

Fiscal Underpinnings for Sustainable Development in China

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Rebalancing in Guangdong

 Springer

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Foreword I

The world is urbanizing at an extraordinary pace. In nowhere is this more important than in China where the process has been moving rapidly over the last few decades and will continue to do so. We already see the difficult consequences, in terms of congestion, pollution, and urban sprawl of some of the earlier decisions, explicit or implicit, around the growth of towns and cities. If the lock-in, in terms of long-lasting infrastructure, of still further difficulties is to be avoided, strong development and urban planning decisions have to be taken now. The prize, if this goes well, is attractive cities where people can move, breathe, and be productive. If it goes badly, standards of living in cities will be deeply compromised.

Many of China's problems, and this is true of many cities around the world, are in large measure associated with limitations in public finance. City and regional governments need the right tax and incentive instruments in an efficient and equitable way and one which can be delivered with administrative effectiveness and transparency. Thus, for example, an examination of the way changes can be levied on property and congestion, revenue streams from public facilities, the opportunities for finance from markets, and so on are all of the highest importance. It is the great strength of this book that it provides such an analysis.

At the same time as looking forward to the future of China's cities and their role in sustainable development, we must recognize how far China has come and China's growing leadership in the world around sustainable development, innovation, trade, finance, connectivity, and so on. President Xi Jinping's speech at Davos at the World Economic Forum in January 2017 was of great significance in articulating China's vision and leadership.

China has come so far so fast that many people are unaware of how much progress it has made, from investing in renewable energy to tackling air pollution. It still faces significant adjustment challenges, particularly around reducing coal consumption, but it is displaying the commitment and creativity needed to tackle this urgent and complex challenge. China has recognized not only the grave risks of unmanaged climate change, to which it is very vulnerable, but also the great attractions of an alternative path for growth which is cleaner, more efficient, innovative, and dynamic.

At home, its most recent 5-year development plan reflected profound changes to its economic strategy that incorporate sustainable development. On the global stage, Beijing's support was indispensable to the success of the Paris climate negotiations and it is moving quickly to implement its pledges under the resulting agreement. By acting decisively now both domestically and abroad, China will reap the early benefits of the low-carbon economy. China is well placed to catalyze action on five fronts.

First, China's cities, which is home to more than 750 m people, are already at the forefront of the government's climate priorities. It is acting fast to address the deadly smog that is making headlines: poor air quality is killing more than 1.6 m Chinese each year. It is designing better cities, investing in new public transport and improving energy efficiency. This new urban agenda could dramatically raise the quality of life while reducing air pollution and emissions.

Second, China is leaving the rest of the world behind on clean energy. It is home to five of the top six solar panel manufacturers and five of the top 10 wind turbine makers. In 2016, it invested \$88bn in renewable energy, the highest in the world. It is building capacity at an astonishing speed, installing on average more than one new wind turbine every hour. There is now compelling evidence that China's coal consumption peaked in 2014. In the future, it should make sure that coal is not given priority over renewables on the grid. Over the long term, new coal plants simply do not make sense for it in terms of public health, the environment, or the economy.

Third, Beijing is set to implement the world's largest emissions trading system later this year. It will expand its seven pilot carbon trading systems to the national level. If the price levels are high enough, it will create strong incentives worldwide.

Fourth, China is exploring new, innovative financial vehicles to finance the low-carbon transition. Its emerging green bonds market could deliver about \$230bn for renewable energy investment in the next 5 years. Those parts of the financial sector that are not explicitly green are also making changes. The People's Bank of China has proposed mandatory disclosure of climate-related financial risks as part of reforms to make its banking system sustainable.

Fifth, China's foreign investment could play a big role in tipping the balance toward a greener global economy. In 2016, it spent a record \$32bn on renewable projects abroad, made up of 11 new foreign investment deals worth more than \$1bn each. It is also rethinking its approach to international coal finance.

What China does at home will continue to be of vital importance to the world, both as a very large country and as a leader. China's future is critical to the world's future. China's future will in large measure be shaped by its cities. And the organization of urban and regional finance is crucial to the future of its cities. That is why this book is so important.

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