

## **Environment and Development in China in the New Century**

### **——Keynote Speech**

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Chairman Wen Jiabao, Executive Vice Chairman Xie Zhenhua, Vice Chairman Qu GePing, Liu Jiang and Other Distinguished Council Members and Participants,

Let me say how very honored and privileged I am to be invited to address this opening session of Phase III of the China Council for International Cooperation on Environment and Development which I have followed with special interest and admiration since participating in its launching in October 1990. I congratulate the government of the Peoples Republic of China for its decision to continue this unique and innovative cooperative relationship with its international partners. As a Canadian, I am especially pleased at the key role that Canada has played in the establishment and evolution of this partnership. I am also greatly impressed with the extent and quality of the international participation in the CCICED

I join with people throughout the world in applauding the remarkable transition in leadership which has just taken place, combining renewal with continuity of the policies that have produced an unprecedented era of peace and prosperity for China. The important decisions of the 16<sup>th</sup> National Congress of the Communist Party of China and the endorsement of the theme of the “Three Represents” provide a promising road map for the next phase of China's long march to the front ranks of the world's most influential nations.

The launching of this Phase III of the CCICED partnership comes at a particularly important point in this long march. As the pace of this long march has accelerated the environmental challenge to which it gives rise has become a central issue for China and the manner in which it manages the environmental dimensions of its rapid development will have a critical, perhaps decisive, effect on China's future. How China deals with this challenge will also be of immense, indeed decisive, importance to the entire world community and to its prospects of making the transition to a sustainable development pathway.

This unique partnership is therefore of special importance, providing China's foreign partners with an opportunity to understand and respond to China's initiatives and priorities while sharing their experience and knowledge with China and providing it with financial and other forms of support. This support should not be seen as foreign aid in the traditional sense, but as an indispensable investment in our common future.

Since the Stockholm conference first put the environment issue on the global agenda and affirmed its inextricable link with development, we have made a great deal of progress both in our understanding of the relationship between environment and

development and our capacity to manage this relationship effectively. The essential link between environment and development which was articulated at Stockholm and elaborated in the agreements reached at the Earth Summit in Rio de Janeiro in 1992 has evolved into the broader concept of sustainable development in which the economic, social, population, gender and human settlements dimensions of the development process can be seen in their systemic relationships with each other.

Unfortunately, despite progress on many fronts, as reported at the recent World Summit on Sustainable Development held in Johannesburg, South Africa, we have still not made that change of course called for at Rio and continue on a pathway that is unsustainable with ominous implications for the human future.

The preoccupation today with the war against terrorism, the prospect of war with Iraq, the continuing conflicts in the Middle East and elsewhere, coupled with the retreat of United States from multilateral cooperation on environment and sustainable development issues, are undermining the prospect of the transition to sustainability despite ever more compelling evidence of its urgency. Of course, we must deal with these more immediate threats, but in doing so, must not allow them to side-track the transition to sustainability.

There is a growing body of evidence as to the relationship between sustainable development and sustainable peace and security. The obvious, of course, is the impact of conflict on development and on the environment. Conflicts, most of them internal, that have afflicted so many countries in the developing world, particularly in Africa, have crippled their own economic and social development and exacted a heavy cost in human and economic as well as in environmental terms. Scarcities of critical resources arising from environmental degradation - especially of available land, fresh water, food and energy - contribute to the potential for conflict both within countries and with neighboring countries.

At the global level, many emerging challenges to peace and security are rooted in and directly related to environmental and natural resources. The global commons, some seventy percent of the earth surface beyond the national jurisdictions, is likely to give rise to an increasing number of competing interests over exploitation and management of marine resources pollution and use of the oceans as the repository for toxic and radioactive wastes and exploitation of the petroleum and mineral resources underlying them. Of course the largest commons of all is the atmosphere and outer space, the value of which has been immensely enhanced by the multiplicity of uses to which it is now being put - particularly in accommodating the rapidly growing numbers of satellites that orbit the earth. However, US plans for the militarization of space are highlighting the potential for differences on this issue, even with its traditional allies. It seems evident that the militarization of space, however well intentioned, as a means to achieve security against missile attacks could well lead to a new and highly dangerous generation of space - related conflicts and insecurity.

As the world community becomes more and more aware of the importance of environmental security, it is predictable that people will become more sensitive to the damage inflicted on them by the actions of others, as for example through trans-boundary impacts of actions by one country which inflict important environmental and economic costs on others.

From Stockholm through Rio to Johannesburg, the shared concern of developing countries has been the inadequate availability of funds for the financing of sustainable development, market access for their products and equitable access to technology. These remain the greatest impediments to alleviating the hunger, poverty and environmental degradation, which continue to plague less developed countries. Unfortunately, the agreements reached at international conferences to address these issues have not been followed by sufficient actions.

In all of these issues, China is a key player. Internationally, beginning with the Stockholm Conference in 1972, it has consistently and vigorously championed the interests of developing countries. It was the first country to adopt its own National Agenda'21 based on the Earth Summit's Global Agenda '21. And domestically, it has created its own unique development model in which foreign assistance and support has made a significant but subsidiary role, China's remarkable development success has been the product of Chinese leadership, and predominantly Chinese resources. The same will be true of China's commitment to protecting and improving its environment.

China is now well positioned to take a major leadership role in international environmental cooperation. Its membership of the World Trade Organization adds a major new dimension to this capacity. The experience it is developing in managing its own environment problems, the skills it has demonstrated in environmental diplomacy and the critical importance of China in achieving global environmental security and sustainability fit China for this role. China's leadership will be welcomed by the international community, which very much needs that leadership today.

As one who has been privileged to be closely associated with China during the remarkable period of development of its environmental commitment and capacities over the last 30 years, it is my deep conviction as to the critical importance of China in the global context that has motivated me to decide to devote most of my time and energies at this stage of my life to doing what I can to help and support it.

The 2008 Olympics have become a primary focal point of China's commitment to the environment. This promises to make the Beijing Olympics the greenest ever while providing strong impetus to the achievement of China's national environmental goals and validation of its international leadership.

One cannot help but be impressed by the degree to which China has recognized the economic costs of environmental impacts. The recent study by the CCICED Environmental Economics Working Group estimates the costs to China's economy at nearly 10 per cent of GDP annually. The cost of natural disasters in 1998 alone was some 300 billion RMB (36 billion dollars). Some of China's cities are amongst the most polluted in the world. An estimated 37% of China's total land area suffers from soil erosion and degradation, much of it caused by over-grazing, inappropriate planting and deforestation by poor communities which have no other options to meet their livelihoods needs. The sustainability of agriculture is also threatened by salination, over use of pesticides and chemical fertilizers, the vulnerability of monocultures, droughts and floods.

Rising standards of living and increased consumption which improve the lives of people also produce escalating environmental problems. China's rapidly expanding energy needs continue to be met mainly by fossil fuels, notably coal, and it has become increasingly dependent on imports of oil. In no country is the need for transition to a new energy economy less dependent on fossil fuels more important-indeed imperative. These are but a few examples illustrating the vast scale and complexity of the environmental challenge that China faces.

The response of China's government through this challenge has been impressive and promising. During the Ninth Five year plan period, 1996 - 2001, 84,000 highly polluting small enterprises were shut down and over 90% of 238,000 polluting industrial enterprises lowered their emissions of pollutants to national standards. Protected wilderness areas were expanded to 88 million hectares, 8.8% of the national territory. The Tenth Five year plan, 2001-2005 provides for even more extensive environmental protection efforts reflecting the major priority accorded to the environment by the central government.

Minister Xie Zhenhua, of SEPA said in an article in the Peoples Daily in January 2002, "Never has the Chinese government put the environment in such an important position. It is vital to the civility and prosperity of our country and people." China has produced seven environment protection laws and over 120 regulations. Its legal system is increasingly being used to enforce these. President Jiang Zemin at the 2<sup>nd</sup> Global Environment Facility Assembly in Beijing in October of this year stated "development at the expense of squandering resources and undermining the environment cannot last long. Natural resources are not inexhaustible, yet the demand of human development is ever growing. If the relationship between the two is not addressed properly, it will inevitably be to a deterioration of the ecosystem and pose serious threats to the survival and development of mankind". He cited the high priority China is now according to environmental protection and sustainable development and the substantially increased budgetary resources allocated for this purpose in the Tenth Five Year Plan.

The National 10<sup>th</sup> Five Year Plan for Environmental Protection approved by the State Council in December 2001 provided for a doubling of spending on pollution control projects in the next 5-year period and set out key goals and targets for reducing air and water pollution and establishing "green" areas and urban centres and increasing nature reserves to account for some 13% of the country's territory. Overall, it is an ambitious plan with impressive specific goals which gives practical effect to China's commitment to the environment and sustainable development. It deserves significantly expanded international support and I am confident that this meeting will produce a strong commitment to mobilizing that support.

Internationally, Premier Zhu Rongji announced at the World Summit on Sustainable Development in Johannesburg in September, China's ratification of the Kyoto Protocol, affirmed China's commitment to the common task of realizing global sustainable development and to greater international cooperation in this task.

Let me suggest some of the areas in which I believe special efforts should be made:

i) Technology - is a critical factor in virtually all aspects of the environment and development process and in the essential task of integrating the environment fully into it. China has a long history of scientific development and technological innovation which enables it not only to continue to develop its own technologies but to absorb and adapt the technologies developed elsewhere. All countries have a deep interest in ensuring that China has access to the best technologies available and the capacity to employ them in its own development. It is important that all barriers to China's access to such technologies, including cost barriers, be removed and that China be accorded full access to the means to obtain and utilize such technologies. This could start with bilateral action on the part of individual countries while working to obtain international agreement on providing for financing, cooperative research and development, access to intellectual property and to the incremental financial resources required for the utilization of the best state of the art technologies.

The most effective means of strengthening China's technological capacities is through private -sector partnerships. With the encouragement now being given by the Chinese government to such partnerships, this is one of the most promising areas of opportunity for foreign firms.

ii) Energy - In no field is technology more important than energy. China's continued reliance on fossil fuels for more than 90% of its energy needs is simply not sustainable. In addition to the high cost and vulnerabilities that will impose on China itself, it could make it in time the principal contributor to CO<sub>2</sub> emissions. This would clearly be bad for China and for the world community which has a strong incentive to help China achieve sustainability in the energy field. This means improving energy efficiency, reducing the environmental impacts of fossil fuels while giving high priority to the development of alternatives. The Clean Development Mechanism provided for in the Kyoto Protocol will hopefully provide significant international support for this transition. In addition, I believe that it is important to establish,

perhaps within the CDM framework, a Consultative Group on Clean Energy, modeled on the Consultative Group for International Agriculture Research, which would be especially charged with mobilizing support for the development of new environmentally sound energies and technologies and for the financial resources required to enable their utilization.

iii) Agriculture - Environmental degradation closely related to energy and water constraints is threatening the future of Chinese agriculture. It faces growing risks in the transition from its traditional agriculture to modern industrialized agriculture. While modernization of agriculture is important to increase productivity, it nevertheless imposes potentially severe environmental and health risks, particularly as it leads to overuse of chemical fertilizers and pesticides. It is important that China revisit its own long experience with less energy and chemical intensive agriculture and consult the experience of other countries which are finding new ways to achieve a much more sustainable balance between modern and traditional agriculture.

iv) Water - Both water quality and water supply are at the very core of China's sustainable development challenge. Already, some of China's main rivers are highly polluted and many rapidly growing cities are faced with the need to improve water quality and tap new sources of supply. The substantial commitment of resources that China has made to impressive increases in waste water treatment will certainly help. But much more will be necessary, and external resources and expertise must also be brought to bear if a serious water crisis is to be averted. Simple privatization of water development and delivery systems will not be feasible in most cases. What is needed is a system of private-public partnerships which will provide foreign companies and investors with an incentive to participate in China's water development while leaving basic control with the Chinese.

v) Environmental Services - China has already made an important start in development in its own environmental services industry. The rapid and qualitative development of environmental services is, I submit, essential if China's own environmental goals are to be met. And it is essential true that these be supplemented and supported by foreign investment and expertise. There is no doubt that will be forthcoming if the fiscal and legal conditions in China are conducive to it. It is important that China's external friends lend their full support and cooperation to changes in these regimes which it is now undertaking.

vi) Management is the key, and usually decisive, factors in successfully integrating the environmental and social dimensions into the development process through sustainable development. The historic transition which China is now in the process of making from a centralized, planned economy to a socialist market economy with de-centralized decision-making requires a major shift in the culture of management as well as in the skills of managers. The high priority that China is now according to management education and training will do much to meet this need but it is an area

where external skills and experience can be especially relevant. One of the most effective means of making the necessary experience of skills available to China is through partnerships between Chinese and foreign companies and organizations. These partnerships can take a variety of forms but in the end must lead to control by the Chinese while producing appropriate returns for the foreign partner or investor.

vii) Financing the immense costs of meeting China's ambitious environmental plans will require new dimensions of commitment and cooperation by both China and its foreign partners. Most of this funding will, of course, come from China itself and the provision of substantially increased funds in the 10<sup>th</sup> Five Year Plan demonstrates the high priority it is according to its own commitment. This must now be accompanied by an order of magnitude increase in international funding-both official and private. But with prospects for major increases in official Development Assistance not promising, despite the new commitments made in Monterey, new and innovative efforts must be made to mobilize private funds, both from external sources and from China itself. There are many areas in which China's environmental priorities can be met in ways which also produce attractive returns to investors, as they must. I know of a number of leading companies and investors, including some with which I am associated, that are prepared to invest when these conditions are met.

The funds are available. But they will only be forthcoming at the much higher level necessary if the legal, fiscal, policy and regulatory conditions are conducive. The changes now underway in China promise to produce these conditions. And I cannot underscore too strongly how essential these are in providing the incentives to which private investors will respond.

The initiatives already taken by the International Finance Corporation, the Asian Development Bank and some others have helped pave the way. And the United Nations Development Program under the Administrator, Mark Mallock Brown, is developing some innovative new approaches that are highly promising. The time is now propitious, I submit, for a bold new initiative by the private sector, with official encouragement and support. Some of us have been working on the launching of a "China Eco-Opportunity Fund" as an instrument for enlisting private funds for environment-related investments, particularly those based on incorporation of the latest technologies. An endorsement in principle of initiatives of this kind would provide strong encouragement and impetus to this process, which I will do everything I can to help more forward.

I am well aware that there is little in what I have said that will be new or surprising to this sophisticated audience. The focus of my remarks is therefore to reinforce your commitment to developing a whole new generation of partnerships between Chinese organizations and enterprises which, in meeting the interests of each of the partners, will contribute to meeting China's environment and development priorities and helping to affect the global transition to sustainable development. The unique

partnership you have forged through the China Council for International Cooperation on Environment and Development is the best vehicle I know for promoting and facilitating these partnerships, working with the Chinese to develop the policy, legal, fiscal and regulatory regimes which facilitate them and mobilizing the essential increases in foreign resources - financial, technological, professional and institutional which China needs and deserves. If I may end on a personal note it is my deep conviction that this is a time of historic opportunity in China that has led me to commit most of my time and energies now to helping to develop and form such partnerships, in the private sector and the public sector.

I can think of no more exciting or promising challenge for this Phase III of the CCICED and look forward to the further insights and views which I know will emerge in the remainder of your program me.

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