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THE CAPACITY OF THE ECONOMIC AND FINANCIAL PLAYERS
TO TAKE A LONG-TERM VIEW
Beyond short-term games:
Building Euro-Chinese codevelopment on Green Competitiveness
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Summary

One of the options open for economic and financial players from Europe and China to think and act in a long-term perspective is to manage to create stable and sustainable codevelopment partnerships around new common models of business. A codevelopment initiative around “green competitiveness”, built around the formidable economic and environmental efficiency potential of clean production can be the answer.

Green competitiveness, through eco-management, is about using an environmental focus to reshape the way to do business. This requires the capacity to challenge and get rid of wrong assumptions such as those considering the environment and its impact on business. The issue is not anymore one of “impact”, but of “opportunity”.

Both in China and in Europe, the need to improve environmental performance could trigger green innovation and competitiveness, and create the conditions for an emerging market for green technological innovation and applied techniques for clean industrial production, as it is starting to be the case in the Euro Mediterranean region¹. In turn, the development of environmental technologies and techniques, and their diffusion throughout Europe and China, could increasingly become a real green competitiveness win-win co-development strategy. But this will only be possible if the right proactive attitudes and new mechanisms and approaches are put in place.

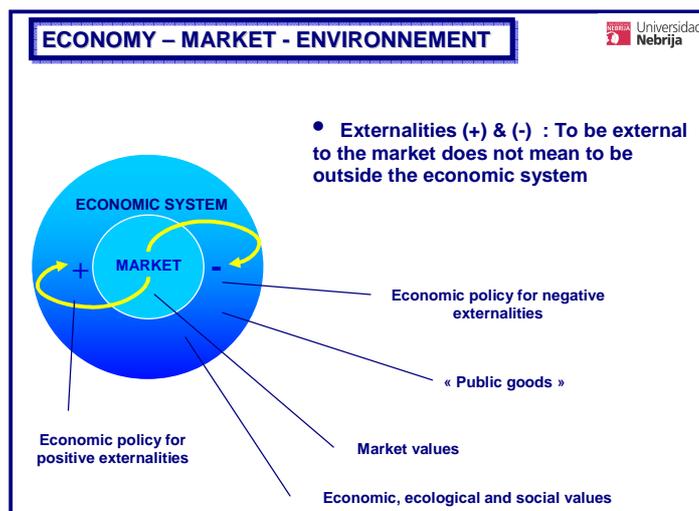
The conceptualization, launching and implementation of innovative mechanisms, in the framework of a new Chinese-European initiative in this field, is one of the possibilities open to create serious commitment, synergies, and concrete measurable results at governmental and business levels. The new mechanism should be tailored considering the private sector as the protagonist in the much larger framework of public-private partnerships. It could consider addressing, among others, issues such as:

- support for the adoption of clean production green competitiveness strategies in China;
- new ways to foster the generation, diffusion and transfer to the private sector of green techniques for clean production between Europe and China;
- new financial mechanisms to foster development and diffusion of technologies and techniques (green competitiveness venture capital funds, permanent fund);
- new options and roles for firms, participating at different stages of production in global value chains involving European and Chinese companies, regarding the adoption of technology flows and green competitiveness techniques;
- new types of mechanisms between firms and governments to foster the economic/green competitiveness approach to clean production, including through the progressive integration of public actors from economic sphere Ministries;

¹ Recent research covering successful experiences in European and non-European countries in the Mediterranean is proving that the adoption of clean production techniques, by firms, is generating green competitiveness with simultaneous economic and environmental efficiency, and with impressive economic savings and pay-back periods on these investments, and can be an engine for Euro-Mediterranean co-development. The Regional Activity Center for Clean Production (RAC-CP) of the Mediterranean Action Plan (MAP) of UNEP, in Barcelona, in collaboration with the University Nebrija, in Madrid, is in the process of launching a new Euro-Mediterranean Initiative on Green Competitiveness.

I. Dealing with externalities and public goods in the global economy

What we sometimes think is outside the economic system, is just outside the market. Local, national and global economic policies, dealing with negative and positive externalities are becoming, in this XXIst century, the main components of geostretagic reflections on codevelopment in our new Sustainable Society of Knowledge (SSK). Consequently, a long-term perspective of Chinese-European joint development potential needs to be approached through a clear “economy-market-environment” framework.



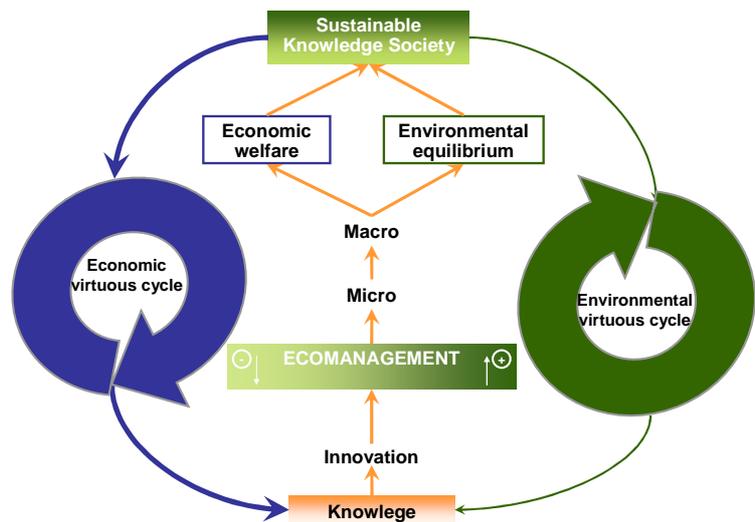
Under this framework, it is illustrative to observe, for example, that the need for companies to comply with environmental constraints (negative externalities / external costs) is becoming, increasingly, a business opportunity generator. This is because of the increasing role played, in turn, by knowledge being geared to green technological innovation (positive externalities / external benefits) in order, precisely, to respond through the market and competitively to those constraints.

II. Eco-management

For a firm, and in order to shift successfully from reactive/defensive environmental interventions in the economy, to win-win proactive economic ones for the environment, there is a need to identify and categorize the most efficient and critical tools for it.

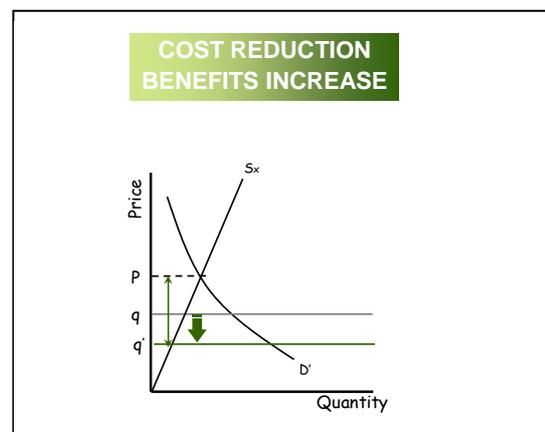
Eco-management is one of these tools. It is conceived as different kind of activities put into action in order to minimize or eliminate environmental damage caused by human action. However, this approach makes eco-management a word fuzzy and doubtful in content, because it is clearly understood as an activity that intends to protect the environment, but doesn't show clearly non-environmental outcomes from its application. In general eco-management is the application of methods for the *appropriate use of natural resources that generates positive economic, social and technological outcomes.*

From this perspective, eco-management tools are knowledge/innovation-based assets contributing to increases in competitiveness. As a consequence, eco-management has the potential to be the core engine of the virtuous economic and environmental circles for sustainability and the keys to achieve this objective are innovation and technology.



What is successfully being observed from the case study of more than 100 companies in the Mediterranean (see footnote 1) is that eco-technology application reduces costs, that the margin between the cost and the price of the product is wider, and that consequently benefits are higher. Cost reduction is coming from:

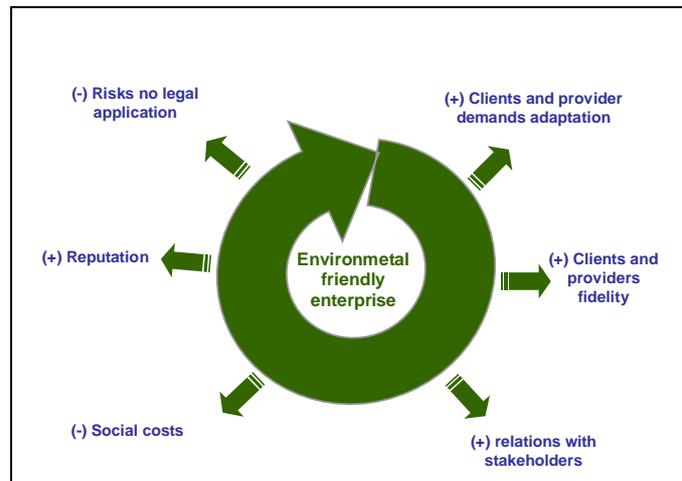
- ✓ Less raw material required,
- ✓ Less space for raw material storage,
- ✓ Less waste at the end of the process,
- ✓ Less space for waste storage,
- ✓ More options for waste reprocess,
- ✓ Reduced punishment of law avoiding.



But benefits can also increase from other changes from eco-technology introduction:

- ✓ Reorganizing processes can change the relation among factors of production, thus becoming more productive, and therefore giving the enterprise the opportunity to enlarge supply (Good housekeeping practices);

- ✓ Innovation in product design can be positive in two ways, first, changing the components of the product, making it cheaper or improving its quality and consequently letting the enterprise to enlarge supply or increase price; second, introducing important changes in products or identifying new ones.



Additionally, some indirect consequences of the whole process can be summarised in a) human capital improvement because specific training in the acquisition of new technologies, b) environmental costs decrease in the community, c) pressure reduction from stakeholders, and d) reputation improvement, among others.

First firms to adopt this view of eco-management will acquire immediate competitive advantages. The firms that will follow the first ones won't enjoy the same level of impact, but if they don't adopt this criteria losses will be greater, with adverse consequences in terms of environmental inefficiencies.

III. Codevelopment, clean production and green competitiveness

Although fully engaged in the Sustainable Society of Knowledge (SSK), there is still the perception that becoming a sustainable and efficient firm could be a rather difficult challenge. Firms are still worried about the introduction of ecological criteria in their production processes. Criteria motivated, in turn, by the proliferation of environmental laws and regulations introduced with the purpose of reducing or eliminating the environmental damage or costs, generated by these same firms, and impinging on nature and society at large. It is the case of companies, and in particular many SMEs, still adopting a too reactive attitude vis-à-vis the environment-competitiveness link.

China is facing today escalating pressures in energy supply and transportation in its economic activities. The promotion of clean production is a way to help these enterprises improve efficiency in resource and energy use. Among other measures, new clean production evaluation standards have been issued², and a number of private-public partnerships have taken place in recent years to help Chinese companies comply with increasingly developed clean production legislation³.

In this regard, it is important to note that both legislation and traditional partnerships of China with the outside world continue largely to ignore the fact that “green competitiveness”, built around the formidable economic and environmental efficiency potential of clean production, can be the answer.

We should go beyond seeking “help” for companies’ green compliance. The key is to shift from reactive to proactive attitudes, and consider environmental criteria as an intrinsic element in production that fosters dynamism in industry, instead of an external factor that restricts it. Acting in this way makes “Green competitiveness” a key vector for sustainable development, a vector resulting from the synergy between economic and environmental efficiency vectors

In Europe, and in particular in the Mediterranean, there is now empirical evidence showing that in the case of more than 100 companies selected, competing green and making business has become a reality. Initial analyses show that investments in eco-management techniques have affordable payback periods that bring appropriate environmental performance while improving productivity, modernization, technique, quality and adaptability. Codevelopment discussions around green competitiveness between developed and developing countries of the Mediterranean should take place soon with enterprises as main protagonists.

So, China-Europe codevelopment based on the promotion of green competitiveness induced, in turn, by innovation and the diffusion eco-management and clean production technologies, could as well constitute a real option that needs to be taken into consideration.

² During 2007, China has issued its clean production evaluation systems for six industries (cement, fermentation, soda ash, machinery, sulphuric acid and leather).

³ As an illustration, the Environmental Protection Administration of China and the Dow Chemical of the US launched in 2005 a model program for clean production in Beijing, according to which the Dow Chemical donated 6 million yuan annually for 3 years. Through the program, certain industrial polluting firms were selected for a production review and further clean production recommendations.

It is true that one may counter argue that in the framework of a possible China-Europe co-development green competitiveness scenario, technological policies and innovation for green competitiveness may only be the monopoly of, and thus benefit mainly, technologically advanced countries of Europe, while China would be left behind, and that it is of course in the interest of European technologically advanced countries to benefit from the promotion of a new high growth sector of clean production environmental technologies. This is not the case. Pioneering work with Mediterranean countries shows that this is not the scenario presently taking place: both the development of environmental technologies and techniques, and their diffusion, becomes increasingly a real green competitiveness win-win strategy for all partners, independently of their respective technological development levels.

The above mentioned research also proves that benefiting from green competitiveness through clean production techniques is only possible if the right proactive attitudes and new mechanisms and approaches are put in place. So, in order for green competitiveness to become an economic opportunity with significant results, there is a need to reach business and institutional “economies of scale” in the form of a mechanism, or initiative, which will contribute to the generation, diffusion and appropriation of the concepts, potentials and successful strategies in a Chinese-European co-development framework.

This initiative should start addressing the need for a clear understanding of the prospective scenarios of economic opportunities’ that can be opened by eco-management and other clean production interventions (using the environment as an economic engine), as new codevelopment tools for the achievement of green competitiveness and its contribution to sustainable development in China and Europe.