

The risks in China's water crisis

IPE.com 9 April 2010:

By Bee Ong

Of the many factors that could seriously affect China's growth trajectory, water scarcity is one of the most challenging. China's impending water catastrophe is beginning to unnerve investors. Several large institutional investors are beginning to investigate or implement ways to manage water-related risks.

In China, water scarcity directly causes economic losses of US\$35 billion annually, according to *Water In China: Issues for Responsible Investors*, a report by Singapore-based Responsible Research. The report was commissioned by ADM Capital, an investment advisory firm specialised in managing distressed assets.

Lucy Carmody, executive director of Responsible Research, says water-related issues are a direct threat to investment prospects. With 20% of the world's population living on about 7% of global freshwater supply, as the Chinese population expands, and as climate change and industrial water demand rise, the ratio may reach crisis proportions.

Already, 30% of the country's river water is deemed unsuitable for industrial or agricultural purposes, two-thirds of 660 cities endure water shortages and 90% of Northern China's aquifers are polluted. To intensify the predicament, China's water efficiency is relatively poor. China takes four times as much water as its G20 peers to produce US\$1 of GDP.

There is some demand-side management and an attempt to more adequately cover the costs of supply. But the coordinated, systemic responses commensurate with the size of the problem are clogged by bureaucracy. Carmody says, "We know of one draft version of a Water Pricing Proposal that has been on the drawing board for six years. This illustrates another substantial roadblock in the journey towards Chinese water sustainability — the fragmented nature of water governance, on a national and regional level, resulting in a high level of systemic inertia with respect to innovation and investment. The situation is made more complex still by the lack of sophisticated legal machinery for regulation and enforcement."

Norges Bank Investment Management (NBIM), which manages assets of the Norwegian Government Pension Fund, is prodding more than 1,000 companies in its portfolio that are in high water-related risk industries, to be more transparent with data that can help with assessing risk to earnings. The sectors include pulp and paper, food, agriculture, pharmaceuticals, water supply, power generation and other industries.