



China Strategic Development Partners LLC  
Building Relationships; East and West

# Clean Up Or Close Up: How China has Changed





## Clean Up Or Close Up:

# The Three Facets of China's Hyper-development

### Hungry China

- To Get Rich is Glorious
- Any FDI was good FDI
- Lots of Money

### Fragmented China

- Differences in resources
- Uneven Investment
- Spotty enforcement

### Complacent China

- Government manages civil society
- People willing to "eat bitterness"
- High tipping points

## The Downside of Growth...

### Uneven China

- Imbalance of prosperity
- Gender, age, and income gaps
- Raw Material Shortage

### Dirty

- Degradation in air, water, and soil
- Poor labor conditions in regions/ industries
- Widespread graft and corruption

## had little impact on the majority because of

### Prosperous China

- East coast develops
- International attention
- Explosion in middle class

**Until the summer of 2007**



## Clean Up or Close Up:

### Slave Labor Scandal



#### Immediate Impact

- Domestic and International press coverage
- Beijing sends 45,000 investigators to Shanxi
- Public acknowledgement of system failure and call for change by party

#### Regulatory Changes

- July 2007 China Unveils Hefty Fines for Work Accident Cover-ups
- June 2007: Comprehensive Labor Law

### Product Recalls



#### Immediate Impact

- International witch hunt and tit-for-tat
- Belief that China's system was broken
- Economic impact to Chinese manufacturers
- Questions at home about products surface

#### Regulatory and Operational Change

- U.S. and China both release new law and bilateral agreements
- Inspections increase up to 100% across many categories



## Clean Up or Close Up:

### Catalyst for Change: Taihu Lake



#### Environmental awareness took a quantum leap

- Domestic press coverage
- Local population affected for long term
- National support and sympathy for affected
- Recognition of environmental impact of development

**The Door was open for change...**

#### The following week residents of Xiamen “walk” to prevent chemical plant investment



- Approximately 30,000 residents involved in multi-day campaign
- 1 billion USD in FDI at stake
- Locally approved and already under construction
- Beijing announced project would be stopped with full assessment
- December 2007: Public discussion about project was held – a first in China
- Government announcement that the project will be moved to a different location
- Announcement that public discussion has a place in future



## Clean Up or Close up:

### At the national government level

- The difference between National level guidelines and local needs was once again highlighted
- Local leaders were warned that they must abide by national policies
- SEPA and NRDC were given more power and support
- National level “audits” of projects began to occur
- Ongoing oversight of all projects that may have a potential for negative environmental impact

### At the local government level

- Shutting down of factories considered low hanging fruit
- Naming others -
- Immediate tightening of all investment regulations occurred and turning away investments
- An open recognition that the old days were gone/ cannot ignore environmental impact

### On the ground

- Immediate change in attitude in the trust and support of NGO
  - SEPA recognition that NGOs have assisted them in protecting the environment
- Consumer awareness at all time high
- Consumer activism at all time high - NIMBY
  - Recent Maglev rallies in Shanghai



## Clean Up or Close up:

### Role of NGOs is Changing

- Following SARS, international and domestic NGOs made significant progress
- Previously many areas (geographic and issue) were off limits
- Poorly Funded and managed with significant hurdles
- Activists were not supported, and were often suppressed



**Ma Jun compiles list of offenders, maps them, and makes it available online**

**5 Years ago, this website would not be viewable in China**

**Now it is HOSTED here**



## Clean Up or Close Up:

# Key Takeaways:

- 1) Days of FDI at any cost are over
  - New investments will be judged using new criteria, and benefit to society will play a larger role
- 2) China is Maturing
  - New regulations are strong
  - Healthy vents and feedback mechanisms are being added
  - Enforcement is WIP, but getting more consistent
- 3) Consumer awareness is at all time high, and so are inspections
  - Violators will be identified
  - Foreign companies are easiest targets in media
- 4) Costs are rising, and the benefit equations of China are changing
  - As China matures, the costs will rise
  - Fixed investment, labor, etc
- 5) Flare ups will continue, but action will be swift
  - Companies who find way to circumvent now, may be exposed later



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# Thank You.

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