

# THINK AND DO

Annual Report  
2018



# MESSAGE FROM THE CHAIRMAN

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Dear Friends,

In my nearly three decades of dealing with China—as a businessman, US Treasury Secretary, and, now, as Chairman of the Paulson Institute—I have never seen US-China relations as fraught as they are today.

The ongoing trade war has put economic tensions at a breaking point, while clashing security goals have persuaded many in Washington that China is not just a strategic competitor but a major long-term adversary. Technology, which blurs the lines between economic competitiveness and national security, lies at the very heart of these tensions, as the two countries compete to dominate the industries of the future. The net effect has been to create real risks of decoupling between the two countries. And that has thrown the US-China relationship—and potentially an international system premised on economic integration and globalization—into a downward spiral.

Make no mistake, these trends are neither short-term nor cyclical. What we are seeing today is the result of serious, structural policy disagreements which are likely to endure, and which will be difficult to reverse.

Nevertheless, I believe that cooperation with China has been, and can still be, in the US interest. The greatest challenges the world faces, from spurring global growth to harnessing new technologies that arrest climate change to nuclear nonproliferation, will be solved more easily if the United States and China are not working at cross purposes. It is this reality that motivates and guides the work of the Paulson Institute.

Over the past year, we have continued to build on our past successes and find new ways to contribute to a US-China relationship that is more secure and productive.

In 2018, our Green Finance Center worked with financial market participants and international financial institutions to promote green growth and create innovative models to finance green development. Our in-house Think Tank, known as “MacroPolo,” generated leading analysis and products to decode China’s political economy for the markets, business leaders, and policymakers. Our Conservation program worked to protect and unlock the value of China’s natural capital. And other key initiatives, such as our Mayors Training Program and Paulson Prize for Sustainability, have continued to support sustainable solutions at the intersection of economics and the environment.

As the US-China relationship continues to evolve, so will the Paulson Institute. Our team is energized about the work to come.

Thank you for your support of the Paulson Institute.

Henry M. Paulson, Jr.



# OUR MISSION

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The Paulson Institute is a non-partisan, independent “think and do tank” dedicated to fostering a US-China relationship that serves to maintain global order in a rapidly evolving world.

# OUR APPROACH

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Our focus on US-China is dictated by the reality that it is the most consequential bilateral relationship in the world. We often operate at the intersection of economics, financial markets, environmental protection, and policy advocacy, in part by promoting balanced and sustainable economic growth.

We produce leading analysis and intellectual products to decode China’s political economy. We advocate for market and nature-based solutions to climate change and environmental conservation. We work with financial markets and international financial institutions to implement green lending standards. And we convene thought leaders to generate new thinking and to help build a new framework on US-China policy.





## China's Debt Hangover



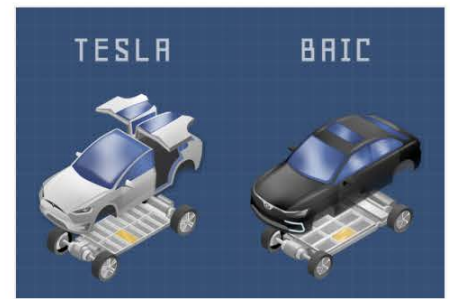
ECONOMICS

## The Committee



POLITICS

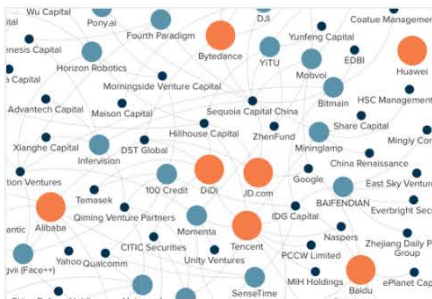
## Supply Chain Jigsaw



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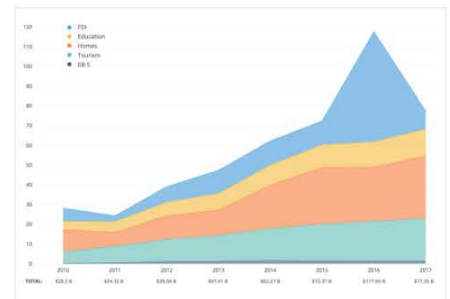
## On The Road



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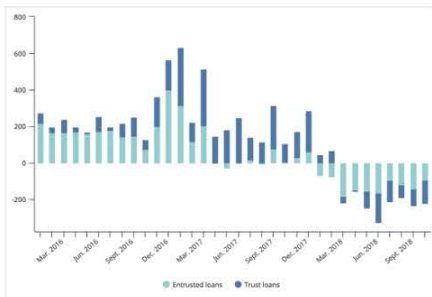
POLITICS

## The China Footprint



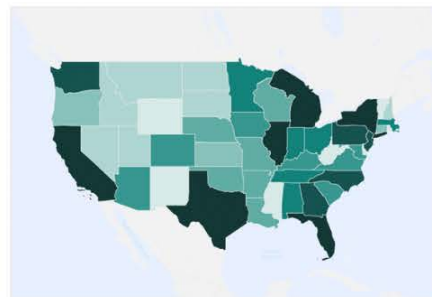
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## The Cleanup



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## Know The Numbers



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## Know the States



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# MACROPOLO

MacroPolo is the in-house think tank of the Paulson Institute in Chicago. Through MacroPolo, we decode China's economic arrival with incisive, market-relevant analysis and creative research products.

## ECONOMICS

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If China's economy sneezes, the world economy catches a cold. Anyone with a stake in the global economy must understand China's trajectory and how economic decisions are made in Beijing today. Our economics work spans critical areas, from finance to labor migration. We focus on China's shifting macroeconomic policies and complex domestic reforms, exploring changing priorities as the centrality of GDP growth wanes. MacroPolo's current products include a thorough examination of China's over-leveraged financial system, one of the most comprehensive timelines on economic reforms in the market, and data-driven interactives on China's impact as a global investor.

## POLITICS

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In a one-party state, every policy challenge is a political problem. And while Xi Jinping looks set to helm the country for another decade, actually governing China requires more than the will of a single man. In the Xi era, politics is in virtually everything, so understanding Chinese politics is not just an intellectual exercise. Every business and NGO in China operates within these political dynamics and must understand how decisions can affect their business and interests. MacroPolo's analysis aims to unwrap the complexities of Chinese politics, shedding light on elite and bureaucratic dynamics. Our products unpack Chinese politics in an accessible way, including a unique and evolving database on "must know" politicians and analysis on how the Chinese system really works.

## TECHNOLOGY

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China is now an innovator, not simply an imitator. It has pursued technological convergence with the US, EU, and Japan for forty years, but is now in a race to win the future. Whether it succeeds will depend on a confluence of factors, including politics, financing, talent, and business environment. But China's political leaders, CEOs, and engineers are as determined as their American and European counterparts to compete across all technological frontiers. Our technology work aims to sort fact from hype. We provide balanced and nuanced insight into China's technological ambitions and the intensifying competition between the US and China. MacroPolo's products in this area include rich interactives on artificial intelligence, case studies on Chinese tech companies, and deep dives into technology standards.

A wide banner image at the bottom of the page showing a large, rust-colored steel truss bridge spanning a river. In the background, a modern city skyline with various skyscrapers is visible under a clear sky. The water in the river is a vibrant blue-green color.

**MACROPOLO**





# GREEN FINANCE

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The Paulson Institute launched a new Green Finance Center in May 2018. The Center promotes market-based solutions to support the development of a robust green finance market in China.

## THOUGHT LEADERSHIP

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Since our launch in May 2018, the Green Finance Center has taken deep dives into specific policy issues impacting the roll-out of China's green finance initiatives. We have published two policy briefs, "Constructing China's MRV System" and "Governance of China's National Carbon Market," that include recommendations by leading experts on the design and development of China's national carbon market. We have published thirteen articles in a number of distinguished global publications. And we have created a comprehensive timeline that covers China's national carbon market and green finance developments.

Additionally, our blog, "The Green Scene Blog", has covered significant policy announcements, such as President Xi Jinping's major green finance agenda, China's green industry catalog, the national carbon market, and key developments from events like the International Green Finance Forum. We also established a new web-based video interview series, which explores issues and insights from experts and practitioners in the world of green finance.

## CONVENING POWER

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The Green Finance Center convened multiple roundtables and events in 2018 focused on policy issues related to green finance, carbon markets, and fintech. These events provided policy recommendations for key stakeholders, provided technical or expert support to those on the front lines, shared case studies and other relevant experiences, and offered innovative and practical solutions to some of the key challenges China faces in implementing its green finance agenda. We have engaged with stakeholders in DC, Chicago, Beijing, and Singapore, attracting leaders from the highest levels of government, finance, and civil society to share and exchange key messages on the critical need for green finance to achieve sustainable development.



GREEN FINANCE





# CONSERVATION

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The Paulson Institute's Conservation program helps to protect biodiversity and ecosystems important to China and the world.



## NATIONAL PARKS

We support the establishment of a national park system in China—which in turn will create an opportunity for reforming and improving the management of all of China's existing protected areas. This year, PI hosted a Chinese delegation consisting of 22 members of officials from relevant government agencies in the United States to learn systematically from the best practices in park planning and management. In November, PI unveiled a book series that made recommendations for China's new national park system from 14 research projects that we commissioned and oversaw with our Chinese partners. As the first and most comprehensive publication of its kind, the National Parks book series marked an important milestone towards creating a unified and effective national park system in China. The 14-volume book set was the culmination of a three-year collaboration between PI, Heren Foundation, and NDRC, tapping into the most important aspects of national park system design for China.



国家公园系列丛书发布仪式  
主持人：牛红卫  
保尔森基金会环保总监

CONSERVATION





# WETLANDS CONSERVATION

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The Paulson Institute has been working to protect China's coastal wetlands, which are under severe threat due to reclamation, invasion of alien species, overfishing, and pollution. Due to the efforts made by PI and our partners over the past four years, the State Council of China issued a bulletin notification in July 2018 that mandates strengthening conservation of coastal wetlands and bans all wetland reclamation. This year, we launched three new projects: 1) The China Coastal Waterbirds and Habitat Database Development Project, which creates data sets and an information platform that will help better protect China's coastal waterbirds and their habitats; 2) The Coastal Wetland Network Training Project, which provides training courses for professionals and promotes wetland education among the network members; and 3) A Study on Mangrove Conservation and Restoration Strategy, which identifies the priorities for and gaps in conservation and restoration of the mangrove ecosystem in China. In addition to these new projects, we continued to work with partners to eradicate the spread of the invasive *Spartina* grass species, we worked to provide legal protections for migratory waterbird habitats such as Luannan Nanpu Coastal Wetland, and we became a formal partner of the East Asian-Australasian Flyway Partnership.



CONSERVATION



## RESPONSIBLE INVESTMENT AND TRADE

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As China continues to grow, so does its demand for the world's natural resources. In order for China's growth to be environmentally sustainable, it is important to help key actors in the Chinese public and business sectors to better manage the environmental risks and impact from their overseas investment projects and commodity sourcing practices. In 2018, the Paulson Institute built a spatial analysis-based biodiversity impact screening tool (named ERST) that informs Chinese actors of their overseas investment decisions, so that high-risk projects can be filtered out at their early conception stage. At the invitation of a Chinese central government agency, we have also developed pioneering research to inform the creation of policies that will leverage the market's role in unlocking financial resources from public and private sectors. This will in turn help to protect ecosystems and their services, thus incentivizing sustainable practices in China.





# KEY INITIATIVES

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The Paulson Institute's key initiatives cut across our main program areas and focus on reducing China's carbon and pollution footprint.



## PAULSON PRIZE FOR SUSTAINABILITY

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We launched the Paulson Prize for Sustainability with its Chinese partners in 2013. The Prize is awarded annually to a project in China that represents an innovative, scalable, and market-based sustainability solution at the intersection of economics and the environment. It is aimed at helping China achieve its ambitious goals of addressing climate change, energy transition, and economic growth in order to create a sustainable future. The 2018 Prize was awarded to the Danfer Castor-Based Green Lubricating Oil project, which developed bio-based lubricating oil derived from castor seeds as a cost-effective replacement to traditional fossil fuel-based lubrications.



## ANNUAL CONFERENCE ON SUSTAINABILITY

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The annual conference convenes top Chinese and international business leaders, policymakers, and government officials to discuss China's sustainable economic transformation, with topics ranging from increasing energy efficiency in buildings to creating livable, economically vibrant communities. In May, with a theme of "New Era, New Drivers," the conference featured keynote speeches by Zhou Xiaochuan, Vice Chairman of Boao Forum for Asia and former governor of the People's Bank of China, and Terry Branstad, US Ambassador to China.



## MAYORS TRAINING PROGRAM

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Launched in partnership with the China Association of Mayors in 2012, the initiative provides an annual sustainable urbanization training program for Chinese mayors and other urban leaders. To date, the program has trained around 100 mayors and city leaders from Beijing, Guangdong, Zhejiang and Tianjin. The 2018 delegation of 25 municipal leaders hailed from Guangdong Province. The training program kicked off at the Tsinghua University campus in Beijing, followed by training sessions in New Orleans and Chicago.



KEY INITIATIVES



## GREEN BUILDING INSURANCE

Inspired by the 2016 PI research paper, *Financing Energy-Efficient Buildings in Chinese Cities*, we are working with the construction and insurance sectors to develop insurance mechanisms to incentivize builders and investors to build green and energy efficient buildings. This year, we helped People's Insurance of China to develop green insurance products and convinced the Beijing municipal government to agree to be the first Chinese city to pilot the green insurance model.



## PROJECT YANGTZE RIVER

Promoting green development in the Yangtze River Economic Belt is one of China's three key economic development strategies. In 2018, we established a three-year partnership with NDRC to engage in collaborative research and proposed solutions to address the complex challenges within the Yangtze River basin. We organized a two-week capacity building tour in Washington, D.C., and Des Moines, Iowa, and developed a climate-friendly model to address crucial issues at the nexus of water pollution, soil pollution, sustainable agriculture, and economic development. We strategically selected the city of Shiyan in Hubei as the pilot site.



**“推动长江经济带发展是党中央作出的重大决策，  
是关系国家发展全局的重大战略。”**

Yangtze River Economic Zone Development is a major decision made by the Party Central Committee, an important strategy of the national development.



**KEY INITIATIVES**



# OUR TEAM

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Founded in 2011 by former Treasury Secretary Henry M. Paulson, Jr., the Institute is based in Chicago with offices in Washington and Beijing. Our diverse, multicultural staff brings deep experience to our work from the highest levels of business, government, conservation, policy, and research.





## Follow Us

