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The “Beijing Consensus” in Energy and the Environment

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A week cannot go by without a news report trumpeting China’s growing economic influence. The PRC’s economic performance can exceed even high expectations, bringing near-constant commentary about a new Chinese model for the world, often referred to as a “Beijing Consensus.” There are many flaws in the notion of using the Chinese economy as a model, perhaps chief among them that widespread imitation of Chinese policies would cause those same policies to no longer work for China itself.

Another major weakness in any Beijing Consensus involves energy and the environment. In energy use and environmental impact, the PRC also often shoots past expectations, but in this case it is on the downside. In energy efficiency, coal consumption, greenhouse emissions, and other indicators, China has moved down a possibly dangerous path far faster than expected just a few years ago. Here, rather than imitating China, the U.S. and other countries may be forced to take action to mitigate against its development model.

Energy Leadership? A survey by the Pew Charitable Trusts created a stir by finding that, in 2009, China easily led the world in “clean energy investments and finance.” Along the same lines, President Obama has repeatedly cited the PRC as a leader in the green economy. If spending money is the solution to all problems, China will always seem to be leading. However, the PRC’s spending spree is chiefly a response to massive and growing use of fossil fuels. Moreover, the green investment is largely wasted.

The Chinese economy is one-third the size of the American economy. Yet according to the International Energy Agency, in 2009 the PRC eclipsed the U.S. as the top energy user. A decade earlier, Chinese consumption was half that of the U.S. If trends hold, Chinese energy use will soon surpass American by 20 percent, 40 percent, and so on.

One reason is that, over the past decade, the U.S. raised energy efficiency by 2.5 percent annually. China raised efficiency by 1.7 percent annually, despite a far greater scope for improvement. And the situation is deteriorating. Notwithstanding the money spent in 2009, official Chinese data show that energy efficiency fell in the first quarter of 2010. For the first half, electricity demand soared 21.6 percent, faster than nominal GDP and nearly twice as fast as real GDP. Industry accounts for both the bulk of electricity use and its growth.¹

The PRC is scouring the world for fossil fuels to power that industrial machine. At the same time, it limits inward foreign investment in energy and is sharply curtailing the exports of rare earth minerals used in environmental equipment.² Competitive advantage—not global cooperation, much less any Chinese leadership role—is being sought.

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Coal Trumps All. Approximately 80 percent of the PRC's electricity is generated by coal, versus about 45 percent in the U.S. By itself, China accounts for two-fifths of the planet's coal consumption. Despite hefty reserves and world-beating output, Chinese coal imports tripled last year and will shortly pass Japan for the globe's top spot. As recently as 2006, the PRC was a net coal exporter. If trends continue, Chinese imports will soon dwarf those from Japan and push up global coal prices substantially.³

There has been a great deal of attention focused on Chinese investment in alternative energy. On official data, coal production outstripped overall electricity production both in a slow 2009 and in a very rapid first half of 2010, far outpacing growth in hydroelectric and nuclear generation. The government does not offer comparable figures for wind and solar, but coal displaced the use of other sources as a whole.

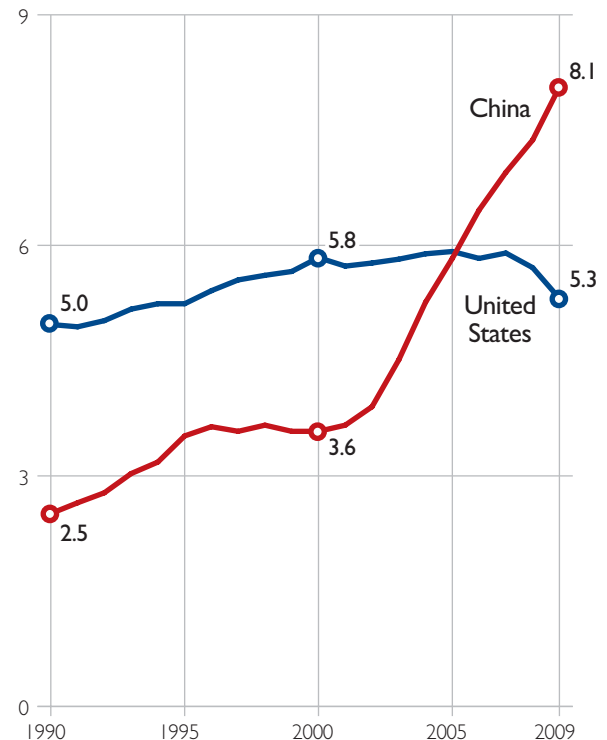
In wind, the central government acknowledges encouraging overcapacity. A large chunk of supposed capacity is not connected to the grid; another chunk is simply inactive. Now something similar may happen in solar, where lending directed by the state could as much as double *global* capacity in solar panels.⁴ Less than 10 percent of solar panel production is for the internal market, and far more in the way of exports is on the horizon.

The common thread in fossil fuels and clean energy is state control. The State Council requires "absolute state dominance" in energy. In late June, coal was again subject to price controls. These encourage coal demand and force larger subsidies for

Comparing Carbon Dioxide Emissions

China's CO₂ emissions have more than doubled since 2000, while emissions from the United States have declined by more than 8 percent.

Emissions of CO₂, in Billions of Metric Tonnes



Source: J.G.J. Olivier, J.A. H.W. Peters, "No Growth in Total Global CO Emissions in 2009", Netherlands Environmental Assessment Agency (PBL), June 2010, p.12, at <http://www.rivm.nl/bibliotheek/rapporten/500212001.pdf> (July 21, 2010).

Chart 1 • WM 2970  heritage.org

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2. Derek Scissors, "Tracking Chinese Investment: Western Hemisphere Now Top Target," Heritage Foundation *WebMemo* No. 2952, July 8, 2010, at <http://www.heritage.org/Research/Reports/2010/07/Tracking-Chinese-Investment-Western-Hemisphere-Now-Top-Target>; Bloomberg, "China Cuts Rare Earth Export Quota, May Cause Dispute," July 9, 2010, at <http://www.businessweek.com/news/2010-07-09/china-cuts-rare-earth-export-quota-may-cause-dispute.html> (July 23, 2010).
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renewables to make the latter competitive. Oil and gas prices remain controlled, and when price movements are permitted, subsidies are hiked. State firms can face heavy taxes or enjoy huge subsidies but are always protected from competition. This is China's model.

Air and Water. The dominance of coal has a predictable impact on greenhouse gas emissions. In 2006, Chinese and American emissions were roughly even. By 2009, Chinese emissions were over 50 percent larger, and the gap was growing quickly. This is especially startling given that China's economy is still much smaller. The next decade will be worse: Through 2020, the PRC will account for more than half of global emissions by itself.⁵

This amount of emissions, obviously, is far more than its population share, which means *per capita* emissions are rising sharply. As recently as December, it was thought that the PRC would pass most European countries in *per capita* emissions gradually over the next decade. Instead it passed France last year and is presently on course to pass the rest of the EU by 2016. Similarly, projections of total emissions that once seemed pessimistic now appear far too cautious, as various emissions bars may be shattered years in advance.⁶

One reason the emissions performance is so awful is that water pollution and use is, correctly, a higher national priority. Irrigation is extensive, but farmers only receive 46 percent of water re-directed to their fields, versus 80 percent in advanced economies.

In 2008, close to half of waterways monitored by the Ministry of Environmental Protection were classified as being polluted to the extent that they were unsuitable for human contact. The first national pollution census put discharges into the water supply at over 30 million tons in 2007, more than twice

the previous estimate. Industrial solid waste was estimated at 49 million tons, more than triple the previous figure.⁷

Lesson for U.S. Policy. It is plain that a "Beijing Consensus" in energy and environmental issues would be disastrous. The world is struggling to accommodate one country following the PRC's energy and environmental priorities—more would be that much worse.

This potential calamity has particular implications for American policy. Chinese state intervention and, now, tens of billions of dollars in annual spending are consistent with an energy and environmental performance that is vastly inferior to that of the United States. Federal government tax and spending actions can certainly boost individual wind and solar companies but may harm the economy, make the U.S. less energy efficient than it otherwise would be, and do little for the environment.

Rather than trying to match the various kinds of Chinese subsidies, as some green energy advocates suggest, the U.S. should start near the opposite pole of the Chinese model. Policy cornerstones should be:

- No protectionist restrictions in trade and investment,
- Minimal government intervention in energy industries, and
- An understanding that well-intended environmental spending can be almost entirely wasted.

These principles will help the U.S. avoid the PRC's ongoing energy and environmental failures.

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