

# Ethical economy: the smog of development

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**T**HE pollution in the great new cities of China is hard to miss. There is often a visible miasma of dirt and dust. It is not just the air; water and earth have also been badly despoiled. The Chinese authorities, which were competent enough to provide more or less adequate sewage, electricity and urban housing, have let the environment deteriorate badly. Although central government officials routinely include pollution on the list of urgent problems, relatively little has been done. Rules are made, but commonly flouted.

What has gone wrong? The leaders of the Chinese Communist Party carefully studied the fall of the Soviet bloc in the early 1990s. Why did they pay so little attention to the popular antipathy to the old regimes' tolerance of pollution? Why did they then ignore the ease with which those countries reduced emissions of dangerous substances by as much as 90 percent, without much effect on total production? Now environmental depredations spawn increasingly intense protests. Why is there no coherent response?

The usual explanation from experts is that the environment only becomes a concern after standards of living rise to a relatively high level. There is probably some truth in that, although even dirt-poor peasants object to their children suffering brain damage from ingesting toxic chemicals. In any case, the Chinese government now lags the people in their dedication to reducing pollution.

Economic analysis should be helpful. Unfortunately, economists are actually part of the problem. Two of the most popular analytic techniques work against



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**A general view shows Beijing skyline on a hazy day July 26. Smoke from factories and heating plants, winds blowing in from the Gobi Desert and fumes from millions of vehicles can combine to blanket the city in this pungent shroud for days.**

the raising of environmental consciousness among policymakers.

Purely financial analysis is particularly harmful. Economists of this persuasion, some of whom are influential in China, fixate on interest rates, fantasise about inflation and parse financial markets. This approach is probably ill-suited for a developing market such as China, since the relations between the financial and the real productive economy are structurally unstable. In any case, financial analysis is certainly counter-productive for environmental matters. Since pollution abatement costs money and no one pays directly for environmental desecration, lower standards tend to make financial measures of production and profit look healthier.

What might be called the stan-

dard growth model is not as malign as the purely financial approach, but not exactly helpful. The technique, associated with the International Monetary Fund and widely followed in China, treats the economy as a machine which turns the inputs of labor, investment and natural resources --expressed as "total factor productivity" and the "savings rate" --into the outputs of Gross Domestic Product.

The standard approach reduces the economy to bulk categories. Pollution is on the long list of factors that are not considered worthy of separate measurement. In its most recent 75-page report on China, the IMF mentions pollution only twice, and only in passing. Conceptually, environmental disruption could be included as a cost or pollution

abatement as a desired output. However, the mechanical models rely on market prices, and there is no way to assign a monetary value to clean air and water.

Economists could be more helpful, if policymakers turned to the right school. The institutional approach helps explain why pollution abatement has made so little progress, and how that can be changed.

As the name implies, institutionalists study political, economic and cultural institutions -- including regulatory systems. Even proponents of financial and standard economic theory admit that this sort of analysis, favoured by the World Bank, is very helpful in the study of developing economics. Without strong institutions, labour and savings will be wasted. Nonetheless, it has

relatively little following in China.

Institutionally, the fight against pollution in poor countries is very difficult. The problem is that it is so tempting to increase profit by violating environmental regulations. To be effective, regulatory institutions have to be respected and competent enough to be able to force rich and generally well connected industrialists to obey the law.

The respect comes from society. In the 1970s, American captains of industry started to feel ostracised by their polluting ways; they quickly added emission reductions to the list of corporate goals. China may now have reached that level of popular disapproval, although the lack of political democracy and the strict limits on non-governmental organisations make it hard to tell. The competence comes from the people. There must be enough regulatory workers who are honest enough to resist pressure and bribes and skilled enough to keep up with the wiles of regulated enterprises.

In a developed economy such as the United States, there is usually a surplus of this regulatory capacity. It is quite different in developing economies, where the necessary integrity and skills are in short supply. Regulators must compete with producers and among themselves for scarce human resources.

In China, environmental regulators have been losing that fight. The institutionalists have an answer: change priorities. The forthcoming leadership transition is an opportunity. The new men should breathe deeply, and dedicate more of the nation's resources to the reduction of pollution.

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## China manufacturing at more than 3-year low: HSBC

AFP, Beijing

**C**HINA'S manufacturing activity fell to its lowest level in more than three years in August as the global economic slowdown continues to weigh on the world's largest exporter, HSBC said Monday.

The final reading of the British banking giant's closely-watched purchasing managers' index (PMI), which gauges nationwide manufacturing activity, slid to 47.6 last month from 49.3 in July, HSBC said in a statement.

This was the lowest since March 2009 and marked the tenth consecutive monthly fall, the bank said. It chimed with the official PMI figure released Saturday, which hit a nine-month low of 49.2.

A PMI reading above 50 indicates expansion, while one below 50 points to contraction.

HSBC economist Qu Hongbin said the figures showed China's manufacturing sector faced "intensifying downward pressure" and urged the government to step up easing measures.

"China's exporters are facing increasing difficulties amid stronger global headwinds," he said, adding new export orders contracted last month at the sharpest pace since March 2009 while employers cut jobs at the fastest rate in 41 months.

Authorities have tried to boost the economy with interest rate cuts and by lowering the amount of reserves that banks must keep on hand in a bid to spur the kind of lending that could stimulate a rebound.

However, Qu said the latest manufacturing figures indicated the previous stimulus efforts were not sufficient and more was needed.

"Beijing must step up policy easing to stabilise growth and foster job market conditions," he said.

China's economic expansion slowed to 7.6 percent in the second quarter to the end of June, the worst performance in three years and the sixth straight quarter of slower growth.

July figures for trade, industrial output, retail sales and foreign direct investment were also weak, raising concerns that government efforts to stimulate growth may have been insufficient.

# Russia's far east: a bridge to Asia, or to nowhere?

REUTERS, Vladivostok, Russia

**V**LADIMIR Lenin's vision of developing Russia's far east would not be out of place in President Vladimir Putin's talking points for the Asia-Pacific summit he is hosting this week in the Pacific port of Vladivostok.

"We will propose that capital from developed countries construct a super-highway between London, Moscow, Vladivostok and Beijing," said the plan, endorsed in 1922 by the Soviet revolutionary leader. "We will tell them that it will open up the untold riches of Siberia."

Ninety years on, the Kremlin has redecorated Russia's window on the east in the hope of improving its image in the eyes of investors from the world's fastest-growing region, and reviving its flagging popularity among hard-pressed locals.

Tsarist Russia completed a 9,300-km (5,800-mile) rail line to Vladivostok in record time, only to fall to the Bolsheviks a year later. Soviet leader Nikita Khrushchev was inspired to develop the city by a visit to San Francisco, another Pacific city on a bay, in 1959.

Now, Russia has pumped \$21 billion into its eastern seaboard to attract investors, tourists and gamblers from Asia, and persuade locals to halt the drift away from a city that, for all the grand designs, remains largely isolated from the rest of the world's largest country.

Putin, 59, underscored a strategic pivot away from crisis-hit Europe to the rising economies of the Pacific rim by creating a government department for developing Russia's far east after his return to the Kremlin for a third term in May.

But in Vladivostok, a city of 600,000 where the clocks run seven hours ahead of Moscow, the injection of capital has done little to lift the low regard in which many locals hold the leader who has dominated Russia since 2000.

Although the city -- whose name translates as 'Ruler of the East' -- has received a makeover, with a new airport, bridges and



REUTERS

**Construction workers are seen on the newly built bridge across the Golden Horn bay in Russia's far-eastern port of Vladivostok.**

highway intersections, residents say inflated contracts were won by insiders and the money would have been better spent on social services and housing.

"I don't associate it with Putin. They took ages to get round to building the bridge," said 28-year-old biologist Yevgeny Skorkin, joining thousands of people on a mass stroll last month over the new bridge across the Zolotoi Rog (Golden Horn) inlet that opens up a vista across the city's port and the ships of Russia's Pacific Fleet in the harbor.

Local artists fantasised at the start of the last century about a bridge that would connect two remote districts of Vladivostok, but

the project remained a dream until Putin found \$500 million in the budget to build it. "Only now are we starting to live. We are creating a European city. The centre of the world is here!" enthused Vladivostok's mayor, Igor Pushkaryov, in a conversation with this reporter on the bridge, just as fog started to roll in.

The centre of Vladivostok is quiet of an evening, but is at least well lit - in contrast to the murk of the 1990s when the city was plagued by power cuts. Laser cannons mounted atop the bridge pylons play against the night sky. But the foreign eateries and cafes that dot cities in Russia's Euro-

pean heartland, like McDonalds and Starbucks, are nowhere to be seen.

Eying a second term, the 37-year-old former businessman hopes that the attention of Russia's leaders will not fade after the 21-member Asia-Pacific Economic Cooperation (APEC) summit this weekend: "We really want this relationship to continue. We are happy people - we did it!"

Such positive sentiments are not shared by all.

"Nobody experiences particularly warm emotions," regional lawmaker Artyom Samsonov says of his fellow easterners' attitude towards Putin, who in a national

television question-and-answer show in 2007 promised new investments to halt the depopulation of the Primorye region as people sought work elsewhere.

Five years after Putin's volley of promises, the young, educated people of Vladivostok are still leaving, while the city can boast another trophy of regional development - a second bridge built at a cost of \$1 billion.

Leaders will sweep in their limousines across the world's biggest cable-stayed bridge - its pylons nearly as tall as the Eiffel Tower in Paris - to the summit venue on Russky Island. They will be put up at a newly-built university campus, with some delegates sleeping in student dormitories.

"You start to think, how much did they spend on this bridge and who, at the end of the day, needs it?" said Samsonov, a 37-year-old opposition activist. "There is no relationship between the costs and the benefits."

**THE RIGHT TO RIGHT-HAND DRIVE** Samsonov's civic initiative was among the first to organize protests against the crisis measures launched by Putin during the economic slump of 2009 that included imposing punitive tariffs on imports of second-hand foreign cars.

The step helped save state car maker AvtoVAZ from collapse, but infuriated many locals who had supplemented their incomes by bringing in used, right-hand-drive cars from Japan. They took to the streets.

"The authorities were absent in Vladivostok for a number of hours," recalls regional parliamentary deputy Vladimir Bepalov, an opposition communist.

"Police chiefs, regional administrators, the mayor - none was able to deal with several thousand people who were ready to destroy, wreck and overturn," he said. "The city was on the brink of chaos."

Putin dispatched elite OMON riot police from Moscow to put down the protests, and paid with a loss of public support in last December's parliamentary election, when his ruling party - dominant elsewhere - placed third.

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