just to say that I think multinationals are going to be on the front line of the environmental issue for the foreseeable future. In addition to Ma Jun, Greenpeace Beijing spends a lot of its energy focused on multinationals and what they need to be doing as well. And I think part of it is that, again, to get momentum, they think multinationals have the money to take care of this problem, and probably underneath it all there's an issue of some nationalism issue as well.

So let me finish up by talking a bit about NGOs. It is the most exciting aspect of China's environmental protection effort, the thing, frankly, that keeps me excited about working in this area when all the numbers keep being so bleak. It's been just a sea change in China, and starting from Dai Qing in 1989, who was arrested, put into prison for 10 months for her book *Yangtze, Yangtze*, which was just a collection of essays about the Three Gorges Dam, not all of them entirely negative, to today, when you have NGOs that launch protests against dams without any repercussions, Internet campaigns, letter campaigns. Now they're having some repercussions in some cases, but by and large, the scope of activity for the NGOs is extraordinary.

Even just back to the mid-1990s, basically you had five, seven, 10 NGOs that focused on biodiversity protection and environmental education, and today you have the ones working on Dams, you have Ma Jun and water pollution, you have Greenpeace Beijing, which tackles everything from climate change to GMOs and everything under the sun. It's a very sophisticated NGO, Greenpeace Beijing, very sophisticated. And Wang Canfa, this environmental lawyer who takes pollution victims, he takes the cases of people whose health has been harmed, takes them to court. He's an amazing man, probably known to many of you here, just extraordinary man. So you have all of these different NGO activists doing just this phenomenal work.

Still, local governments get concerned, and there have been sort of a rash of recent arrests. I would say house arrest for Yu Xiaogang, the winner of this year's Goldman Environmental Prize, and someone who had been acknowledged by the Chinese government for this great work on the environment but placed under virtual arrest in Yunnan unable to travel to dam sites or out of the country because he educated villagers, talking about the downside of relocation. Tan Kai, a villager who was arrested for trying to monitor compliance with factories after the Zhejiang protest. He was just released recently, I think. Most recently was Wu Lihong, who was an activist for that Tai Lake that I mentioned where that toxic algae, blue algae bloom was. Sixteen years he has spent talking about the pollution in that lake, and he got arrested – I can't remember whether it was for blackmail or state secrets, but he's been arrested, and it's horrible, frankly speaking.

So while they flourish and do amazing things, there are still some constraints and some fears again, I think, about the potential for these NGOs to overstep their boundaries, and those boundaries are somewhat ill-defined, which makes it very difficult.

So what does all of this suggest for U.S.-China cooperation on the environment? I'm just going to make a couple of points. Number one, you know, we've got to step up to the plate first. I go to China; I was in Brussels last week, I mentioned. It's just embarrassing. It really is. We have environmental NGOs and MNCs and everything under the sun that is at the cutting edge: environmental technologies and policies. We know what needs to be done, we know how to do it, we've got the technology, and we don't do it.

And so when you look at something like climate change, we are not a world leader on climate change. You look at something like illegal timber import. We are not a world leader when it comes to that. We import with impunity from China through the supply chain, not in the same way China does it, not with our logging companies, but through the supply chain we do it. Energy efficiency, we're not as good as Japan on energy efficiency. The kinds of programs that our consulate in Hong Kong is pushing, tremendous program to make factories in southern China energy efficient through this energy efficiency auditing effort, we have that program here in the United States with Honeywell and Johnson Controls and Chevron for our federal buildings. The only agency of the government that has moved anywhere down the path, really, is the Army, is the military. They're the only ones who have done a marginally good job. Not even the EPA. So we need – and I say this really seriously, not just as some kind of exhortation – if we're going to have any credibility or any leverage, we have to step up to the plate first.

Second, it is fine to have a strategic economic dialogue and environmental discussions between the United States and China and to come up with 15 joint ventures to capture methane from coal mines. It's important and it's good. But the truth is – and it really is the central point of my talk, I hope, that came through – that if we're going to have a real impact in China, if we're going to help make that kind of transformation that the Chinese leaders want and that the Chinese people need, it has to come from the bottom up, and this is tortuous. It's a tortuous and difficult process, but it's the kind of work that NRDC is doing or any of these NGOs.

So programs like Green Watch, programs like the Hong Kong consulate program that engage the relevant actors, the local officials, the people, Chinese banks, whatever it is, but that gets them engaged and invested in the change and willing to implement all those targets and that Beijing is setting out, that is what is really needed, and that's how we can really contribute most. Even though both the U.S. and China tend to talk most about technology and money.

Okay. I'll stop here, and I welcome any questions you may have. Yes.

Q: As the first question-asker, I think it's incumbent on me to first thank you –

MS. : If you could just state your name and then –

Q: Yeah, of course. But thank you for that illuminating, comprehensive overview. I'm Noah Smith. You probably don't remember, but I –

DR. ECONOMY: No, you sound really familiar.

Q: -- interviewed you once about seven or eight years ago when I was a cub reporter for Kyoto News.

DR. ECONOMY: Mm, mm-hmm, mm-hmm.

Q: But now I edit a publication called International Environment Reporter for BNA. I have two questions, and they're both very big and not at all related. One is touching on something that you did discuss in your presentation, the protests and the potential for that to become a larger problem for China. I'm wondering how you see that, how that fits in with other potential sources of regime instability in China. I know it's something that certainly Beijing is concerned about, but do you see any chance for that becoming an issue or a trend that seriously affects the stability of the country, and how does that compare with, say, other sources of protests or financial instability and so on?

And the second big question is on climate change. Do you see any way in which China can become somehow tied into a regime or a post-Kyoto protocol type regime where they would undertake serious efforts to cap and reduce their greenhouse gas emissions? Thank you.

DR. ECONOMY: Okay. Thanks. Two good questions. I think on the first one, in terms of the protest, I think it's interesting. One of the things about the environment is it really is at the forefront of civil society development in China, and I don't know, relatively speaking, for example, just in terms of the number of protests, whether there aren't more protests over land confiscation, illegal land confiscation, than over the environment.

So it may not be the leading cause of social protest, but what I think is important about it is that it draws together different kinds of issues, like health, like economy, like economics and it's not just happening in rural areas, it's happening in cities, and it's not just happening among farmers, it happens among students and educated people, so that when you start to think about drawing together all parts of society an issue that affects them all, I think the environment is one of those issues. Another one would be public health.

Do I see the environment as someday toppling the Chinese regime? I don't think that it needs to come to that. Could it happen? I suppose it could. Look who predicted Gorbachev and the end of the Soviet Union – nobody. So never say never. I used to be a Soviet analyst. That's my lesson. You never say never. But I think more likely, and frankly, from my perspective, more hopefully, I think that the environment does become that force that pushes for more and better rule of law and official accountability and transparency. I think that that's needed for a whole range of issues within China, and so I think that the environment does have that potential to push the Chinese leadership to a point where they need to think about other ways of doing things.

I mean, frankly speaking, and here I am mindful that we have a number of guests from China, so frankly speaking, I don't think that anti-corruption campaigns work, and I think the way

that Beijing has traditionally sought to get rid of corruption which is endemic, plucking out officials one from here and one from there, as cases arise, I don't think that's going to work.

Q: So then I guess that begs maybe a deeper question, which is, can they really address the environmental problems without first becoming more democratic, politically, so that there are mechanisms for constantly checking the –

DR. ECONOMY: Yes, Can they?

Q: — government?

DR. ECONOMY: Well, here. Of course there are examples of places that have done it, like Singapore does it pretty effectively. Do I think that China can? I think it probably needs a little more reform. I don't see it happening without some more fundamental reform. That's just my own take. I think the political economy of the country needs to be transformed, so on the political side, the legal system is just not working, and the whole system of accountability just doesn't work. Otherwise, you wouldn't have all those protests. And on the economic side, you've got to have different incentives. So they're doing some of that, raising the price of water in cities. They're planning to pass higher fines now. But they have to be enforced to make a difference. So do I think they need some more fundamental reform? I do. How they get there, I don't know exactly. I don't think we have many models out there. Maybe they'll come up with a new one, but I don't think this current system is working. I don't think it can work.

In terms of your second issue about trying to draw China into a post-Kyoto regime that engages them in targets and timetables, if you look at what has traditionally drawn China into environmental agreements, international environmental agreements that are binding in some sort – take the Montreal Protocol as an example – there are a couple of things. First off, you've got the important other players on board. We're not on board yet, even, so until we get on board, I can't honestly imagine that China is going to get on board. I don't think that's going to be enough, but it's necessary but not sufficient. That's one thing that has to happen so that you can have the major players all applying significant pressure on, say, China and India, which was the case in the Montreal Protocol.

A second thing that's necessary is some kind of incentive, and it could be financial. And in the case of the Montreal Protocol, we had the multilateral fund that, in essence, paid for China and India to do a lot of the right things in terms of implementing technologies. So some kind of fund. The Clean Development Mechanism is a mechanism for other countries to help China, to push it forward, to advance more quickly than it would be able to on its own. And maybe it needs something a little more in addition to that.

The third thing that usually happens is there's a sanctioning mechanism, and this is, of course, enormously unpopular, but the Montreal Protocol did have one, and that was that if you had goods that were exported that used CFCs, they wouldn't be accepted for import by the participating countries. So maybe there needs to be some kind of sanctioning mechanism, though I don't see that happening.

And fourth, I think also, in the case of climate change, one of the things that could be effective in pushing China, in particular, would be more pressure from the rest of the developing world because I think China has seen itself for a long time as a leader within the developing world, as a friend of the developing world, and it doesn't want to be the country that's associated with being the one that causes Vanuatu or Bangladesh to be submerged. If the U.S. gets on board and everybody else is saying, we're going to cut our emissions, CO2 emissions, by 80 percent by 2050, it's going to have to do something.

So I think those are the kinds of things that are going to need to come into play. Let me just say, climate change also is recognized at the top level as very important within China. It's not really an issue, with the exception of Greenpeace Beijing, that NGOs have started to talk about and to work on. There's not an enormous – not even enormous, there's practically no bottom up energy on the issue of climate change, and I think with the exception of scientists, there's not all that much connection between what's taking place on the ground environmentally in the country that the Chinese people are quite concerned about and what climate change can do and not really a sense that climate change is maybe even already having an effect. That link I don't think is all that clear yet. So there's a lot of media attention to climate change, don't get me wrong, you probably know that already, but I don't think – it's just not a cause that's been taken up by the environmental community in China. Yes.

Q: Bob Murray, CNO. Thank you very much, again, for your talk, tremendously knowledgeable talk. Do you see, as you've said, both the United States and China are in some ways environmental sinners. We're both not getting it quite right and we're both feeling political pressures to change. Some of us feel it a little more than others, and some of it do a little less about it, maybe, but we both have the same circumstances in that sense. Do you see any possibility of, say, in the next administration here, a more collaborative leadership role that China and the United States could work out some practical approaches to improving the environments in both countries, both for themselves and as a model for other people?

DR. ECONOMY: I think certainly, when you look at the candidates and what they're talking about right now in the United States – so let's just take it at a very practical level – I think everybody but Mitt Romney has articulated a reasonably aggressive climate change action program, of the people that are considered to be contenders. I think that that's on the minds of most of the candidates, and I think most people think, given this current Congress and if trends continue, that yes, we're going to start moving. And you can already feel it, right? The bottom up pressure, many states have moved far past what the administration currently has set out.

What kind of impact could that have in China? I think we have the strategic economic dialogue, and I don't think there's an unwillingness to work on this on the part of the administration and Hank Paulson in particular because he is interested in the environment. He was formerly the chairman of the Nature Conservancy; I know he's interested in this topic, genuinely interested and concerned. He spent a lot of time in China on this issue, not just for Goldman Sachs. So I don't think there's a lack of interest. I just think that it's hard. And there's not much money, and the money also is a function of Congress. And so when you look at EPA, not so much DOE, there's just not that much money.

My idea would be to pick one or two issues, and maybe it's climate change, and under that, maybe it's energy efficiency. And you tackle building energy efficiency and factory energy efficiency and sort of production-related energy efficiency. Michael Totten at Conservation International has this sort of very grand scheme, but you can break it down into its components and then really start to, I think, burrow down, and it's an issue that both countries are concerned about. It's an issue where you could get some kind of targets, sectoral targets. So for the United States, the goal is to get to the level of Japan on energy efficiency or Germany is with building energy efficiency or something like that. The goal for China is, I don't know, to get to where the United States is now by 2020 and to get to Japan by 2050. So you can have not necessarily equal, exactly equal targets, but relative kinds of targets. I think we ought to be able to do something like that.

But again, I do think it requires a somewhat different mindset about how you approach the whole collaborative effort, and it's got to be one, again, that comes bottom up and isn't just about trading technology. And I think, also, our relationship is so diffuse and we have so many areas where we can cooperate, could cooperate, on virtually everything, really, that I think some degree of focus would also help. So am I optimistic? I am actually optimistic. Thank you. (Laughter.)
Julia.

Q: Julia Chang Bloch, U.S.-China Education Trust. Elizabeth, let me add my compliments to a most comprehensive presentation, very, very thoughtful and useful. You mentioned in your talk the role of the media in two cases on environmental protection, but they were very specific. I wonder if you might comment more broadly on what you see as the potential role of media in China in terms of transparency, in terms of better informing the public, so on and so forth, in changing the system. Do you see that the Chinese media will be able to do this, will have a broader mandate to cover environmental issues more than they're allowed now?

DR. ECONOMY: It's interesting. I think that the mandate has sort of expanded and contracted and expanded and contracted, and you get a ruling that says that we want the media to go out and report on pollution disasters – we want it immediately known what's going on. And then six months later, you get this, yeah, but actually if you're in Beijing, you can't go to Guangdong and report on that, no, no, no, sorry, no crossing of provincial boundaries by the media. So none of those really good newspapers can go in there and actually do great investigative reporting. So I think it's another area where Beijing wants part of it, but it's afraid of what happens if it really opens the door completely.

There is a very interesting case unrelated to the environment, this issue of the child labor, the imprisoned child labor that's been getting a lot of attention in the media over the past few days. There was a piece – it came over my Blackberry and I just was reading it this morning, I just got it this morning – a piece, and I think it was in China Daily, a piece saying, this case signals the need for real investigative journalism in China. We journalists have to be allowed to go out there and investigate these things, and the reason this came to light was because of this one journalist, Fu something-or-other, and we need to be able to do that.

So clearly there is a desire, which many of us know, a desire on the part of many Chinese journalists to be able to be real journalists. And the environment, again, is a very natural area for that kind of investigative journalism to happen. It's happened before. It's used by environmental

activists and by SEPA. SEPA wants the media to be doing this kind of thing. So it has an ally within the central government. I think it does have the potential to break open much more widely than it has. Just not clear when it's going to happen.

We don't have too much time, but maybe – should I take a couple questions at once? Okay, sorry, yeah.

Q: Ernie Preeg, Manufacturer's Alliance. So thank you for the very disturbing presentation, from my point of view. Things seem to be out of control. As you say, the system is not working, and then you have the specific things, cancer rates up, infant mortality up, desertification, acid rain, fishing. But my question is, within this context, what are the most likely flash points in these environmental casualties where there might be a surge that really gets so large that it creates a crisis-type situation which has political as well as environmental implications? Are there two or three flash points, potential flash points, we should be watching most carefully?

DR. ECONOMY: Interesting question. Okay, anybody else want to talk? Last questions. Okay, yes.

Q: Mariel Lockland (sp), National Bureau of Asian Research. I was just wondering, in terms of sustainable transportation, there are a lot of ideas that have been thrown out. Do you have any, specifically, that you think really work? Maglove (ph), hydrogen-powered buses, anything specific that you think is working in China?

DR. ECONOMY: Okay. Yes. My good friend – oh, oh, first. (Laughter.) Yes, his boss first. Okay, sorry. I got you in trouble. Go ahead.

Q: Thank you. But if we have time, I just want to have some comments –

DR. ECONOMY: Oh, yes sure.

Q: — and I think this is an excellent presentation. Thank you very much. I have learned a lot from that. But my comment is that, the first point I want to make is that, as you – (inaudible) – China specialist, and China is the larger country, and all you have said, I think they are all truths and the facts, and we should take serious consideration of all these things, but it becomes a larger issue for China, not only for China, and for the world because China is the larger country. And all things are true, but it's only part of the larger picture of China's development. That's the first point, and the second point is that I think these other things are – we should look at it in a – have historical sense to that, and this is in the process of development, mainly because of China's fast-growing economy, it's a fast development. We do not have – (inaudible) – institutional things to catch up with this kind of fast development, and this is a second important.

The third one is that I think about the media roles, the media is going to play a very important role, especially in these issues and these areas. And people ask, also, about the political things. I think – you mentioned about Gorbachev. I think Gorbachev could be a good person, but as his leadership, I think, is not suitable for China, and compared with Deng Xiaoping (?), I think Deng Xiaoping's leadership may be more suitable. And to China, my understanding is a stable

situation, mainly, I think is very important, and China's leadership has to find a very proper balance point to balance the development and the environmental protection and the climate change, all these kind of things. And I take example. These are the suits, the lawsuits and the problems and the public appeals because we have developed into just this stage or period.

You mentioned about the case in the Xiamen case, about the chemical plant. I would say, if this happened, this plant is going to be built in a very remote, backward area, and no people would do this protest, and they would welcome very much about this plant because it will provide a lot of jobs and opportunities of these kind of things. So these appeals and these protests, because of China has a growing middle class there, that have more conscious of these kind of environment – (inaudible) – because they have a well being, living condition, these kinds of things. Now, the issue of environmental protection has become their concerns. So this is – in China, we have very backward, underdeveloped period, and people have very different need, but we have well-developed areas, the middle class there, they have a very different request. So the government, the central government, to have different concerns and the local government have very different concerns. So this is, I think, maybe the whole picture of China, and we should notice that. Thank you very much.

DR. ECONOMY: Thank you. Do you want to say anything or no? (Inaudible.)

Q: Thank you very much for your wonderful presentation, and we are looking forward for your next visit to Beijing. Your presentation reminded me, the United States, in the early 20th century, that is – (inaudible) – in a very tender situation with pollution. At that time, we have a very great leadership, that is Teddy Roosevelt, who was labeled by the environmental president and established lots of national parks, so I think our leadership is highly aware of the seriousness of the current situation. And I'm very curious of your information, very latest information, especially – (inaudible) – where I live. (Laughter.) So many one of my relatives (?) is in a protest.

DR. ECONOMY: Really? (Laughter.)

Q: To produce some positive effect today the EPA in China has decided to stop this project. So for us, on the one hand, it's a very tender situation. On the other hand – (inaudible) – positive sign that EPA and the Chinese government began to respond actively in this sort of protest. My question is related to the transnational corp – transnational companies and – (inaudible). You know, lots of – (inaudible) – energy wasted plants are transnational. How do transnational company and the interest groups – (inaudible) – China, where shared burden or shared responsibilities of the future, energy pollution and environmental protection? Thank you.

DR. ECONOMY: Okay, I'll try to go very quickly because I know we're at the end of our time. We at the Council of Foreign Relations in New York always start and end on time. As Julia knows, it's one of our mandates. So I don't want to take – I know people have places to go and things to do, so very quickly, okay, crisis. What kind of things might provoke a real crisis? I think there are probably two.

One could be something like the Three Gorges Dam breaks, something like that, and millions of Chinese are flooded and killed. A project that has been so very much associated with

the leadership in Beijing over the protests of a lot of people, a lot of problems associated with the dam. In fact, Li Peng just came out, weird thing in the People's Daily, with some kind of paragraph defense of the Three Gorges Dam, so there's a lot of rumbling going on about it. That's all that means to me.

Another kind of possibility would be if you had another kind of SARS but related to the environment, or what you had in the Songhua River in Harbin where you have an extended period where information is shut down and people's health is being very seriously compromised from that, and then you had massive number of people getting engaged in this outside the government structure. I could see something like that. In the end, maybe not the first time, maybe not the second time, but maybe the third time actually really pushing it into a political crisis.

In terms of transportation issues, there's a lot of work going on in sustainable transportation in China right now, everything from things like bus rapid transit to fuel-efficient standards and hybrids and all these kinds of things. What works, I don't know. Again, in meetings this morning, someone had been at the Shanghai auto show, which was just maybe a month ago. It was huge, he said, but you know the most amazing thing? What were the Chinese – what did they really love? Just what we love – the Cadillac Escalade. I don't love it, but Cadillac Escalades, these giant, shiny cars, Maybach.

I met the head of Maybach in this conference in California several months ago. He told me China is the fastest-growing market for Maybachs after Dubai. So one of the very sad things, I think, is that the Chinese are just like the Americans. I know it's not politically correct to say that, but I really think it's true. They like big, fancy, shiny, expensive things. So take that for what it's worth, but I think there's a lot of good work going on on the ground. It'll be interesting to see how many Chinese turn to the Prius and how many don't. I think that's something that we will have to wait to see.

And let me just make one or two last points. I did talk about the role of the multinationals, the transnational corporations, and sort of their impact. I think, by and large, the ones that are most problematic, frankly, and whether you consider these multinationals – let's just call them corporations – are the ones from Taiwan and Hong Kong. They're the ones where environmental practices are probably not up to par. That's not to say that there aren't some American companies not doing precisely the right thing, but by and large, China has always recognized multinationals as leading in environmental protection. And if you look at polls of Chinese companies, you realize they are well behind MNCs. The World Wildlife Fund did a poll that said 18 percent of Chinese companies believe that they can actually grow and protect the environment at the same time. There's just not that environmental consciousness yet among so many Chinese companies. But you have some – Lenovo, Haier, SunTech. You've got some that are coming up and emerging. So I think that's promising. But, of course, it's the responsibility of the multinational to do the right thing in China, as it is everywhere. My only point in that discussion was to point out that probably their responsibility for China's pollution is somewhere down here, relative to the responsibility of the Chinese companies.

And thank you very much for your comments. I think when I come to Beijing with my political officials, we can continue this conversation. Thank you.

MS. : I'd like to thank Dr. Economy very much for a very insightful discussion. I hope you all enjoyed it.

DR. ECONOMY: Oh my God, a gift.

MS. : We have a small – (inaudible) – for you.

DR. ECONOMY: Thank you so much. How very Chinese of you. Thank you. (Laughter, applause.)

MS. : Thank you all for coming. We're taking a brief hiatus over the summer for a couple of months, but we'll be back with more events in September on China's economic situation and financial system, so we hope to see you all there. Thank you.

(END)