

An eco-friendly exodus in Beijing

May 26 2014, by Usman W. Chohan

In the field of microeconomics, one of the most commonly cited examples of a negative externality is that which arises from unabated industrial pollution. Through an industrial process, a factory can create both profit-yielding goods as well as some discharge of pollution; but whereas the profit is for the factory owner's private benefit, the pollution contaminates the public environment that is the domain of all. This negative externality embodies a brutal reality for many rapidly industrializing cities such as Beijing. A city of 20 million inhabitants, modern Beijing is a formidable engine of economic dynamism in what is already the world's second-largest economy; but its breakneck development has come at an exorbitant price, and the Chinese capital today suffers from a pollution crisis that wreaks havoc on the life expectancy of its inhabitants.

It is frequently mentioned that one year's exposure to Beijing air pollution is equivalent to more than a decade's worth of pollution in a mid-sized European city. If this is true, the impact on citizen longevity is atrocious, and this is why "environmental concerns" top the list of worries afflicting residents of Beijing, according to several recently conducted surveys. One of the overarching reasons for the terrifying levels of air pollution in Beijing is that many heavy industries, whose emission levels are notoriously toxic, are still located in close proximity to the main arteries of the city. It is this propinquity of heavy industry to sedentary settlement zones that creates one of the most egregious sources of air contamination. As part of its efforts to mitigate this air quality crisis, the government has begun to expel ("guide outwards") major industrial plants from Beijing's confines, and it has started with the

expulsion of those companies immediately under its command: the State-Owned Enterprises (SOEs).

The Lingyun Company

A heartening and pioneering example of the outward migration of industry is the Beijing Lingyun Building and Chemical Materials Company ("Lingyun"), a subsidiary of Xinxing Cathay International Group SOE. This pharmaceuticals and basic-materials enterprise is relocating from the Fengtai District in Beijing to the city of Handan in the Hebei province. In order to precipitate the relocation of the company, the government has struck at the cost structure of the company via legislation that has made the procurement of key inputs prohibitively expensive. According to the company, cost increases in materials, production and transportation have jointly hurt the company.

Is this relocation bad news for Lingyun, and have environmental concerns triumphed at the expense of free enterprise? The answer to this question is categorically "No", and Lingyun's transfer out of Beijing is in fact a positive development for the company, because its destination is a more economically sound proposition than its former place in Beijing. This is because Lingyun is migrating to an economic cluster of chemical companies already present in the Wu'an portion of Handan. It is moving to a place where there are several companies with similar operations and business models to its own. From an economic standpoint, clusters confer several production advantages on members of the cluster-group through economies of agglomeration. It is believed that such agglomerative advantages can now be reaped by the Beijing Lingyun SOE as it re-establishes in Handan's chemical company cluster. The management of the company has echoed this sentiment in issuing statements expressing optimism about the move and describing the relocation process as both positive and sensible.

Conversely, there are two major benefits to Beijing that arise from such an expulsion of polluting industry from its precincts. The first benefit is that the vast area occupied by the industrial plant can now be diverted towards more sustainable and economically sound purposes. With real estate prices already skyrocketing in Beijing, it does not make economic sense for such real estate to emit noxious gases instead of provided living space in a crowded megacity. The local government is perfectly aware of this, and the Fengtai district where the Lingyun factory was previously located is undergoing an admirable transformation: municipal authorities plan to fashion the area into an R&D base and new industrial zone for non-polluting industries, according to government statements. The introduction of non-polluting industries with large R&D components in areas previously occupied by factories such as Lingyun will assist markedly in the renewal of Beijing's urban landscape.

The second benefit is indeed the environmental dividend of expelling the contaminating heavy industry. The teeming masses of Beijing suffer the negative externality of industrial pollution, and this situation has a direct and morbid impact on their life expectancy. It is by far the most lugubrious facet of my stay in Beijing to wonder how much of my lifespan I have mortgaged by breathing the air here – how many days will now go un-lived? The heartening news is that each heavy industry plant that is shifted out of the city plays a part in reducing the overall level of air contamination. For Lingyun, government estimates indicate that the company can help reduce coal consumption in Beijing by several tens of thousands of tons, which is in itself a laudable reduction.

Conclusion

Lingyun is one of the early companies to move out of the city, but the commitment of the government towards environmental convalescence is broad-based and long-term in orientation, which is why many experts prognosticate that, over the next few years, a gradual "exodus" of heavy

industries out of Beijing will occur. This exodus will constitute one of the major steps towards mitigation of the environmental pressures afflicting the 20 million inhabitants of Beijing, a city whose rise as a world economic capital has come at an almost extortionary environmental price.

It should also be noted that the relocation of these heavy industries is a win-win situation for the company and for the society bearing the negative externality of the company's pollution. Lingyun is now shifting to a cluster of chemical companies in Wu'an, where economies of agglomeration are far more possible than at a close distance to Beijing. The benefits to society of having such polluting enterprises withdrawn from the city are even greater, as the space these companies occupy can be diverted towards better, cleaner, and more sustainable purposes. The combined effect of many such enterprises moving out on the health of residents like myself is also crucial; it gives us (both figuratively and quite literally) the "room to breathe" we desperately require.

Provided by McGill University

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