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The Green Economy in the G-20, Post-Mexico: Implications for China

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ABSTRACT

Greening economic development has become the consensus in China, although nobody is satisfied with the current situation. The Chinese government has been taking steps to promote a green economy, while simultaneously taking an active part in international dialogues and negotiations on this issue. However, it is still reluctant to assume mandatory obligations for fear of disturbing its economic development pace. Following the global upsurge in interest in the green economy, the Mexico G-20 Summit put the issue on the agenda. G-20 members held considerable discussions about the rephrased concept of inclusive green growth, but only a few made substantive commitments. As a consequence of China's organisational framework impacting on its G-20 participation, as well as its lack of recognition of the relevance of the green economy to the G-20, the country did not devote much attention to the green growth discussions. As a result, it is difficult to assess how the G-20 process interacts with China's national policies in respect of the green economy. Nevertheless, given the rising domestic acceptance of concepts relating to green economic development, it is likely that China will become more open to international discussions at all levels and more willing to accede to obligations.

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ABBREVIATIONS AND ACRONYMS

CCICED	China Council for International Cooperation on Environment and Development
COD	chemical oxygen demand
FYP	Five-Year Plan
GDP	gross domestic product
MEP	Ministry of Environmental Protection
MFA	Ministry of Foreign Affairs
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
NDRC	National Development and Reform Commission
OECD	Organisation for Economic Co-operation and Development
PBC	People's Bank of China
UNEP	UN Environment Programme

INTRODUCTION

When US President George W Bush announced that the first G-20 Leaders' Summit would take place in Washington at the end of 2008, most people thought that it would merely be his last international grandstand before his second term came to an end or, at most, a provisional salve to the financial crisis then erupting in the US and spreading across the world. However, the new institution soon turned out to be much more effective than anticipated. In September 2009, US President Barack Obama announced in Pittsburgh that the G-20 would replace the G7/8 as the premier platform for international economic co-operation, although the major economies seemed to have recovered from the worst repercussions of the financial crisis by that time. Thus the G-20 was transformed from a fighter of disorder into a sustainer of order. This changing role required the G-20 to establish a new agenda covering strategic, structural and long-term issues.

The concept of a green economy was initially put forward at the G-20 in 2009 by German Chancellor Angela Merkel and Jan Peter Balkenende, then prime minister of the Netherlands, advocating a 'Global Charter for Sustainable Economic Activity'. With a focus on environmental products and services, the European countries hoped to establish their future competitive advantage in this emerging sector. However, the call did not solicit ardent responses. In 2012, the G-20 Leaders' Summit in Los Cabos, Mexico, for the first time formally listed the green economy on the G-20 agenda. This signalled the fastest global emergence and expansion of the concept of the green economy in recent years.¹

China has been extremely active in the G-20 since becoming a member country. Former President Hu Jintao has attended all the summits from 2008 to 2012. This is both unexpected and unusual, since China has a long tradition of keeping a low profile. There are two explanations for this. One is that the Chinese government feels respected being invited to such an influential international forum. The other is that China feels comfortable with the fact that half of the G-20 members are developing nation counterparts. China particularly welcomes the idea that the G-20 should take the place of the G7/8 as the premier forum for international economic co-operation, since the latter is considered a club of rich countries. Nonetheless, China's 'fondness' for the G-20 does not mean it would like the G-20 to discuss matters not seen as pertinent. First, China always emphasises the economic nature of the platform, meaning that it does not want to bring political or social issues into the G-20. Second, China is wary of developed countries directing discussions to matters that will benefit their interests only. Hence, China's attitude towards the issue of a green economy in the G-20 is somewhat ambiguous and complex.

The paper discusses how China understands and promotes the concept of a green economy, both domestically and internationally. First it looks at how China viewed discussions on the green economy at the G-20 summit. Second it examines the impact of the G-20 discussions on China's national and international actions on the green economy. Finally, it assesses the implications of the interaction between China's actions and the G-20 discussions for both China and the G-20.

CHINA'S APPROACH TO THE GREEN ECONOMY

China's national policies relating to the green economy

Despite progress in the past three decades, China's rapid economic growth has had environmental costs, with air pollution, soil degradation and biodiversity losses rising dramatically. China is home to 20 of the world's 30 most polluted cities; 90% of China's rivers and lakes are polluted and the Chinese government has to deal with numerous environmental complaints every year. As long as growth remains the government's main priority, environmental concerns will continue to take a back seat.² Rapid economic development has also led to large and fundamental social changes. China now finds itself caught in a vicious circle in which resource bottlenecks, environmental degradation and social unrest are causing serious economic problems, and are undermining steady and sustainable economic growth. Green transformation of the Chinese economy will be the preferred strategic choice if the country is to curb resource constraints and ecological degradation while improving economic efficiency, social inclusion and stability.

The Chinese government has been aware of these challenges for a while. Although not clearly defined, the green economy (or green development) is not a new concept in China. Since 2006, the first year of its 11th Five-Year Plan (FYP), the Chinese government has initiated a series of policies to address the issues of energy saving, environmental protection, sustainable development and an environment-friendly society. For example, the plan sets a binding target for energy savings and emissions reductions to reduce energy consumption per unit of gross domestic product (GDP) by 20% and reduce the total emissions of main pollutants by 10% by 2010. A total of RMB³ 215.1 billion from the central budget was allocated to energy savings and emissions reduction actions and to phasing out inefficient production capacity during the 11th FYP. The total investment in treating environmental pollution has increased by an annual average growth rate of 15% since 2000, and the share of environmental investment in GDP reached 1.33% by 2009.⁴ In its report 'China 2030', the Development Research Centre of the State Council, in collaboration with the World Bank, proposed seizing the opportunity of green development through a mix of market incentives, regulations, public investments, industrial policies and institutional development.⁵ In particular, China's 12th FYP of National Economic and Social Development sets the strategic framework for achieving green growth and sustainable development. This green development plan provides the direction for both the five-year period covered by the plan (2011–15), and the medium- to long-term period. Its overall strategic goal is to achieve inclusive, green and competitive economic development. A number of energy, climate and environment-related targets are set in the plan: energy consumption per unit GDP is to be reduced by 16% and carbon emission by 17%; non-fossil energy as a proportion of primary energy consumption is to reach 11.4% by 2015 from the current 8.3%; water consumption per unit of value-added industrial output is to be reduced by 30%; SO₂ and chemical oxygen demand (COD) emissions are to be reduced by an additional 8%; and ammonia nitrogen emissions are to be reduced by 10%.⁶

The transformation to a green economy is agreed on in China. However, it is not an easy job to turn this consensus into policy actions. The toxic smog hanging over the

eastern half of China at the end of 2012 acted as a reminder that the government had done far from enough regarding environmental protection. The major reasons for the difficulties it faces in enforcing environmental protection may be the implementation and incentive constraints within government, and opposition from the workers and enterprises that benefit from the current pattern of growth, export and investment. The green development strategy will require co-ordination across many government ministries and agencies, many of which may oppose it because it reduces their discretionary decision-making power. In addition, although a green development strategy will be of considerable benefit in the long run, in the short run it will conflict with other economic objectives (for example, meeting employment and industrial targets for the five-year plan). Industries such as those of steel, coal and chemicals can provide considerable employment and tax revenues, which many local governments value more than worrying about the pollution caused. Resolving these conflicting objectives will require job retraining, skills development and policies to smooth adjustment to the new pattern of green development, as well as clear and strong leadership from the highest levels. As the Chinese people become more affluent and are increasingly concerned about their health and well-being, domestic pressure is growing, which provides the basis for Chinese involvement in international efforts on green development.

China's involvement in international discussions on the green economy

The concept of sustainable development emerged in the 1980s and caught the attention of the international community. The Rio Declaration on Environment and Development and the UN Framework Convention on Climate Change, both of which were adopted at the UN Conference on Environment and Development in 1992, could be considered milestones in collective international action on promoting the green economy. China, as an important member of the UN, joined in the action and developed the principle of common but differentiated responsibilities in co-operation with other developing countries. Since then, China has actively participated in international discussions on green growth using two approaches: the international dialogues at the UN Conference on Sustainable Development, which tends to develop consensus among members; and the international negotiations under the UN Framework Convention on Climate Change, which tends to distribute obligations and make deals among members.

Generally speaking, China prefers the former, non-binding approach on the basis of the principle of common but differentiated responsibility. Always claiming to be a developing country, China is not prepared to assume obligations that could encumber its main priority, namely economic development. However, with its rapid rise in both economic growth and environmental degradation, China is becoming more convinced that greening economic development is feasible. The China Council for International Cooperation on Environment and Development (CCICED), an influential think tank on the green economy in China, suggests that in dealing with international climate change policies and actions, the country should embark on the transition to a green and low-carbon economy. It also advocates that it should take the opportunity to engage as a constructive and active partner, rather than having a defensive mind-set and regarding these issues as a threat to China's continued economic growth.⁷ Although the Chinese government still insists on the differential treatment of developing countries, it did agree conditionally to

join a binding international agreement on carbon reduction, which requires developing countries to conduct measurable, reportable and verifiable reduction actions, at the UN Climate Change Conference, Durban in 2011.⁸

CHINA'S VIEWS ON DISCUSSIONS AT THE 2012 G-20 SUMMIT ON THE GREEN ECONOMY

Discussions on the green economy in Mexico

Traditionally, the G-20 host country adds two or three issues to the agenda beyond the core topics. Every host country tends to come up with new issues or ideas demonstrating its creativity or concerns. For example, the 2011 Cannes Summit put the European debt crisis and raw material market volatility on the agenda. The 2010 Seoul Summit gave priority to shared development and closing the development gap between advanced and developing countries. In the context of G-20 summits, the green economy is a new topic that has not been taken up by former hosts. In addition, the 2010 UN Climate Change Conference was held in Cancun, Mexico, gathering much international attention. Mexico seems proud of playing a leading role in international talks on such a worldwide and topical issue. Therefore, it was natural for the Mexicans to focus attention on the green economy at the 2012 Los Cabos Summit.

Mexico established five priorities before the conference:

- economic stabilisation and structural reforms as foundations for growth and employment;
- strengthening the financial system and fostering financial inclusion to promote economic growth;
- improving the international financial architecture in an interconnected world;
- enhancing food security and addressing commodity price volatility; and
- promoting sustainable development, green growth and the fight against climate change.⁹

Only the fifth issue about sustainable development and the green economy had not been mentioned previously at G-20 summits, and Mexico had high expectations on the issue. From the wording of the fifth bullet point, it can be seen that Mexico focused on the environmental dimension of sustainable development.

In contrast, at the Global Green Growth Summit in Seoul on 10 May 2012, the World Bank launched a report titled '*Inclusive Green Growth: The Pathway to Sustainable Development*'. As the report stated in its foreword:¹⁰

Sustainable development has three pillars: economic, environmental, and social sustainability. We cannot presume that green growth is inherently inclusive. Green growth policies must be carefully designed to maximize benefits for, and minimize costs to, the poor and most vulnerable, and policies and actions with irreversible negative impacts must be avoided.

The report clearly states that green growth is about not only environmental protection and climate change, but also economic and social development. A disproportionate focus on the environmental dimension of green growth could even be harmful for sustainable development. Later during the summit, the African Development Bank, Organisation for Economic Co-operation and Development (OECD), UN and World Bank submitted 'A Toolkit of Policy Options to Support Inclusive Green Growth', reiterating that inclusive green growth was a 'growth that not only helps green economies, but also helps move towards sustainable development by ensuring environmental sustainability contributes to, or at least does not come at the expense of, social progress'.¹¹ Simply put, inclusive green growth is not only about the green economy, sustainable development and the fight against climate change; all of which were initially identified by Mexico and cherished by developed economies. Inclusive green growth also covers social and economic development dimensions, which are of concern to developing countries. As a result, the topic of a green economy was rephrased as 'inclusive green growth', which seems to be more balanced and takes into account the concerns of developing countries.

In the eyes of other developing countries, it is somewhat awkward that Mexico, rather than one of its predecessors such as France or even Korea, first brought forward such an issue. The green economy and sustainable development are generally considered to be of advantage to developed countries, since they have higher developmental and technological levels in this respect. That a developing country initiated this subject, seemingly on behalf of developed countries, was certainly not welcomed by its peers.

The compromised concept did not produce substantive results. The concept of inclusive green growth was finally incorporated into structural reform agendas. In the G-20 Leaders' Declaration all members put forward structural reform commitments, including to 'promote inclusive green growth and sustainable development as appropriate to country circumstances'.¹² Members also committed to maintaining a focus on inclusive green growth as part of the G-20 agenda; encouraging investment and capacity-building in this respect; and self-reporting on a voluntary basis on their efforts toward, and progress in, incorporating green growth policies in structural reform agendas and relevant national plans to promote sustainable development. However, only two countries, Japan and South Korea, made specific undertakings to develop green growth in their policy commitments submitted to the summit.¹³ In the Los Cabos Growth and Jobs Action Plan, only four members had made relevant commitments since the Cannes summit, namely South Korea, Australia, Germany and Mexico.¹⁴ The contrast between the G-20 leaders' impressive announcements and members' invisible policy actions shows that the idea of inclusive green growth was not converted into enforceable measures. Nevertheless, it was a success on the part of Mexico to have had the idea accepted by G-20 members.

China's organisational framework relating to G-20 participation

Before the 2008 summit, the G-20 had been a ministerial platform for finance ministers and central bankers. The key Chinese agency responsible for G-20 affairs is the Ministry of Finance (MOF), which set up a G-20 division under its international department. The People's Bank of China (PBC) also plays a significant role, but less so than the MOF, since it is not a fully independent central bank and the Chinese government is more dependent on fiscal rather than monetary policy. As a result, there was not much co-ordination

among the various divisions. After the G-20 meetings were elevated to summit level, the Ministry of Foreign Affairs became involved in the co-ordination. Its major responsibility is to arrange the president's activities and talks, and it does not participate directly in the economic policymaking.

As the agenda of the G-20 expands and more agencies become involved, the demand for a co-ordinating mechanism is growing in order to make comprehensive and complementary proposals at the G-20 meetings. The National Development and Reform Commission (NDRC) is the leading ministry responsible for general domestic economic planning and co-ordination, among various ministries. In particular, the NDRC makes industrial policy and decides on structural matters. The Ministry of Commerce (MOFCOM) is also an important player since one of the major tasks of the G-20 is to fight protectionism, and the ministry is responsible for formulating Chinese trade policy. The MOF plays the role of co-ordinator among all these ministries, which means it gathers policy suggestions on the issues on the G-20 agenda from all the relevant ministries and submits them to the meeting. In fact, only a few ministries, such as the MOF, PBC and MOFCOM, will be present at the summit. The NDRC is becoming more relevant, as the G-20 is paying more attention to structural reform issues. Unfortunately, there is no place for the Ministry of Environmental Protection (MEP), which is responsible for environmental policy in China. This is understandable, since environmental issues are fairly new and not central to the G-20. In particular, the MEP shares its authority over environmental policy with the NDRC, which oversees the Department of Climate Change, and the Department of Resource Conservation and Environmental Protection. The Department of Climate Change:¹⁵

is responsible for organizing and coordinating the formulation of key strategies, plans and policies dealing with climate change, taking the lead in collaborating with other relative parties in international climate change negotiations; [and] coordinating and carrying out international cooperation in response to climate change and related capacity building.

The Department of Resource Conservation and Environmental Protection 'is responsible for comprehensively analyzing important and strategic issues related with the coordinated development of economy, society, environment and resource'.¹⁶ The MEP was not present at Los Cabos.

China's views on the discussion about the green economy at the G-20

Of course, it is difficult to deny the importance and relevance of the well-phrased concept of inclusive green growth, which is also a widely accepted and recognised target in China. As discussed above, China has done much to green its economy and has been very active in international efforts relating to sustainable development and climate change. However, China was not particularly interested in talking about this issue at the G-20 Summit in Mexico and did not pay much attention to it for a number of reasons.

First, China likes to stress that the G-20 is the premier forum for global economic governance. Although everything is economically relevant, China prefers limiting the G-20 agenda to core economic issues such as fiscal policy, financial markets and trade policy. One concern of the Chinese government is that the G-20 agenda will expand

to cover political and social issues. It believes that the G-20 is not the proper forum to discuss these issues and that their inclusion will damage both the efficiency of, and the co-operative atmosphere, at the G-20. Of course, the Chinese government is also afraid of facing criticism regarding its deficiencies in these areas. Second, China was not pleased to have the issue of the green economy included on the agenda at Los Cabos. Even though the term has been rephrased to ‘inclusive green growth’, China is still not sure about the implications of this. It has always insisted on the principle of common but differentiated responsibility in environmental protection and combating climate change. Simply put, China prefers reducing energy consumption and greenhouse gas emissions voluntarily rather than under mandatory international obligations. If included in the G-20, this environmental issue could be tied to other economic measures, causing an unexpected burden for China. Thus, although China agrees with the concept of inclusive green growth and is also working hard to achieve this goal, it does not regard the G-20 as the appropriate forum to address this issue.

Most other G-20 members were also not ready to conduct serious policy discussions about inclusive green growth. Among its policy commitments, China claims to ‘actively promote energy conservation and emission reduction, and accelerate [the] development of new, renewable and clean energy’ as a part of its fiscal stimulus.¹⁷ This is its only commitment of direct relevance to inclusive green growth. Of course, other fiscal and structural policies are making economic growth more inclusive, but they have nothing to do with the green economy or sustainable development.

IMPACT OF THE G-20 SUMMIT ON CHINA’S GREEN ECONOMY DEVELOPMENT

Since China did not make any specific commitments relating to the green economy, it is hard to say what steps it has taken as a result of the G-20 summits. In particular, the discussions on inclusive green growth at Los Cabos were widely dispersed over different policy areas. No specific governmental agencies could be identified to take the responsibility for implementing the relevant policy options suggested by the G-20 or other international organisations. As discussed above, although the MOF is the major co-ordinator of the Chinese government’s participation in the G-20, the NDRC actually plays the key role in structural and strategic policymaking. However, the term ‘green economy’ or ‘green growth’ has not entered the vocabulary of the NDRC: The two departments under the NDRC relating to green economy prefer using ‘green and low-carbon development’ and ‘circular economy’.

On 22 November 2012, the Department of Climate Change issued its 2012 Report on ‘China’s Policies and Actions for Addressing Climate Change’,¹⁸ which introduces China’s actions and policies on climate change, and sets out the positive results achieved since 2011. However, neither the terms ‘green growth’ or ‘green economy’ appear in the report. Nor does it mention the Mexico G-20 Summit in the section dealing with China’s participation in international negotiations such as the UN Conference on Sustainable Development (Rio+20) and the Doha Climate Change Conference (COP-18) in 2012. On 13 December 2012, the State Council approved the 12th FYP for the Development of Circular Economy, intending to construct a nationwide industrial system that allows for

the recycling of renewable resources and encourages green consumption.¹⁹ Again, the concept of 'green growth' or 'green economy' does not appear. It could be concluded that the concept of inclusive green growth emerging from the Mexico G-20 Summit has not been incorporated into national policy discussions in China.

However, since the concept has gradually achieved international recognition owing to the hard work of a number of international organisations such as the G-20, the World Bank, the OECD and UN Environment Programme, international discussions on the green economy or green growth are becoming more popular. Shortly after closure of the Mexico G-20 Summit, Rio+20 was held in Brazil. Chinese Premier Wen Jiabao attended the conference. Developing countries were willing to accept the theme of green economy in the context of sustainable development and poverty eradication, in the hope that developed countries would finance and facilitate the implementation of green economy policy in the developing world.²⁰ However, the developed countries were not happy with the principle of common but differentiated responsibility and wanted the bigger emerging economies to take on more responsibilities. The two sides also disagreed on how to translate the concept of a green economy into workable policies. While developing countries preferred freely choosing an appropriate approach in accordance with their national sustainable development plans, strategies and priorities, developed nations hoped to develop a road map for, or a toolkit of, green economy policies with certain obligations. The final outcome document, 'The Future We Want', seems to include both sides' least wanted items.²¹ Like the G-20 Leaders' Declaration, the document makes use of the term green economy numerous times, showing consensus on the importance of the concept among members, although there was little agreement on how to translate the concept into reality.

The Chinese government has not introduced the concept of the green economy into its national policymaking, although terms such as 'circular economy', 'green development' and 'environmental protection' all overlap with green economy or inclusive green growth. In addition, green economy is a broad concept covering a number of different policy areas. The mismatch between national policies and international dialogues makes it difficult for the Chinese government to designate an agency that can introduce the green economy to specific policies.

POLICY IMPLICATIONS FOR CHINA AND THE G-20

No matter whether it is termed green growth, green economy, green development or inclusive green economy, China's economic development has to be greened. The Chinese government has attributed more weight to environmental protection and tried to incorporate more green content in its development plans and actions in recent years. However, the encroaching environmental and ecological degradation has not been halted nor reversed. This is arguably the biggest failure of the last administration. In particular, recent scandals involving water and soil pollution, toxic smog and poisonous milk have led to the Chinese people losing their patience and confidence. With GDP per capita reaching \$ 6,000, the Chinese population is becoming more interested in pursuing well-being than economic wealth. Every year thousands of protests concerning environmental issues are held all over the country. The Chinese government faces increasingly severe mistrust and criticism. As a result, green transformation of the Chinese economic development model

is already a nationwide concern. However, the implications of green growth vary across different regions and sectors. Many local governments still attach greater importance to economic growth than environmental protection. In this respect, international pressure could be used as leverage to promote the green economy domestically and the Chinese government has become more willing to accept international obligations in green growth.

As the first to touch on the issue of green economy, the Mexico G-20 Summit seemed to have failed in gaining serious attention and consideration from its members, only a few of which made commitments relating to green growth. China was not convinced of the necessity for introducing such an issue to the G-20 either, partly because of its organisational framework for G-20 involvement. However, given the imminence of green transformation in China, it would be helpful to stimulate the Chinese government to pay more attention, despite the lack of concrete commitments.

The G-20 could become an influential forum for international dialogue on green growth, given the importance of its members. The Russian presidency has named three priorities for the 2013 G-20 Summit: growth through quality jobs and investment; growth through trust and transparency; and growth through effective regulation. Under the last priority, the field of energy sustainability includes a subtheme of green growth.²² However, its significance seems lower than in Mexico and its terms have also changed. Thus the exact intention of the concept is somewhat different from that articulated by Mexico. A change in intention will not be helpful in attracting members' continued interest and attention. The green economy is a long-term challenge in need of all members' sustained efforts. If the G-20 wants to play a more significant role in this area, it will be necessary to define the concept more exactly and make it more relevant to the macroeconomic roots of the G-20.

China should not consider the international green economy dialogues and negotiations a burden on its self-determining policies to advance the country's growth and national interests. The government should take advantage of everything beneficial to green its economy. In order to allow more serious participation in the G-20, China needs to adjust its planning to include more relevant agencies when the G-20 is set to discuss the issue. In fact, the G-20 summit is one of the few international forums that the Chinese president will attend regularly. Attracting more attention from the top leaders would be meaningful to the implementation of a green development strategy.

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SAIIA'S FUNDING PROFILE

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