

Celebrating 5 Years!



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2016

Year in Review

Message from the Chairman

Dear Friends,

2016 was a watershed year for the United States and China. Both countries were already dealing with big structural economic challenges. But with the Brexit vote in spring, heightened security tensions in East Asia throughout the year, and the election of a new U.S. president in the fall, political challenges have now moved to the front and center. These include rising nationalism, populism, protectionism, and the potential for a security crisis.

In the year ahead, we'll be navigating through a changing political environment in both countries. In the United States, President Trump is certain to introduce significant policy changes in many areas, including a more U.S.-oriented approach to dealing with China. His administration is targeting for review three areas of cooperation—trade, investment, and climate change—that have provided a modest degree of ballast in recent years as security tensions have grown. At least at the outset, the road ahead will almost certainly be rough.

In China, the Communist Party will hold its 19th Congress in November, which will usher in important changes to China's top leadership. Accordingly, politics will consume President Xi Jinping for much of the new year, and, given his new status as "core leader," Xi will have more latitude to centralize power in support of his agenda to strengthen the Communist Party, modernize government, and, I hope, use his growing political authority to implement enduring and market-oriented economic reforms.

As the U.S.-China relationship is stressed and tested in new ways, it is important that it not degenerate into debilitating competition or outright conflict, which would be harmful to both nations and the world. Today, it is even more important that the Paulson Institute keep pressing ahead with the search for serious policy solutions to pressing economic, financial, and environmental challenges, including opportunities for Americans and Chinese to cooperate.

As you will read in the pages that follow, in 2016 our Think Tank published its first book, as well as

an array of prescriptive policy papers on China's economic reform challenges and in-depth case studies documenting successes and failures of Chinese investment in the United States. We worked to help China meet its daunting environmental and energy-related challenges through our initiatives to promote green finance, our program on Climate and Sustainable Urbanization, and our Conservation programs. And we bolstered efforts to strengthen business linkages between the two countries through our CEO Council for Sustainable Urbanization.

I firmly believe that the U.S.-China bilateral relationship remains the most important in the world, one that is often fraught, proceeds in fits and starts, is filled with challenges, but ultimately is important to get right. For our part, the Paulson Institute's approach of "uniting knowledge and action" to promote solutions-oriented U.S.-China cooperation around economic and environmental issues will continue to guide our work in 2017 and beyond. We appreciate your support and hope you enjoy reading this Year in Review.

Sincerely,

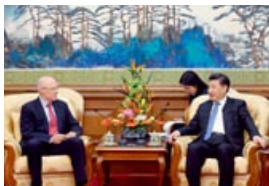


HENRY M. PAULSON, JR.
**CHAIRMAN,
PAULSON INSTITUTE**

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A LETTER FROM THE EXECUTIVE DIRECTOR

Dear Friends,

We have had a busy year at the Paulson Institute, building out our Think Tank and projects to encourage U.S.-China cross border investments, as well as programs in China focused on green finance, sustainable urbanization, and conservation.

We call ourselves a “think and do” tank – in other words, a non-traditional institution that aims to unite ideas with action. Our goal is to strengthen U.S.-China relations and generate solutions for the most pressing economic and environmental challenges facing the United States and China—the world’s largest economies, energy consumers, and emitters of carbon.

Promoting sustainable growth has become harder in the present economic environment. In China, for example, the economic slowdown has increased the temptation to resort to stimulus and return to Beijing’s longstanding and single-minded emphasis on growth above other objectives. In such an atmosphere, it is more imperative than ever not to lose sight of environmental and social goals. Growth alone cannot make China into an advanced economy. And so we continue to encourage a long-term approach that marries growth to these other objectives as essential ingredients of economic success. Our Think Tank focuses on some of these economic issues and policy tradeoffs, while our programs in China put the environmental aspects of that thinking into action.

The Think Tank continues to publish prescriptive insights on key economic, financial, and structural

reform issues facing China today. In 2016, we published policy memoranda by some of the world’s leading scholars—from Cornell and Columbia Universities and the Chinese Academy of Social Sciences, among other institutions. An investment papers by Hank Paulson and several in-depth case studies detailed the challenges facing Chinese investments in the United States. The Think Tank also produced its first book, *The Economics of Air Pollution in China*, by People’s Bank of China Chief Economist Ma Jun.

In 2016, we became engaged in a key challenge: how to unleash capital to drive sustainable growth. Toward that goal, we have strived to promote the development of a robust international green finance market. During its G20 presidency, China made green finance a key priority, and the Paulson Institute worked closely with the People’s Bank of China on developing guidelines for that promising new market. We have served as non-commercial advisors on a U.S.-China Energy Efficiency and Green Development Fund to help finance efficient buildings—that will help serve as a model for how to fund crucial clean-tech investment.

As China is undergoing a major urbanization drive, we are also focused on energy efficiency and sustainable cities. Through our U.S.-China CEO Council for Sustainable Urbanization, we are working with the business sector to help forge China’s transition to greener economic growth. The council, comprised of 19 CEOs from the United States and China, drives research and development projects that aim to become models for sustainability. Several projects are under consideration as pilots for the integration of technology from CEO Council members. We also produced research in 2016 on curtailment, or waste, of renewable energy in China’s Jing-Jin-Ji industrial heartland.

Our annual Mayors Training Program, which introduces China’s urban leaders to best practices on sustainability, hosted 18 officials from Tianjin for three weeks of intensive training in Beijing, Chicago, and Los Angeles.

Consistent with our efforts to drive a healthy economy, our conservation program works to preserve China’s natural capital. That effort focuses

“Growth alone cannot make China into an advanced economy, and so we continue to encourage a long-term approach that marries growth with environmental goals.”

on China’s endangered coastal wetlands, which provide crucial ecosystems services, and on helping China establish its first national parks system.

This year, our wetlands work included building out the Coastal Wetland Conservation Network launched in 2015 and hosting training sessions and a symposium in Beidaihe, attended by the Governor of Hebei. Because the first step toward conservation is awareness, in the fall we launched a social media campaign of videos and articles, garnering more than a million views.

Our national parks work focuses on best practices in parks management, capacity building for officials and park managers, development of technical guidelines, and plans for the Mount Wuyi (Wuyishan) pilot park in Fujian province. In 2016, we hosted 21 Chinese officials for a study trip to learn about governance and management of the U.S. park system.

Working with partners, the Paulson Institute also continues to promote sustainable soy trade between China and South America. The goal is to eliminate deforestation linked to soy production by using market demand signals from China.

In sum, our work continues to identify opportunities for sustainable economic growth in the U.S. and China. We are proud of what we have achieved and look forward to 2017 with a strong commitment to our mission.

Sincerely,



CYNTHIA ZELTWANGER
EXECUTIVE DIRECTOR,
PAULSON INSTITUTE

Taking Flight: The Institute is working to protect China’s wetlands, including this one in Poyang Lake, Jiangxi Province.

Building Stronger U.S.-China Ties



In an increasingly interconnected world, the United States and China—the two largest economies—must work together to maintain global economic stability and address pressing international challenges.

The Power of Dialogue: In April, Hank Paulson met with President Xi Jinping to discuss U.S.-China relations and economic reforms. (Photo, Paulson and President Xi in 2014)

2016: A Year at a Glance

This year, the Paulson Institute convened high-level U.S.-China economic and urbanization events, produced many research papers and its first book, and drove numerous concrete economic and environmental projects.

January

Convened: CEO Council for Sustainable Urbanization designates meeting at Apple headquarters



March

- Co-sponsored:** US-China environmental law conference at University of Chicago
- Presented:** Evan Feigenbaum on U.S. policy in Asia at Project 2049



May

- Hosted:** Delegation of Chinese national parks experts on two-week study tour in the United States
- Co-organized:** Training course for wetlands managers in Mai Po, Hong Kong



July

- Published:** Jing-Jin-Ji Renewable Integration Report, presented at power sector roundtable in Beijing
- Hosted:** Delegation of mayors from Tianjin visits Chicago and Los Angeles
- Convened:** CEO Council for Sustainable Urbanization designates meeting at Vanke headquarters



October

- Co-Hosted:** "Greening the Financial System" conference at IMF/World Bank meetings in Washington D.C.
- Published:** *Dealing with China*, by Henry M. Paulson, Jr., Chinese-language edition in Hong Kong
- Co-Hosted:** Workshop on using market mechanisms to promote green buildings
- Advocated:** Officials join conference in Beidaihe to promote coastal wetlands conservation
- Convened:** Third annual CEO Council for Sustainable Urbanization meeting
- Met:** Hank Paulson and Prime Minister Li Keqiang discuss U.S.-China relations in Beijing



February

- Co-hosted:** "The China Exit Interview" panel at Johns Hopkins School of Advanced International Studies
- Advocated:** Chinese importers signal support for Brazil's fight against deforestation at Sino-Brazil Soy Trade Symposium
- Presented:** Hank Paulson addresses IIF G20 Conference in Shanghai

April

- Presented:** Kevin Mo speaks on 13th Five-Year Plan at AmCham-USCBC Panel
- Co-Hosted:** China-Brazil Sustainable Soy Trade Workshop
- Co-Convened:** Green finance symposium with PBOC in Washington, D.C.
- Met:** Hank Paulson and President Xi Jinping discuss economic reform in Beijing
- Co-Convened:** Green finance roundtable with PBOC in Beijing

June

- Witnessed:** Building Efficiency and Green Development Fund first projects announced
- Published:** Green building financing paper, presented at U.S.-China Low Carbon Cities Summit in Beijing
- Signed:** MOU on environmental cooperation with Chinese minister Chen Jining
- Co-Hosted:** Second Coastal Wetland Conservation Network Workshop



November

- Hosted:** Former NSC Senior Directors Jeff Bader and Dennis Wilder talk U.S. China policy
- Published:** First Paulson book, *The Economics of Air Pollution in China*, by Ma Jun

Think Tank: Spotlight on Economic Reform



Our “virtual” Think Tank publishes prescriptive and analytical work from leading scholars and practitioners. Subjects include the most important economic and structural reforms facing China today, with an emphasis on market-based solutions.

Thinking Big: China’s economic future will depend heavily on the growth of its services industry, requiring new approaches to employing laborers like these.

Think Tank: Promoting Market Solutions

2016 papers in our ongoing series of Paulson Policy Memoranda proposed innovative ways to restructure China's state-owned sector, liberalize China's currency policies, deregulate the services sector, and enable access to credit for Chinese farmers.



Why China Cannot Tackle its Currency Challenges Without Deeper Reforms

China should move forward with market reforms in order to address challenges facing its exchange rate regime, argues former PBOC official Guan Tao. Despite an August 2015 decision aimed at improving transparency in the yuan exchange rate valuation process, China's currency regime is caught between market expectations of depreciation and a political mandate to stabilize the exchange rate amid economic uncertainty.

How Deregulation Would Benefit China's Services Economy

China's services sector now accounts for more than 50 percent of the country's GDP—a seemingly positive development in the government's effort to move away from heavy industry and cheap exports. But Senior Fellow Andrew Batson points out that finance and real estate account for a large portion of the service sector gains, making the ostensible shift less sustainable than it should be. Batson explores ways to promote more productive growth in services.



Redesigning Agricultural Credit Delivery in China

China's leadership should consider a nationally coordinated approach to the delivery of agricultural credit, argues Cornell University professor Calum Turvey. Drawing from the experience of the "Nong Ben Ju"—a 1930s Republican-era program—Turvey recommends, among other steps, that current Rural Credit Cooperatives and other agricultural financial institutions should be nested under a single umbrella.

Easing China's Transition to a Services Economy

China's economic slowdown and the stagnation of its industrial sector are the natural consequence of its new status as a middle-income country, argues Chinese Academy of Social Sciences economist Zhang Bin. With the rise of the services economy, China's economic growth will inevitably slow down, despite Beijing's attempt to fight the trend.



Squaring the Circle: How China Can Combine Growth with Deleveraging

Bloomberg economists Tom Orlik and Fielding Chen argue that fiscal stimulus targeted at China's low-income households and public services such as education, combined with more financial information disclosures, could boost growth and employment without exacerbating bad debt.

Why Mixed-Ownership Reforms Cannot Fix China's State Sector

As the urgency to overhaul China's economy builds, attention has increasingly focused on how to reform China's state-owned enterprises. Columbia University's Curtis Milhaupt and the University of Florida's Wentong Zheng argue that policy conditions, not just ownership, need to change and that the operating environment makes state-owned and private firms in China more similar than conventional wisdom presumes.



Think Tank: Cross-Border Investment

Investment papers published in 2016 have reviewed the challenges hindering job-creating investments in the United States by Chinese companies, outlined successful investment strategies, and explored in detail both successful and failed Chinese investments.



Paulson Paper on Investment

Demystifying Chinese Investment in the United States

By Henry M. Paulson, Jr.

Chinese direct investment in the United States is often difficult and fraught with political roadblocks, but can have the potential to sustain and even create American jobs.

With these capital flows rapidly increasing from a low base, Institute Chairman and former Treasury Secretary Hank Paulson offers practical advice that will be useful to both policymakers and Chinese potential investors alike. Among other things,

Chinese investors need to understand U.S. laws and communicate more effectively about how their investment creates American jobs. Stronger bilateral investment ties, in addition to trade linkages, can inject new energy into the increasingly complex U.S.-China economic relationship, Paulson argues.

Unrealized Potential: As Chinese businesses increasingly look outward for growth, investment flows into the United States could increase significantly over the next 5-10 years.

Investment Case Studies



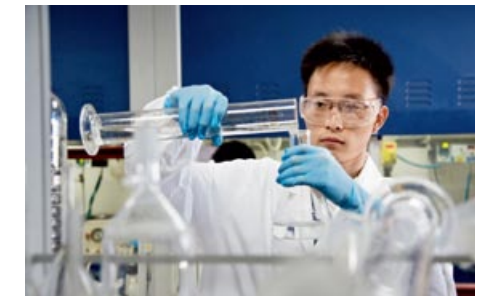
Flying High and Flying Blind: How One Chinese Buyout of a US Aviation Firm Soared While Another Crashed

This case study outlines two attempted Chinese acquisitions of U.S. commercial aviation firms, Cirrus and Hawker-Beechcraft. One transaction succeeded. The other failed spectacularly. Perhaps surprisingly, the successful deal involved AVIC, a large Chinese SOE that also serves the Chinese military, while the failure involved a private Chinese firm.



A Chinese Paper Maker Commits to Green Production in Virginia

This case study details how Tranlin, a paper manufacturer based in China's Shandong province, invested \$2 billion to build an advanced manufacturing facility in Virginia. Driven by an interest in competing in the global market, the Chinese investor was the technology exporter, rather than the more common role of technology acquirer. By 2020, the plant could generate more than 2,000 local jobs.



A Chinese Pharmaceutical Startup Acquires an American Firm to "Go Global"

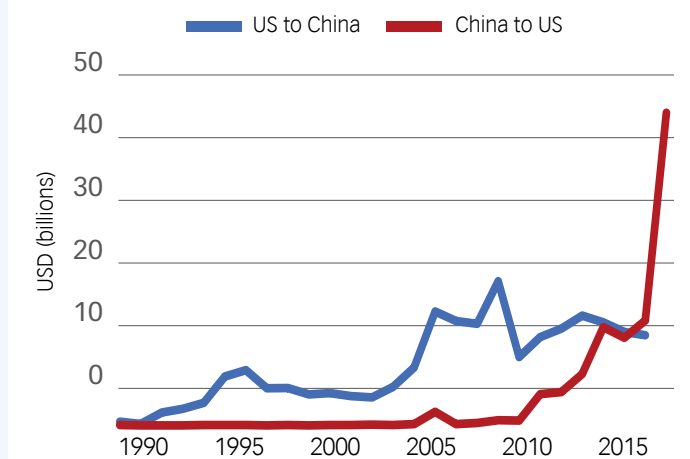
This case study explores Chinese startup WuXi PharmaTech's acquisition of the U.S. pharmaceutical firm AppTec in 2008. Capitalizing on the boom in research outsourcing to Asian countries, WuXi sought to leverage the AppTec acquisition to break into the U.S. market. The company's story illustrates the emerging trend of high-skilled labor outsourcing from the U.S.

FAST FACTS

A Wave of Chinese Investment—and American Jobs

Chinese direct investment in the United States tripled in 2016 to a record **\$45.6 billion**, according to Rhodium Group, which estimates that Chinese investment already accounts for more than **100,000 American jobs**, up from fewer than 20,000 in 2010. As more Chinese companies diversify and seek access to the American market, further investment growth seems likely. However, there are signs that the foreign investment review process under the Committee on Foreign Investment in the U.S. (CFIUS) may become more stringent. Congressional leaders have raised concerns recently about several Chinese investments on national security grounds.

Annual Value of FDI Transactions between the US and China, 1990-2016



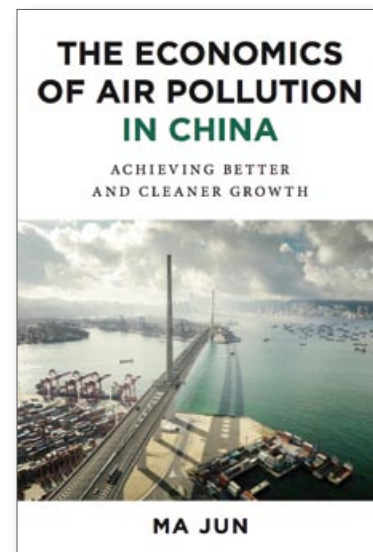
Source: Rhodium Group

Think Tank: Paulson Books

In 2016, the Think Tank diversified its publications portfolio by producing its first book, *The Economics of Air Pollution in China – Achieving Better and Cleaner Growth*, by Ma Jun, chief economist of the People’s Bank of China and former China economist at Deutsche Bank. The book is edited in English by Think Tank Associate Director and Fellow Damien Ma.

The Economics of Air Pollution in China *Achieving Better and Cleaner Growth*

In *The Economics of Air Pollution in China – Achieving Better and Cleaner Growth*, Ma Jun offers a detailed and ambitious proposal to tackle China’s severe air pollution and drastically reduce the level of so-called PM 2.5 particles—microscopic pollutants that lodge deeply in lungs. Ma argues that in targeting pollution, China has a real opportunity to undertake significant structural economic reforms that would support long-term growth. Rooted in rigorous economic analyses and evidence-based projections, Ma’s “big bang” proposal aims to mitigate pollution and facilitate a transition to a greener and more sustainable growth model. *The Economics of Air Pollution in China* is a Paulson Institute book, published by Columbia University Press.



Chinese Money, American Jobs

The Think Tank’s second book is currently in production for publication in 2017. *Chinese Money, American Jobs* compiles the Think Tank’s investment case studies into a book framed by analytical chapters. It will be the first of its kind—the first book to dig deeply into the *actual experience* of Chinese investment across the United States. It will be the definitive explainer that dissects how and why Chinese investments in America have happened, what is driving China’s buying and investment spree, and what it actually means for American workers and the firms affected by it. The book seeks to capture the complex realities of Chinese investment—both the “good” and “bad” for American workers—while dispelling general misperceptions and offering a frank assessment of the serious challenges both sides face.

“The Think Tank papers are unique contributions: current topics, excellent in-depth research presented clearly, and with a focus on practical policy steps.”



ROBERT ZOELICK
FORMER PRESIDENT,
WORLD BANK

Contemporary China Speakers Series

In a monthly series of lectures at the University of Chicago, the think tank brings leading experts from academia, government, journalism, and the arts to campus to discuss social, political, and economic developments in China—from youth culture to economic reforms, cross-Strait relations, and the future of the U.S.-China relationship. This popular series is available to the public through videos on YouTube.



Thought Leadership: We hosted prominent experts, including (clockwise, from top left) former NSC Senior Directors Jeff Bader and Dennis Wilder; Jamestown Foundation’s Peter Mattis; Gavekal Dragonomics’ Arthur Kroeber; and Ping Pong Productions’ Alison Friedman.

Supporting Green Growth in China

China and the United States, the two largest carbon emitters, must make the transition to low-carbon economic models. This will require changes in the way we build and run our cities, from energy use to buildings.

With some 100 million more people becoming city dwellers between 2016 and 2020, China's urbanization drive presents new environmental challenges, especially in the fast-growing building sector. Through thought leadership, convening, and high-level advocacy, our Climate and Sustainable Urbanization team is working to help China make the transition to more sustainable economic growth.

Economy in Transition: Wind production in the region near Zhangjiakou in Hebei province, pictured here, is increasing, but as much as 20 percent of the wind energy is curtailed, or wasted.



Promoting Renewable Energy and Green Buildings

Research papers in 2016 set out recommendations for China's sustainable economic transition, with a focus on integrating renewable energy onto the power grid and catalyzing the green building market. The life cycle of buildings account for some 40% of all carbon emissions, and so greener buildings in China will both save energy and help the country meet its climate targets.

Going for Gold: Championing Renewable Integration in Jing-Jin-Ji

As Beijing and nearby Zhangjiakou prepare to co-host the 2022 Winter Olympic Games, both cities are pursuing ambitious strategies to resolve air pollution problems through the deployment of clean energy technology. Pointing to the renewable energy successes of Germany and Texas, the paper argues that the region encompassing the two host cities, known as Jing-Jin-Ji, has the potential to use the Olympic Games as a catalyst to become a national model for renewable energy integration and air quality improvement.

The paper recommends a pilot of renewable energy integration covering the entire Jing-Jin-Ji region, to improve coordination of transmission planning with renewable power additions; a test of a regional spot market for renewable energy; and a policy commitment to green dispatch that prioritizes renewable energy over fossil fuels.



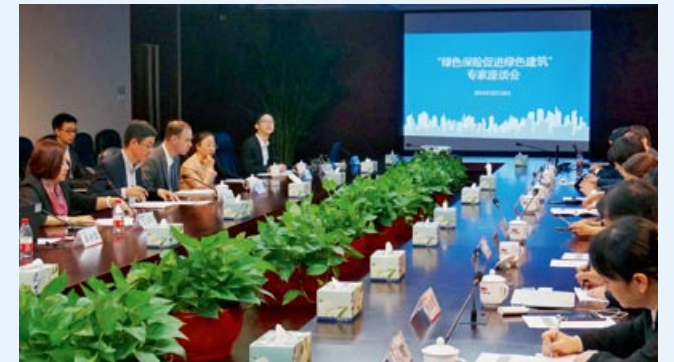
Building for the Future: Chinese cities, including Beijing, will need energy-efficient buildings to help China stay within its emissions targets.

Urban Solutions: Putting Ideas into Action

As China continues to rapidly urbanize, the energy efficiency of buildings will be a key factor in determining whether or not the country can fulfill its ambitious carbon commitments. *Financing Energy Efficient Buildings at Scale in Chinese Cities*, by Kevin Mo, estimates that China will need to invest RMB 1.65 trillion (\$254 billion) in the next five years to support the construction of greener buildings and the retrofits of existing inefficient buildings. The report, supported by Bloomberg Philanthropies, outlines some innovative financial mechanisms that could push the green building market forward.

\$254 billion

Amount China needs over five years for green buildings



Leveraging the paper's proposals, in October, the Institute co-hosted a workshop with the People's Insurance Company of China (PICC) to discuss how to design insurance products to provide credit enhancement and risk management mechanisms for green buildings. In December, the Institute convened PICC and China State Construction and Engineering Corp. the two largest companies in their sectors, to discuss how the two could pioneer an insurance model for the construction of green buildings.



“China's transition to a low-carbon economy will bring great benefits, to its own citizens and the world. The Paulson Institute brings the best minds together to help forge that transition.”



DAVID SANDALOW
INAUGURAL FELLOW AND
DIRECTOR, US-CHINA PROGRAM,
CENTER ON GLOBAL ENERGY
POLICY, COLUMBIA UNIVERSITY



China's Mayors: Studying Sustainable Cities

China's mayors are on the front lines of implementing the country's move to a more sustainable economic model. Our Mayors' Training Initiative empowers local policymakers to see best practices in U.S. cities up close and to explore how to implement sustainable practices in cities across China.

The Paulson Institute, in cooperation with the China Association of Mayors, hosted its fourth sustainability training program for Chinese mayors and officials in July 2016. This year's delegation included 18 local leaders responsible for running the mega-city of Tianjin. The program began with a week of classroom study at Tsinghua University in Beijing and continued with nine days in Chicago, followed by a three-day visit to Los Angeles, like Tianjin a major trading and shipping port city, which is incorporating sustainability into its economic development model.

The Front Lines: The Tianjin delegation visited the port of Los Angeles, where they heard from the port's environmental manager about resource efficiency.

“The Paulson Institute Mayors Training Program is highly effective because we learned about best practices in environmental management and systematic planning.”



LIANG LUOYUE
VICE MAYOR OF MAOMING, GUANGDONG,
PARTICIPANT IN 2014 TRAINING PROGRAM

Paulson Prize: Celebrating Sustainability Champions

The Paulson Prize for Sustainable Cities goes annually to a project in China that embodies the vision of urbanization that will help advance China's transition to a more sustainable economy. The next winner will be announced in March 2017.



2015: Anheng's solution for urban water leakage

Stands out for: Using big data to solve a global urban problem

“Beyond the Prize itself, this indicates that the Paulson Institute recognizes the project's value not just to industry but to the entire society and beyond.”

— Wan Zhonghua, CEO of Anheng Group



2014: Shenzhen International Low-Carbon City Project

Stands out for: Taking a people-centric approach to developing a low-carbon district, starting with an environmental cleanup

“Winning an influential prize when no consensus had been reached has helped the project to be recognized by society. The Prize has made the Shenzhen government and people who participated in the project more supportive of what we are doing.”

— Ye Qing, Chairman, Shenzhen Institute of Building Research



2013: Nanhu Country Village Project, near Jiaxing, Zhejiang

Stands out for: Piloting environmentally friendly and economically vibrant suburbs

“The Prize helped us receive more support from people in government and gave our sustainable development techniques more credibility.”

— Frances D. Ba, Executive Director & President,
Jiaxing Alliance Development Corporation

Harnessing the Power of Markets

We are bringing U.S. and Chinese businesses together and promoting green finance in an effort to tackle global environmental challenges with practical, pro-growth solutions.

Our work has shown that at a time of growing tensions, business can be an important force for a stronger U.S.-China relationship. Businesses can also play a pivotal role in helping China achieve its ambitious sustainability goals, by bringing clean technologies to market and implementing more sustainable practices.

Business leaders are innovators and job creators. Through our CEO Council for Sustainable Urbanization, green finance initiatives, cross-border investment work, and soy trade project, we are promoting business as a crucial part of the solution in driving more sustainable growth.

Market Drivers: In April, PBOC Chairman Zhou Xiaochuan and Hank Paulson co-chaired a symposium on green finance in Washington, DC.



CEO Council for Sustainable Urbanization

The CEO Council brings together 19 top U.S. and Chinese CEOs to work together to help China achieve its ambitious urbanization goals in a sustainable—and practical—way.

In 2016, Council members focused on three areas of work: Green Supply Chains, Sustainable Cities, and an Awareness Campaign. Formed in late 2014 in partnership with the China Center for International Economic Exchanges, the Council promotes sustainable business practices that can be replicated and scaled up in China. This year, members worked on sustainable forestry and factory efficiency initiatives in an effort to green their supply chains in China. Additionally, they cooperated on a number of large-scale, integrated urban development projects that will incorporate cutting-edge sustainable technologies.

U.S.-China Ties: CEO Council members following the annual meeting in October in Beijing, where Vanke's Wang Shi, Alibaba's Jack Ma, and others called for efforts to reduce waste.



Innovating, Building, Communicating

In 2016, the CEO Council focused on three main areas

Green Supply Chains

Member companies worked together on several green supply chain initiatives, exploring and sharing best practices on management of forestry resources and factory energy efficiencies. Apple and Vanke led the forestry project, which resulted in a white paper, and Walmart highlighted its use of McKinsey's "RedE Tool," which helps companies manage energy and resource use. Members learned about the system on a tour of a Walmart toy supplier in Shenzhen.



Sustainable Cities

The Council is exploring collaboration on large projects proposed by five member companies, from Vanke's Super Headquarters Project in Shenzhen to CDB Capital's planned suburban developments and China State Construction's integrated urban projects. To provide guidelines for such projects going forward, the Council has developed a set of Green Principles for Urban Planning.



Awareness Campaign

Recognizing that the 19 top CEO members are influencers in a position to lead by example and encourage behavior change, the Council is working on a video campaign highlighting the CEOs's voices as champions for sustainability. Work is moving forward on filming and distribution later in 2017.



“Businesses play an important role in driving sustainability, and the CEO Council is creating a platform for spreading best practices across China and beyond.”



DOUG MCMILLON
CEO, WALMART

CEO Council: A Year in Action



Stronger Together: At the CEO Council meeting, co-chaired by Hank Paulson and CCIEE Chairman Zeng Peiyan, Paulson called on members to measure and reduce greenhouse gas emissions, an effort that the Council will tackle in the year ahead (1). Vanke’s Wang Shi (2) and Walmart’s Doug McMillon led a discussion of green supply chains, during which Alibaba’s Jack Ma (5) discussed green packaging. Andrew Liveris of DOW convened a session on urban development projects, attended by Zhongkun’s Huang Nubo (3) and Taikang’s Chen Dongsheng (4). Council company reps—seen at Lawrence Berkeley National Lab (6) after a meeting and on a tour of Walmart supplier Hong Kong City Toys’ factory in Shenzhen (7)—worked to drive tangible, scalable sustainability projects.



Helping China’s Soy Trade Go Green

In 2016, the **Sustainable Soy Trade Platform**, which focuses on South America-China soy trade, facilitated the signing of a groundbreaking MOU between the China Soybean Industry Association, Aposoja (the soy farmers’ association of Brazil’s Mato Grosso), and ABIOVE (Brazilian Vegetable Oil Production Association) to cooperate on promoting sustainable soy (see right). We continued to engage top international soy traders and Chinese importers to work towards a joint commitment aimed at removing illegal deforestation from the China-Brazil soy supply chain.

We also completed a study of the impact of Brazil’s Rural Environmental Registry (CAR). We are working toward a test shipment of CAR-compliant soy from Brazil to China and the expansion of China’s green public procurement catalogue to cover agricultural commodities. The soy initiative was launched by the Paulson Institute, Solidaridad, The Nature Conservancy, and World Wildlife Fund to help China, which imports some 64 percent of the world’s soy, to send demand signals to encourage sustainable soy production.

Greener Beans: The Paulson Institute is working to improve soy production, which has imperiled Brazilian rainforests like these in the northwestern state of Acre.



Green Finance: Unleashing Capital for Growth

During its G20 presidency in 2016, China prioritized green finance, and the Paulson Institute worked closely with the People's Bank of China on developing guidelines to drive a vibrant international green finance market. In 2016, we convened numerous symposia to facilitate that process and helped guide the work of a green fund that aims to be a model for China and the rest of the world.

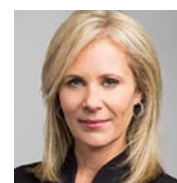


Building Energy Efficiency Fund Plans Projects in Two Cities

China is committed to deploying cutting edge technologies to reduce energy use and carbon emissions. But how to bridge the price gap between higher upfront costs and long-term returns? The U.S.-China Building Energy Efficiency and Green Development Fund, a public-private partnership established in 2015 with the help of the Paulson Institute, aims to provide financing to bring U.S. technologies to bear in the fight against pollution in China. It will also serve as a model for funding crucial clean-tech investment. In June, 2016, the fund signed its first letters of intent for investment projects, in cooperation with the municipal governments of Zhenjiang and Zhangjiakou cities.

Public-Private Partnership: Hank Paulson and Minister Liu He, head of the Office of the Leading Group on Economic and Financial Affairs and vice chairman of the National Development and Reform Commission, witness the signing of letters of intent for the energy efficiency fund's first projects.

“We need standards, smart policies, and incentives to accelerate green finance that will drive China's move to a more sustainable economy.”



DEBORAH LEHR
SENIOR FELLOW,
PAULSON INSTITUTE

Policy and Practice: Mainstreaming Green Finance

International standards, increased transparency, and agreement on definitions are needed to encourage creation of a thriving green finance sector. To help develop a roadmap for innovative financing and investment in green projects, the Paulson Institute co-hosted a series of high-level international symposia.



Washington D.C. April

A symposium of global finance leaders, co-convened with the G-20's Green Finance Committee, SIFMA, and the United Nations Energy Programme (UNEP), discussed measures to “de-risk” the adoption of green technologies. “The financial system should play an important role in promoting the green transformation of our economies,” said PBOC Governor Zhou Xiaochuan. “In China, establishing a green finance system has become a national strategy.”

Beijing April

The Paulson Institute and the Chinese government convened Chinese securities, banking, insurance, energy and housing regulators, and U.S. and Chinese companies to discuss plans for the U.S.-China green finance fund. “There is plenty of capital in China and elsewhere in the world,” Hank Paulson said, “but it needs to be allocated appropriately to low-carbon sectors that can also generate new sources of economic growth and create new jobs.”



Shanghai September

Hosted by the Paulson Institute, G20 Study Group, and UNEP, international green finance experts met to discuss recommendations released by the G20 Green Finance Study Group as China hosted the G20 in Hangzhou. PBOC Vice Chairman Yi Gang highlighted China's ambitious agenda, which covers green bonds, green indices, green insurance, and public-private partnerships. Institute Senior Fellow Deborah Lehr joined a panel with PBOC Chief Economist Ma Jun and other members of the G20 Study Group.

Washington D.C. October

The Paulson Institute hosted a conference with Bloomberg Philanthropies, IIF, SIFMA, and UNEP, at which central bank governors, bankers, environmental ministers, insurance firms, rating agencies, and others discussed disclosure, assessment standards, and the role of policy in incentivizing green investments.



Protecting Our Natural Capital

Following decades of breathtaking economic success, China has embarked on a new growth path encapsulated in its vision of an Ecological Civilization: integrating protection of natural capital into its economic development.

Toward that goal, our Conservation Program is working with the government and other partners to protect and enhance China's natural capital, ecosystems that provide vital ecological goods and services to the survival and prosperity of mankind. We are supporting the establishment of China's national park system and working to protect the country's critically endangered coastal wetlands.

Precious Resources: The Sanjiangyuan National Nature Reserve, in Qinghai province, was established to protect the headwaters of the Yellow River, the Yangtze River, and the Mekong River. At 152,000 square kilometers, (94,000 square miles), the reserve, which is one of China's nine pilot national parks, is larger than England and Wales combined.

Photo credit: PENG Jiansheng, / Sanjiangyuan / Peking University / Shanshui / SEE / IBE

Creating a National Park System

As a signature initiative under China’s Ecological Civilization blueprint, national parks epitomize China’s aspiration to balance the use and protection of its immense natural heritage. Creating a national park system will also afford China an opportunity to reform and streamline its protected area system. We are proud to be a key partner in this effort, which will deliver sustainable solutions that benefit both nature and people.

Partnering with the National Development and Reform Commission and the Heren Foundation, we are helping to develop plans and guidelines for establishment of China’s national park system and introducing international best practices. In 2016, we produced international case studies from six countries, conducted two research projects for Wuyishan pilot national park, and organized a training program in the U.S. for Chinese officials and park managers.

Delicate Balance: A team of Chinese experts is working on a roadmap for Wuyishan pilot park in Fujian province, with plans that better balance the protection and use of natural and cultural resources.



Mapping the Plans

Overlapping and conflicting jurisdiction over protected areas among Chinese government agencies is creating an enormous challenge for effective management. Insufficient funding, limited management capacity, and skewed incentives also hamper the effectiveness of these protected areas.

We are working with the National Development and Reform Commission, the Chinese Academy of Sciences, Tsinghua University, and other partners to help tackle major challenges China faces to establish an effective national parks system, from policy instruments to institutional setup and technical guidelines and standards. In Wuyishan, one of nine pilots, we are supporting Chinese experts and local stakeholders to develop a plan that will designate different functional zones and harmonize the new park with other protected areas in the region.



The twelve provinces for pilot nations parks are: Beijing, Fujian, Gansu, Heilongjiang, Hubei, Hunan, Jilin, Qinghai Shaanxi, Sichuan, Yunnan, and Zhejiang.



U.S.-China Exchanges

In May, the Paulson Institute hosted 22 officials responsible for China’s protected areas for a training tour on governance of environmental commons and the national park system in the United States. In Washington, D.C., the delegation attended lectures by U.S. National Park Service officials and conservation experts. They then visited several national parks, where they met with park managers and other experts to learn about all aspects of the national park system, including legislation, governance, and management policies on natural and cultural resources, as well as commercial services and tourism.

“ The national parks are a crucial part of China’s move to develop an Eco-Civilization, serving both nature and mankind. ”



OUYANG ZHIYUN
DEPUTY DIRECTOR, RESEARCH CENTER
FOR ECO-ENVIRONMENTAL SCIENCES,
CHINESE ACADEMY OF SCIENCES



Saving China's Coastal Wetlands

We continued to drive greater protection of China's critically endangered coastal wetlands at the national and local levels. Hank Paulson advocated for key conservation measures with top provincial leaders in six important coastal provinces. To promote the policy recommendations from the Coastal Wetlands Blueprint completed in 2015, the Institute published a brochure highlighting 180 priority conservation sites, including 11 of the most important migratory bird habitats that are not under legal protection yet.

The Blueprint, launched by the Paulson Institute with the Convention on Wetlands Management Office of the People's Republic of China, the Institute of Geographic Sciences and Natural Resources Research of the Chinese Academy of Sciences, and the Lao Niu Foundation, is the first comprehensive study of China's coastal wetlands. It concludes that China needs an integrated plan for protecting its remaining coastal wetlands, which are critical for long-term economic and ecological sustainability. Coastal wetlands also protect the local populations and economy from rising sea levels and severe weather caused by climate change.

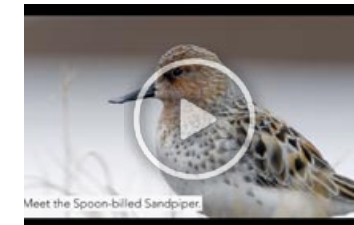


Champion Flyer: The Bar-Tailed Godwit, pictured center, at the Yalujiang Nature Reserve in Dandong, Liaoning, can fly for nine straight days without stopping for fuel or rest.

Taking That First Step: Awareness Campaign

The first step toward protecting nature is awareness. And so as millions of migratory birds flew to China's wetlands this fall to refuel for their long journey to southern winter homes, we launched an awareness campaign.

We posted a series of videos and blogposts. The message: the migratory birds are under threat, a result of reclamation and shrinking habitat. But with growing awareness, efforts to protect wetlands are gaining momentum. Our campaign garnered more than 1 million views.



FAST FACTS

- 60%** Amount of China's coastal wetlands that have disappeared since 1950
- 15,000** Kilometers the Red Knot flies each fall and spring.
- 5-10** Years until extinction for Red Knot, if unprotected (150,000 remain)
- Fewer than 500** Spoon-billed Sandpipers remaining

Wetlands Experts Discuss Protection of Endangered Habitat



In October, we co-convoked a symposium in Beidaihe with CCIEE, the Wetland Management Center of State Forestry Administration, and the Hebei Provincial Government. Hebei Governor Zhang Qingwei declared that his province will move to protect all the endangered Hebei sites identified in the Coastal Wetlands Blueprint. At dawn, Hank Paulson and wife Wendy, Vanke's Wang Shi, and conservation experts went birdwatching to raise public awareness of endangered migratory birds. In June, we also co-convoked the second annual meeting of the Coastal Wetlands Conservation Network to discuss wetlands' role in climate change mitigation. The Network is funded through generous donations from the Lao Niu Foundation and Heren Foundation.



Celebrating Five Years

This year we celebrated our fifth anniversary with an all-team meeting in Chicago. Our diverse, multicultural staff brings deep know-how and commitment to our work through experience at the highest levels of business, government, conservation, policy and research, and media. We look forward to the next five years with a commitment to contributing to positive change in everything we do.



“ Our anniversary marks a series of successes, from thought leadership on China’s economy, green buildings, and renewable energy to concrete projects on green finance, urbanization, and conservation. Think and Do in action! ”



JERRY YU
MANAGING DIRECTOR,
CHIEF REPRESENTATIVE OF CHINA OFFICE
PAULSON INSTITUTE



Looking Forward



We are proud of what we have achieved in five short years—from publishing cutting edge policy papers on the future of economic reforms in China to producing research on renewable energy and large-scale urban development, to training local leaders in sustainability practices, protecting the shrinking habitats of endangered migratory shorebirds, and helping establish China's first national park system.

We have created a broad platform for dialogue—bringing together Chinese and American business leaders, economists and environmental researchers, and government officials and nonprofit experts throughout the year to discuss concrete solutions for global issues. At a time of increasingly complex global economic and political challenges, we believe our work at the Paulson Institute is more important than ever. We will continue to strive for the best ideas and practices related to economic reform, environmental protection, and business collaboration to create models for sustainable practices.

There is much work to be done. We are ready for the challenge.

Visible Results: Vanke CEO Wang Shi and Bobolink Foundation Chairman Wendy Paulson observe wildlife on the coast of China's Bohai Sea.

About Us

The Paulson Institute is a non-partisan Think and Do Tank grounded in the principle that today's most pressing economic and environmental challenges can be solved only if the United States and China work in complementary ways.

Our programs focus on advancing the transition to a more sustainable, low-carbon economic model in China through industrial transformation, smart urbanization programs, and environmental conservation. A key goal: to advance industrial and nature-based solutions to climate change.

We also promote bilateral cross-border investment that will help create jobs and strengthen U.S.-China relations. Our Think Tank publishes papers on the most important macroeconomic issues facing China today.

Founded in 2011, the institute is based in Chicago and has offices in Washington, San Francisco, and Beijing.

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