



China Strategic Development Partners LLC  
Building Relationships; East and West

# Clean Up or Close Up

## The Business Case for Sustainability





## Clean Up or Close Up: The World Wakes Up to Costs of Carbon

### Global Warming



#### Al Gore (and his drowning polar bears) catalyze global awareness

- Inconvenient Truth and 11<sup>th</sup> hour become award winning movies
- Citizens begin learning about “carbon footprint”/ Schools begin teaching environmentalism
- TV Shows on CNN & Discovery highlight human impact on the environment while CNBC covers investment opportunities
- Children tell their parents to save the world

### Cleantech Investment



#### Investment in clean technology

- Renewable energy (wind and solar) and alternative fuel enter consumer investor portfolio
- Vernacular/ technology are enter mainstream conversations on television
- Cleantech investment books become best sellers
- Economics of and focus on cleantech firms improves with each dollar rise in oil
- **Even John McCain is a fan of clean tech... Drill baby drill!**

### 150 USD Oil



#### Treehuggers and yuppies unite!

- Diesel and gas inflation brought calls for change that drowning polar bears could not
- Pressure on governments to regulation and subsidize solutions
- Pressure on industry to change - to reduce waste and increase efficiency
- Pressure on consumers to change habits – public transport, bicycles, and even walking!



## Clean Up or Close Up: The Past is the Past

# 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: China Wakes Up To Cost of Development

### Labor Scandal



#### Immediate Impact

- Domestic and International press coverage
- 45,000 investigators sent 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 Change

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

### 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



## Clean Up or Close Up: Change From the Top

# China Leads From a Need: Clean Air, Clean Water, Clean Food



### The limits of China's hyper-development have been tested

- 10% + growth for 15 years requires lots of resources at exponential levels
- Export Growth model resulted in one way infrastructure – Containers East
- Imbalances resulted/ infrastructure failed
  - Energy, water, and resource shortages
  - Labor shortages, Gender imbalances, income gaps
  - Inability of agencies to cope – safety failure, pricing policy, enforcement

### And on and on....



### The government acts.

- Regulation:
  - Labor Law, Circular Economy, Plastic bags & Packaging, SEPA
- Enforcement:
  - EVA applications, Green GDP Scorecard, NGO empowerment
- Investments:
  - Renewable energy, mass transit, clean cars, water technologies, recycling
- Emergency Actions:
  - Factory shutdown, Water Diversion, and Car Schedules



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

- **Consumers were becoming citizens**
- **Citizens were become activists**
- **Governments were responding**

**The Business Case For Sustainability  
was being made...**



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## Clean Up or Close Up: Defining Sustainability





## Clean Up or Close Up: China's Actors

### At the national government level

- 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 with potential for negative environmental impact
- Encouraging investment in transportation, energy, new materials, and environmental protection

### At the local government level

- Shutting down of factories considered low hanging fruit
- 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
  - Xiamen, Chengdu, and Taizhou citizen strolls opposing chemical investments



## Clean Up or Close Up: Leading By Example

### The Elephant in the Room: Wal-Mart



#### October 2008 Announce Sustainability Revolution

- Comprehensive effort across supply chain and stores
- Alternative Energy, Transportation, Packaging, Recycling

**Not spontaneous. It was planned for years. Wal-Mart is Serious**

#### Over 200 Associates who will:

monitor factories, educates suppliers and buyers, and works with others in our industry to implement effective ethical sourcing programs.

**Others will be forced to follow**

### Breaking Barriers, Changing Habits, & Encouraging Change



#### 2008 Wal-Mart Home Entertainment Design Challenge

- Great design that attracts consumers.
- Product innovation that reduces the environmental impact for its product category.
- Packaging design that facilitates reuse and recycling, reduces waste, and reduces or eliminates the use of toxic materials.

**HP Reduces wins – reduces packaging 97%**



## Clean Up or Close Up: The Business Case for Sustainability is Made

### Key Takeaways:

- 1) Operations in China, and Global Supply Chains, Must Change... Will Change
  - Environmental, labor, raw materials, water, and energy constraints have all changed
  - Oil, metals, plastics, and other materials will test highs again
- 2) Consumers Have Changed – and So Have Their Expectations
  - Consumers are becoming citizens, and citizens are becoming active
  - Consumer pressure on industry will only grow stronger
- 3) Solutions Exist, Cost Savings Exist, and Options are Readily Available
  - Technology gains are growing – energy, transportation, etc
  - Commoditization of parts, components, and technologies reduces cost of investment
- 4) Collaboration is Increasing - Innovation Will Follow
  - Retailers – logistics – packaging – design partners working together to develop better products, and reduce inefficiencies within closed systems.
  - Process must start with design and avoid the landfill
- 5) The people in this room have the answers, have the power, and will ultimately bear the responsibility**



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## Learn More – Get Engaged:

All Roads Lead to China – [www.allroadsleadtochina.com](http://www.allroadsleadtochina.com)

China at the Crossroads – [www.china-crossroads.com](http://www.china-crossroads.com)

Cleaner Greener China – [www.cleanergreenerchina.com](http://www.cleanergreenerchina.com)

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