VIEWS

Manish Bapna

Three steps toward green Belt and Road

The China-proposed Belt and Road Initiative will likely be the most significant development in global finance in the coming decade, as it promotes investment of trillions of dollars in infrastructure across Asia, Europe and Africa. This region includes low-income countries, as well as fast-growing economies, including Indonesia, India, Vietnam and Pakistan.

The fundamental question is whether this infrastructure will be sustainable? As the Global Commission on Economy and Climate recently noted, infrastructure underpins core economic activity and is a foundation for achieving inclusive and sustainable growth. It is indispensable for reducing poverty, as it enhances access to basic services, healthcare, education and work opportunities, and can boost human capital and quality of life.

It also has a profound impact on addressing climate change, with the existing stock and use of infrastructure associated with more than 60 percent of global greenhouse gas emissions. The direction of Belt and Road investment is therefore exceedingly important, as choices made today will lock in either a climate-smart, inclusive-growth pathway or a high-carbon, inefficient and unsustainable pathway.

LI MIN / CHINA DAILY

Progress toward sustainability

China recognized the importance of an inclusive and sustainable BRI at the first Belt and Road Forum for International Cooperation in May 2017 with President Xi Jinping stating: "We should pursue the new vision of green development and a way of life and work that is green, low-carbon, circular and sustainable."

However, the flow of Chinese investments so far has not always matched this ideal, because countries involved in the Belt and Road Initiative often have requested financial and technical support for conventional infrastructure projects.

My colleagues at the World Resources Institute looked at Chinese energy and transportation investments in BRI countries between 2014 to 2017 and found those sectors did not show strong alignment with the low-carbon priorities included in these governments' national climate plans. Indeed, most of these investments were used to finance fossil-fuel related projects in BRI countries.

Opportunity to put vision into action

With the second Belt and Road Forum for International Cooperation approaching, China and its BRI partners have an opportunity to put the vision of a green Belt and Road into concrete action.

How can China accelerate a shift in this direction?

First, the international community, including China, can help BRI countries identify investments aligned with their own climate and sustainable development goals. The national climate plans of many BRI countries include profitable and sizable low-carbon investment opportunities. A WRI research found at least $470 billion is needed to implement renewable energy commitments in 31 BRI countries that we analyzed.

The International Finance Corporation estimates $2.4 trillion in low-carbon opportunities in the transportation sector of 17 BRI countries. Many countries are expected to update and enhance their national climate plans ahead of a 2020 deadline, which were agreed by the international community under the Paris Agreement. China and others could work with BRI countries to help build the capacity necessary to translate their climate plans into investment opportunities for banks and other global investors.

Greater focus on green development expected

Second, many countries are looking to see if the Chinese government will create stronger incentives for financial institutions and enterprises to support a green BRI. The government can do so by improving the policy and regulatory environment. For example, the draft outward investment law — currently with the Ministry of Commerce — could send policy signals that encourage low-carbon cross-border investments.

And the forthcoming launch of the International Coalition for Green Development on the Belt and Road could raise the visibility and importance of green infrastructure and facilitate deeper cooperation between BRI partners.

Moreover, banks and other financial institutions can put in place internal guidelines that encourage deployment of capital to more sustainable projects. The economic rationale for this shift is increasingly clear, as the benefits of more inclusive and sustainable infrastructure often outweigh the costs, especially when incorporating broader health and social impacts.

High-quality data lead to effective decisions

Third, greater transparency, coordination, and reporting of BRI investment flows would improve the ability to track and understand the direction of these investments. It will be difficult to facilitate a shift to more sustainable infrastructure if data on investment flows are not available. Comprehensive, high-quality data can lead to more informed and effective policy and investment decisions.

The Belt and Road Initiative has the potential to advance both economic growth and environmental sustainability — or neither. In other words, the initiative's ability to stimulate broad-based growth in the long run hinges upon its ability to protect the environment. China has made significant progress to embrace a more "ecological" direction at home, including being the world's leader in renewable energy investment, actively addressing domestic air pollution, and developing a massive fleet of electric vehicles.

By greening the Belt and Road Initiative, China can set a strong example for international investment as well.

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Laurence Brahm

Draft law to further facilitate investment

Topping the agenda at the National People's Congress annual session this week will be the question of adopting a new law for foreign investment. The unified law will replace the three existing laws on Chinese-foreign equity joint ventures, wholly foreign-owned enterprises and Chinese-foreign contractual joint ventures. Which makes me feel nostalgic, as I was one of the early "China trade lawyers" to travel across the country in the 1980s and 1990s to negotiate joint venture deals to bring multinationals into China's market.

China's foreign investment legislation has developed piecemeal over the past four decades, beginning with the first law on Chinese-foreign joint ventures adopted by the NPC in 1979, when China was just beginning to open its doors to foreign investment, and foreign investors had little understanding of the Chinese market. Many foreigners did not know how to cope with China's complex system of approvals involving crossover sector permissions from different ministerial or administrative bodies. And Chinese factories did not know how to adapt to foreign management.

From the 1980s onwards, China adopted a gradual, sequenced approach to everything, from economic development to law. The first joint venture law was simple, though initially it was vague on many issues, which at that time remained unknown to Chinese and foreign investors alike. Gradually, when there were enough examples of real joint ventures, the lawmakers looked at these contracts, prepared the salient points, and adopted and implemented regulations.

The draft law is expected to eliminate the approval steps that have created higher thresholds and barriers for the entry of foreign businesses into China's market. It is also expected to eliminate many of the previous restrictions on foreign equity that were delineated.

Foreign holding firms introduced in 1990s

In the early 1990s, some foreign investments involving multiple joint ventures became too unwieldy to manage in terms of accounting, administration and distribution. So foreign investors proposed establishing holding companies, which were new to the Chinese authorities. These, too, were approved ad hoc.

Sure enough, after a few pilot approvals, a draft law was prepared and adopted to govern foreign holding companies. As such, regulating foreign investment and businesses was one of gradual evolution, with legislation most often racing to keep up with the actual investments that were being approved one after another.

Foreign investment just poured into China in the 1990s. Deals were done quickly. Some became grandiose success with foreign corporations and brands grabbing huge chunks of the Chinese market. Others just fell apart. Often the Chinese and foreign partners had different goals and management styles.

An end to complaint of unequal treatment

One complaint that many foreign business leaders have voiced repeatedly is a feeling of unequal treatment: Chinese companies can be established with relative ease through quite straightforward procedures, but foreign enterprises require approval and answering a lot of questions, with the authorities' enquiries continuing often long after the establishment of an enterprise. The draft foreign investment law being reviewed by the NPC will end such complaints by providing equal treatment for foreign investors setting up businesses in China.

This will be a major step toward creating an even playing field for all businesses and a major breakthrough in promoting fair competition.

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Depending on the sector, foreign shareholding has been controlled, preventing majority ownership or chairmanship of the board from being appointed by the foreign partner. Such restrictions could also be gone after the draft is signed into law and implemented, creating a real level playing field and allowing unprecedented market access to foreign enterprises.

Foreign firms will be able to transfer profits easily

Transferring earnings outside China has been another problem for foreign investors, because China has a system of tight foreign exchange controls. Earnings in renminbi now have to be converted into a foreign currency (preferably US dollar) before transferring it to a foreign destination. But the draft law allows for a more liberal system, making it easier for foreign enterprises to transfer their profits to overseas destinations.

Intellectual property rights (IPR) are another contentious issue. Many foreign businesses have claimed Chinese enterprises copy patented products of foreign companies at random. The strengthening of IPR protection will not only put an end to such allegations but also attract more foreign investment and foreign brands to China.

In the Government Work Report he presented to the NPC on March 5, Premier Li Keqiang said China will advance research and development in artificial intelligence, technology innovation, and strictly protect the virtual economy in order to build an environment that will ensure its development in a safe and secure environment. As such, stronger IPR protection will make foreign as well as Chinese investors feel more confident about China's laws and thus invest more in the Chinese market.

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Sun Wenkai

Job growth fine, yet many other issues need to be addressed

In the Government Work Report presented to the national legislature on March 5, Premier Li Keqiang said the country will pursue an employment-first policy with full force. Which means that for the first time the employment-first policy has been elevated to the status of a macro policy.

The government and the Government Work Report both have always paid great attention to the employment issue, because employment influences social stability and is crucial for the success of the targeted poverty alleviation program, which the central leadership has attached high priority to in recent years.

This year's report mentions employment 30 times, the highest in recent years. No wonder the government has made stabilizing employment, which it advanced in the middle of 2018, the first among all its stabilization tasks.

That the government is pursuing an employment-first policy shows it is fully aware of the pressure on the macroeconomy in 2019. China's economic growth rate has been slowing in recent years, mainly because it is focusing on qualitative development rather than quantitative economic growth. The slowing growth rate, however, has exposed some risks such as high leverage, a slowing investment rate, insufficient new economic driving forces and foreign trade disputes.

For this year, the government has reduced its GDP growth target to 6-6.5 percent, and adjusted the surveyed unemployment rate to "about 5.5 percent" instead of "no higher than 5.5 percent" last year.

Moreover, the large-scale layoffs in the internet industry, as reported by the media, has made the public worried. And the ever-increasing labor force, especially the annual increase in the number of college graduates, has added to the public worries. For instance, a record high 8.2 million college graduates entered the job market last year, and their number is expected to increase to 8.34 million this year.

Promoting entrepreneurship, self-employment and launching innovation campaigns, too, could solve the employment problem to some extent.

And since about 2 million additional migrant workers join the labor force every year, the country has to create at least 10 million jobs annually, which is a huge task especially if jobs also have to be created for other workers, such as veterans.

In addition, the labor market suffers from structural problems, including the insufficient supply of high-tech talents and oversupply of low-end workers.

Yet the slowing growth rate has not had much impact on the job market. For instance, with a GDP growth rate of 6.7 percent, China created about 13.14 million new jobs in 2016. In 2017, with a growth rate of 6.9 percent, the country created 13.51 million jobs. And despite a lower, 6.6 percent, growth rate last year, China generated 13.61 million jobs and kept the surveyed unemployment rate to a relatively low of 5 percent.

Furthermore, the government has always set a prudent employment target, but always maintained higher employment rate. Take 2018 for example. The government's target was to create 11 million urban jobs, whereas it created 20 percent more jobs.

Statistics show an increase of every 1 percentage point in GDP growth could produce about 2 million new jobs. Which means that even if growth is only 6 percent this year, the authorities can still meet the Government Work Report's target of creating 11 million urban jobs.

Since the government can continue creating more jobs on a yearly basis if it stabilizes economic growth, it should pay greater attention to the other urgent issue: the structural problem in the employment market. Indeed, to solve the structural problem, the government has launched a series of measures, including a 100 billion yuan ($14.87 billion) training program and a plan to increase enrollment in higher vocational colleges, so that more skilled workers can be produced to fill the shortage of such workers in China.

Promoting entrepreneurship, self-employment and launching innovation campaigns, too, could solve the employment problem to some extent. All these measures will help the government achieve the employment target this year. Still, it should address the structural employment problem in the job market by, among other things, cultivating high-end talents.

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