



## Xi Jinping's Climate Change Target Pledge Could Turbo-Charge Growth of China's 'Green Financing' Market – European China Platform Webinar

By Steve Hays, Bellier

President Xi Jinping's historic pledge to the United Nations General Assembly that China will target peak carbon emissions by 2030 and carbon neutrality by 2060, in his country's first commitment to a timeline for achieving its Global Climate Change goals, will drive a major expansion in the 'green financing' market of the world's largest CO2 emitter to pay for the energy transition, a group of top experts on Chinese ESG policies told institutional investor participants in a recent 'China Platform' webinar.

The China Platform is a forum for European institutional investors with an interest in the Chinese financial sector and was jointly established by [the Netherlands Institute for International Relations 'Clingendael'](#) and AXA Investment Managers.

The webinar was co-facilitated by Hanneke Veringa, AXA IM country manager Netherlands, and Frans-Paul van der Putten, senior research fellow at Clingendael and author of the book: *De wederopstanding van China* (The Resurrection of China).

Veringa said it was appropriate the webinar was hosted from the heart of Amsterdam's 17<sup>th</sup> Century canal belt, the headquarters of the former Dutch East India Company, the *Vereenigde Oostindische Compagnie* (VOC). The VOC was established in the city in 1602 as the world's first listed public company and over the next 150 years became the prototype

for modern international conglomerates and drove the original wave of globalisation and the expansion of Europe's trade links with China.

She added that against the background of a momentous U.S. presidential election and the Trump administration's trade war with China, both countries and Europe now stood at an historic crossroads as to whether or not they would choose to engage with each other in the fight against Global Climate Change and support the enormous investment required in China's 'green financing market' to fund the country's energy transition.



Professor Bert Hofman, director of the East Asian Institute at the National University of Singapore, told the webinar: "Xi Jinping made a big, and unexpected, commitment on China's carbon neutrality by 2060. That's only 10 years after the Europeans and that is huge, because China is the world's largest emitter of carbon. It will frankly require a complete redesign of China's whole energy system; it requires new technologies, but once China is committed, new innovation, new technology and science will be directed towards achieving the goal."

### The China Dream and the Biden Response

Professor Dick Vietor of Harvard Business School, who focuses on how countries and regions compete, said it was very hard for him to see how China could achieve the technological innovations needed to hit its CO2 targets within the timelines laid down by President Xi in his UN declaration, when Chinese carbon emissions were about 13.4 billion tonnes in 2019, or around a third of the global total.

While Joe Biden will re-engage with the world on the issue of Global Climate Change, Washington's much more assertive stance towards China in blocking the transfer of advanced technology is unlikely to be reversed, due to the entrenchment of perceptions during the Trump era that the U.S. is rapidly losing leadership in a number of key technological areas to its strategic rival, Vietor noted. This is also feeding into broader

concerns over Chinese geopolitical ambitions that will lead Biden to reassert the U.S.' strategic relationship with Europe and NATO as a democratic and capitalist counter-balance to China, he predicted.

"Xi Jinping has a vision of the 'Chinese Dream,' which is to make China a global power dominant in Asia. There's nothing the West can do about that; it's China's business. The United States hoped for an opening up to global rules and democratization. That is not occurring. Donald Trump made China one of his leading campaign issues, and in the process, I believe, has severely damage U.S. Chinese relations. While Joe Biden will not give way on China's thrust for geopolitical gain in the South China Sea, the most dangerous place in the world due to its potential for superpower conflict; or on Taiwan's autonomy; or on the incarceration of the Moslem Uighurs; I think he will restore the Paris Climate Agreement; renew the TPP (Trans-Pacific Partnership); and reconvene negotiated relationships with China on various disagreements," Vietor concluded.



### **The New Five-year Plan and 'Dual Circulation'**

Bert Hofman said the Chinese have concluded that their system of a socialist market economy works very well for them, as they got through the Global Financial Crisis almost unscathed and the coronavirus pandemic hasn't changed very much. But they have also had to address an external environment that is far less conducive to Chinese development, with the aftermath of Covid-19 likely to suppress global growth for years to come and the U.S. 'tech war' strategy of trying to undermine the use of American technology, or "American-touched" technology, which is a major risk for China.

The outline of the next Chinese Five-Year Plan, which has just been published, puts the concept of 'Dual Circulation' at the centre of China's strategic response to these external challenges, meaning there will be more emphasis on 'domestic circulation,' or the domestic economy and indigenous technology, than 'external circulation' or the international

economy, Hofman said. Dual Circulation isn't a completely new concept, it's been around since the mid-1980s, but it has gained more prominence since 2006 and now is a high priority for the Chinese government, he added.

"China's reliance on external demand has already been much reduced with its trade-to-GDP ratio falling from 50% a decade ago to 30% currently, with exports at only 18%. It's no longer this caricature of an export-dependent economy that a lot of people still have in their minds. China's becoming richer, and if you become richer this decreases the relative price between your domestic goods and tradeable goods – and their share -- in your economy," Hofman said.

But where China is still putting a strong emphasis on in its economic relationship with the rest of the world is in the opening of its financial sector to global capital markets, such as the lifting of constraints on inward portfolio investments. Foreign institutions can now have 100%-owned investment in the financial sector, especially in advisory and asset management, which also helps build domestic expertise and improves the allocation of resources within China, he added.

The opening of China's financial markets will also potentially make the renminbi currency (RMB) a more attractive vehicle for holding as a reserve asset and using in international trade, Hofman said.

"The U.S. has used trade and technology as its main weapons of economic warfare, but the biggest weapon is really the U.S. dollar-based international payments system. If China were to be excluded from the dollar system it would be very painful and the Chinese are quite nervous about that. Making the renminbi and RMB assets more accessible for international investors would give the Chinese, in the end, an alternative based on an RMB-based system," he concluded.



## China's Green Financing Ecosystem

China has built within just five years one of the world's largest green financing ecosystems, but this is still a tiny part of the country's entire financial sector and will need to grow much further to fund the country's Climate Change goals, Doctor Ma Jun told the webinar. Ma is a Director of the Center for Finance and Development at Tsinghua University in Beijing, Chairman of the China Green Finance Committee, a member of the Monetary Policy Committee of the People's Bank of China (PBOC) and also the central bank's former chief economist.

He said the largest Chinese banks have an estimated 11 trillion RMB (USD 1.7 trillion) in outstanding green loans; the domestic fixed income market has issued over 1.0 trillion RMB in green bonds over the past four years; and, in addition, a whole range of innovative new investment products have been launched, including green asset-backed securities, green ETFs and green insurance products.

"I remember friends from Europe saying at the end of 2016 that within one year China grew from zero to hero, because China didn't have a green bond market in 2015 and grew to be the number one green bond issuer in 2016. And, as of now, we have 700 green funds, including the latest launch of the national green fund, which manages RMB 88 billion and I think is probably one of the largest green equity funds in the world," Ma said.

President Xi's carbon neutrality target will give a further major impetus to growth in these markets, with green loans needing to double as a percentage of China's overall total lending market and green bonds and equity funds increasing 10-fold, he added.

China's green financing ecosystem is built on four pillars:

- 1. Green Taxonomy:** Consists of three taxonomies for green loans, green bonds and green projects.
- 2. Disclosure requirements:** By the end of 2020, regulators, including the securities commission and environmental ministry, will require every listed company and bond issuer to disclose environmental information on a mandatory basis. Data to be released could include energy consumption and on CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub>, COD and other emissions and pollutants.
- 3. Financial incentives:** Green relending facility – the PBOC lends to commercial banks at a lower rate for green projects than at standard market financing rates. Many local authorities also provide interest subsidies and guarantees to green projects.
- 4. Financial products:** The suite of green products includes short-term and long-term loans, green bonds, green PE and VC funds, green infrastructure REITs, green ABSs, etc. A range of green insurance products offer protections to firms against various environmental and climate risks.

Ma said China's real drive to tackle its environmental problems via green finance dates back to 2014. It was estimated at the time RMB 4.0 trillion (USD 60 billion) a year was needed to fix environmental problems especially air pollution, and the majority of the financing had to come from the private sector. Since then, air pollution levels have been reduced by 60% in most places and China's focus has gradually changed and now more attention is also being given to the 'circular economy' (including the recycling of waste) and fighting climate change.

"As China grows its economic muscle, its responsibility towards the Climate Change issue also gets much greater. You could see that in the PBOC's new green bond category. It's in a draft form, but it removes 'clean coal technology' from this. That was a clear indication that China is giving carbon reduction and climate change more weight with its green finance agenda," he said.

Around 60% of China's power generation comes from coal and this is a huge "legacy issue" for the country, Ma added. Some local governments were still building new coal power stations until recently, but that is likely to change significantly given President Xi's carbon neutrality pronouncement.

"In my view, there is no need to build new coal-powered plants now because their design life span is 40 years, which means they are not going to fall within China's carbon neutrality timelines. I expect a significant change in our coal-related policies going forward and there are many technologies we can use to rapidly replace this source of energy. The potential to build solar and wind-power generation capacity in China is so big that we can easily scale-up 100% in the next five years compared with the previous five years. Hydrogen is also being invested in heavily as well and a lot of storage technologies are being studied and deployed. I think within the next five years the landscape of renewable energy in China will be very different from what it is now," Ma concluded.



## China and Europe's Green Investment Taxonomies Converging

[The Chinese and European taxonomies](#) or classification systems, for green investments are converging, but because China is at an earlier stage of economic development in comparison with the EU and also has a totally different energy supply structure, it is still difficult to achieve a completely unified standard for investors to use as a comparative benchmark, although step-by-step the language used by both blocs is becoming the same, Professor Wang Yao, of Beijing's Central University of Finance and Economics told the webinar. Wang is the Director general of the university's International Institute of Green Finance (IIGF).

“The objectives of EU sustainable finance are climate change mitigation and adaption, the protection of water and marine resources, the transition to a circular economy, pollution prevention and the control and protection and restoration of biodiversity and ecosystems. In China's green finance definition we have three objectives: addressing climate change; environment improvement and more efficient resource utilization. So basically, the European and Chinese definitions of green financing are the same,” she said.

Wang acknowledged that while environmental, social and governance (ESG) investment reporting standards are mainstream in the EU and North America, in China this is still at an early stage. The 'G' reporting has gone furthest, due to the mandatory disclosures required for listed companies, while 'E' is, as yet, only compulsory for highly polluting and carbon emitter corporates. Chinese companies lag behind in 'S' because although some have corporate social responsibility (CSR) reports, they haven't generally standardized the formats making reliable data hard to collect.

The IIGF has launched Chinese stock indices based on its ESG database to improve company management and investors' understanding of the issues, including the 'Beautiful China ESG 100 Index,' which has substantially outperformed China's benchmark Shanghai Stock Exchange (SSE) Composite Index.



## Institutional Investors Expect China to be the Leader in Green Financing

The China Platform webinar started with the Dutch and international institutional investor participants being polled on the question: “Will China be the leader in Green Financing?” when a solid majority (61%), responded “No.” At the end of the speaker presentations and debate, this position was completely reversed with 60% voting “Yes” to the same question.

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