



RESOURCE

Water Markets in China

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Description / Abstract

This discussion paper examines the development of water markets as a solution to water scarcity in China, with particular focus on Water Rights Trading (WRT). Water scarcity is an issue of growing concern for China, particularly in the north, where a combination of limited water supplies, economic growth, and population increases are increasingly straining water resources. The Chinese government has moved enthusiastically toward an embrace of market mechanisms to address water scarcity, with WRT being the preferred policy instrument in the agricultural sector, which accounts for the majority of water use in China. Proposed advantages of WRT include a more efficient allocation of scarce water resources and the ability to limit total water use in a given region by carefully limiting rights allocation. However, the implementation of WRT has encountered significant challenges in China, which include a lack of effective monitoring and enforcement of water use, conflicts of interest between various units of government, which prevent effective administration, and a lack of integration with other approaches to water scarcity, including supply augmentation. In light of these challenges, this analysis concludes that market-based mechanisms in general, and WRT in particular, have an important but only partial role to play in alleviating water scarcity in China. This discussion paper proposes several policy recommendations to improve the development of water markets in China, in particular by lowering the transaction costs to establishing markets and improving policy coordination.

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