



ENERGY FOUNDATION
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SUSTAINABLE ENERGY, PROSPEROUS FUTURE

IDDRI Webinar Impacts of CoVid-19 on Economies and Future Climate Action: Perspectives from China

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Outline

1. Economic impact and lessons learnt
2. Make the economic stimulus an accelerator for climate action
3. Perspectives for cooperation between EU and China

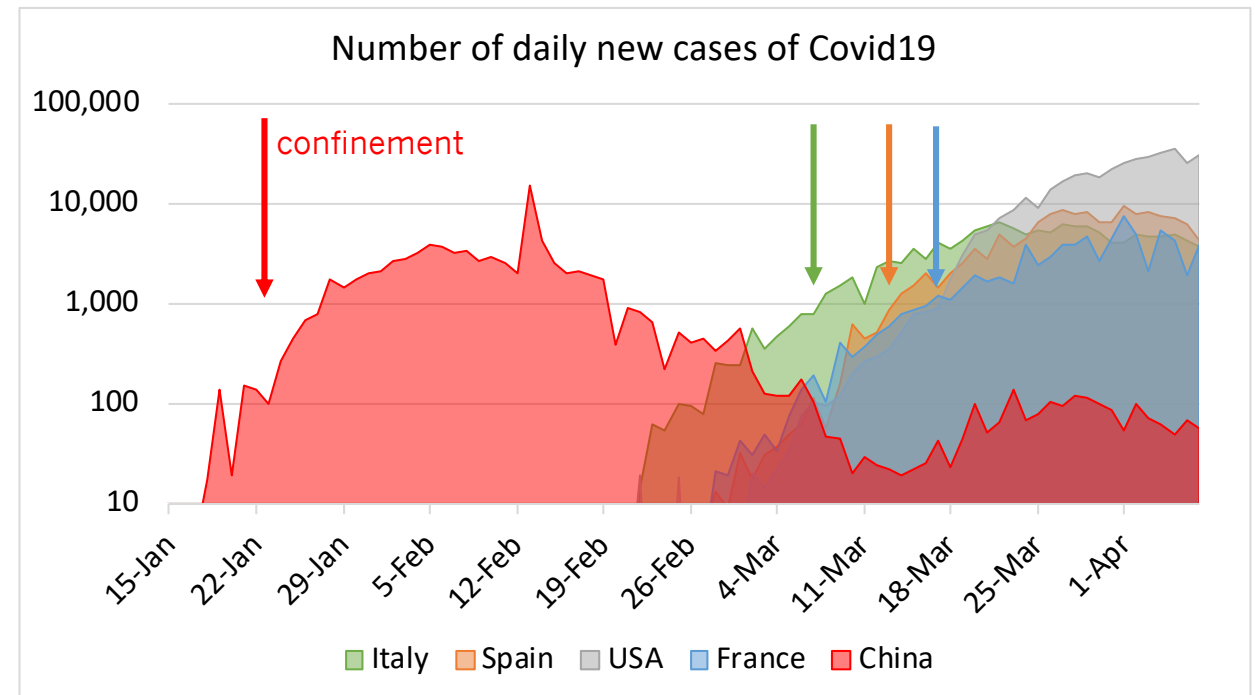
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China is 45 days ahead of European countries

- China reached 1000 total cases Jan 24, European countries around early March
- Severe implications on economy and major confinement measures were applied right after Chinese New Year holidays – 25 January 2020. Worker are just only going back to work.

Country	1000 cases	Confinement measures
China	Jan 24	Jan 30 ~
France	Mar 7	Mar 17
Italy	Feb 29	Mar 9
Spain	Mar 9	Mar 13



Devastating impact on the Chinese economy

- Interruption of production tools: manufacturing production, service industry heavily impacted
 - Manufacturing Purchasing Managers' Index (PMI) down to 35.7%, Service PMI down to 29.6% in Feb 2020.
 - Industrial value added fell 13.5% during Jan-Feb. Metals -27%, cars -32%.
 - Industrial profits fell 40% yoy in Jan-Feb
- Demand-side: consumption and investments fell by more than 20% yoy for the first 2 months.
 - In Feb, Passenger traffic by train or plane fell by 85% yoy
 - In Jan-Feb, automotive and real estate sales fell by 40%
- International trade: From a 42b\$ surplus in Jan-Feb 2019 to a 7b\$ trade deficit over Jan-Feb 2020 (~0.3% of GDP)

Source: China national bureau of statistics

Economic Responses in China

Short-term:

- Monetary response: interest rate, reserve requirements, liquidity injection
- Fiscal policy: tax and fee reductions and suspensions
- Stabilizing employment

Medium term: economic stimulus

- “New infrastructure” investments announced in the sectors of 5G base stations, Ultra High Voltage, intercity high-speed railway and rail transit, charging stations for electric vehicles, big data center, AI and industrial Internet *[more on this later...]*
- Further stimulus to come

The Chinese domestic activity is recovering in parts, but a lot remains unknown

- Epidemic under control... for now
- People back at work >80%
- Ind. & Srv. PMI ~52% in March

Many unknowns

- Supply: limited impacts on companies for now, broken supply chains?
- Demand: Will consumption restart while under global pandemic threat? Unclear job retention results. No income replacement measures.
- Policy: How efficient will China's stimulus policies be?
- International: The global economic crash will weight on China's recovery
- Second phase of coronavirus outbreak in China?
- Policy: how efficient will China's economic stimulus be?
- Final impact on China's GDP is far from over

Source: China national bureau of statistics

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China's national storyline calls for low-carbon transformation

1. Economic development: higher income, high-quality growth, modernization
2. Demographics: aging middle-class demands safety, health, amenities, better education, quality of life, social trust, environmental quality
3. Upgrading economic engine: environment and climate improve Total Factor Productivity (TFP), building up human, natural, and social capital
4. Geopolitics: improve its role on global stage: leadership on biodiversity, health, contribute consistently for global public goods such as climate.

Economic stimulus will leave long-lasting impact on China's structure, how to make it low-carbon accelerator?

1. Ensure today's urgent stimulus response is consistent with China's modernization trajectory, 2030 SDGs and the Paris Agreement. Avoid lock-in effects on the future economy
2. Potential to minimize the socioeconomic losses of Covid-19 by making the crisis an opportunity to breakthrough in green and low carbon transition
3. Build a stronger more resilient economy ready for the risks of the future

China's “New Infrastructures”: a first look (1/2)

Two short term “shovel-ready” green stimulus sectors

- ✓ Electric Vehicles charging stations: great opportunity for low-carbon transportation, vehicle-power grid co-benefits, air quality improvement, increased attractiveness of EV. Challenges: finding a business model for private investments profitability, low oil price limits attractiveness of EV.
- ✓ Intercity high-speed railway: accelerate the extension of 4000+km railway (including 2000km for high-speed). Intra-city public transport should also be included.

China's “New Infrastructures”: a first look (2/2)

- 5G base stations;
- Big data center;
- Artificial intelligence;
- Industrial Internet

Opportunities for higher efficiency of the economy, advances in the shared economy, synergies with energy sector. Vigilance on energy consumption and source of power.

⚠ Ultra high-voltage power transport line: As part of a broader reform of the energy system for higher integration of renewables (both infrastructure, policies and market mechanisms) and not introduce more coal on-line.

Sectors that could make an economic stimulus that is consistent with China's social and ecological vision

And China will probably have more economic response down the line.

Low-carbon economy is full of shovel-ready projects that are profitable and inject money and employment fast in the economy.

- ✓ Renewable energy
- ✓ Building insulation
- ✓ High-energy efficiency appliances: heating, cooking, cooling
- ✓ Low-carbon industry
- ✓ Adaptation and resilience to climate change
- ✓ Land use, water pollution and agriculture practices

Environmental safety, climate, health, social resilience should become core metrics of the success of recovery, not just GDP.

Carbon-intensive lock-ins will be detrimental to China's economic recovery

- “Traditional” carbon-intensive investments are incompatible with China’s own vision and will either retire earlier than profitable, or delay China’s modernization;
- They will constitute stranded assets, just like the overcapacities from 2008, endangering China’s economic portfolio and its resilience;
- They will enlarge the rift between the carbon-dependent regions and the modern cities, degrading inequalities and China’s internal migration issues;
- They will distance China from the rest of the world and break further the global value chains.

We need stronger policies and stronger institutions

Rolling back environmental regulations would be a grave mistake. On the contrary, well designed regulations and incentives would be accelerator for innovation and people's behavior change.

- Efficient carbon pricing;
- Regulatory benchmarks and emission performance standards that applies to incumbent installations and are integrated to financial system;
- MRV, transparency, mechanisms to involve local level and citizens;
- Phase-out fossil fuel subsidies while oil prices are low;
- Domestic signal: socio-economic planning of 14FYP;
- Global political signal NDC enhancement and net-zero commitments.

Challenges

- Sharing the cost among the actors of the society. high level of debt and inter-generational burden. Austerity must be avoided. Promote agenda of social justice and common environmental goods.
- Private capital availability. Private investments on low-carbon technologies and deployments will take longer. Strong public support will be needed.
- Private accountability. Massive corporate bailouts, environmental accountability should last: equity share, environmental conditionality.
- Reaching the poor regions. Poor and carbon-dependent regions are hardest to reach with “green projects”. Extra inclusiveness needed to avoid social injustice and further alienation of climate topics.

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EU and China share a vision and could share an action plan

- The European climate neutrality and China's ecological civilization share a same vision for the long term.
- EU's Green Deal: a comprehensive economic stimulus and restructuration plan for the EU to achieve the transformation of its economy and its people.
- China's "New Infrastructure Investments" is also a starting point to modernize its economy and upgrade its domestic consumption.
- Even if starting from different places, a lot of common concerns:
 - How to invest for long-term economic benefits and jobs
 - Common concerns for health, air quality, environmental safety
 - Transformation of energy, industry, transportation, housing, consumption
 - Fair transition and social justice, etc.

Policy dialogue for a resilient recovery

- China needs a “taxonomy” of economic activities. Urgent need for dialogue on economic and climate rationale behind classification and how such a tool could help China.
- Discussion on resilient sectors of activity, under G20, coalition of finance minister for climate action, social protection discussion under the IMF, etc.
- Share an economic recovery strategy:
 - Coordinated economic responses;
 - Alignment on shared vision for trade (especially after large-scale state supports);
 - Rebuild global value chains in a climate-friendly way;
 - Social, financial and fiscal accountability of the private sector for improved resilience.

Pursue integrated health, economic, climate and environmental cooperation

- Unfortunately, limited multilateral cooperation so far.
- Need to elevate ourselves above nationalism and shifting blames. Find inspiration in the spirit of post-WW2 where we built stronger institutions: UN, WHO, Bretton Woods, European project. Together, we can seize the occasion to build resilience and adaptation framework with shared priority of social protection and climate action.
- Crisis shows the destruction of the ecological system. Response needs global integrated response on climate, biodiversity and health. Pursue political-level cooperation between climate and biodiversity in the follow-up of the Beijing call for biodiversity conservation and climate change.

Impact on global climate momentum

- As the first country to come back from the crisis, China might set the tone on the consistency of the economic stimuli and the climate agenda.
- Despite obvious health emergencies, EU should engage dialogue with China.
- EU's Green Deal, as major economic plan that covers resilience, social inclusion, etc. could be leveraged to anchor expectations.
- EU and China could show strength of multilateralism in partnering to form strong institutional cooperation and help third countries.

Conclusions: the Economic Stimulus is an opportunity to ensure a long-term sustainable growth and accelerate China's climate action agenda

1. Stimulus packages will spend several % of GDP: climate money spent now saves costs for later: it's a great investment.
2. Green stimulus is very attractive in the language of economists: Build new growth engine. Avoid carbon-intensive risks of stranded assets; Climate transformation projects are shovel-ready and deliver jobs; Structural transformation for socio-economic resilience.
3. EU-China organic cooperation on green recovery will help align global supply chains, might avoid returning to trade conflicts... and it might help save the planet.

