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EU-China Green Partnership for Better Global Governance

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KAS-MDPD, the German Development Institute (DIE) and the Finnish Institute of International Affairs have launched a new publication series on the external dimension of the EU's Green Deal, with inputs by experts from the biggest (re-)emerging powers.

How is the Green Deal perceived by (re-)emerging powers across the world? And what does the Green Deal mean for the EU's global power ambitions? The publication series involves perspectives from eight countries/regions: Brazil, China, the EU, India, Indonesia, Mexico, Russia and South Africa.

Introduction

The EU and China both share a commitment towards green development and better global governance on climate change. The year 2020 marked an important milestone for EU-China cooperation, making green cooperation a new highlight and engine of a China-EU comprehensive strategic partnership. China and the EU are closely interconnected. Therefore, an EU-driven comprehensive policy such as the Green Deal could have considerable impact on China-EU bilateral socioeconomic-technical exchanges as well as a wider influence on developing countries in general. (1)

China for Green Development: Domestic Pursuit and an International Calling

“Green development” is understood as relative to the “black/brown development” of the previous three industrial revolutions which generated high levels of pollution and high consumption in pursuit of pure economic benefits (2). Back in 2002, the United Nations Development Programme (UNDP) published the *China Human Development Report: Making Green Development an Option*, emphasizing the unity and harmonious development of economic growth and environmental protection, and a people-oriented approach towards sustainable development. Since then, China’s 12th Five-Year Plan for National Economic and Social Development has officially adopted the term “green development” in national policy documents, and made a master plan for green development paths that focus on building a resource-saving and environment-friendly society, developing a circular economy, building a climate-adaptive society and implementing a national comprehensive disaster prevention and mitigation strategy. It has been considered China’s first national green development plan (3).

Under President Xi’s administration, since the 18th National Congress of the Communist Party of China (CPC) in November 2012, China has strengthened efforts to conserve the environment, implemented the development concept of “innovation, coordination, green, openness, sharing”, adhering to green, circular, and low-carbon development as the basic path. It is recognized by policy makers that the ecology of China and, indeed, the planet, is currently being placed under great strain, but a political window of opportunity has opened up a new stage of development for China, with the country pursuing an “ecological civilization”. China has entered a critical period in which it needs to adjust its production to take greater account of the environment.

In 2012, several Chinese policy scholars depicted China’s green development framework, which to some extent illustrated the mechanisms and priorities in realizing green development domestically and demonstrated the systematic thinking of the academics advising green transition policies (see figure 1).

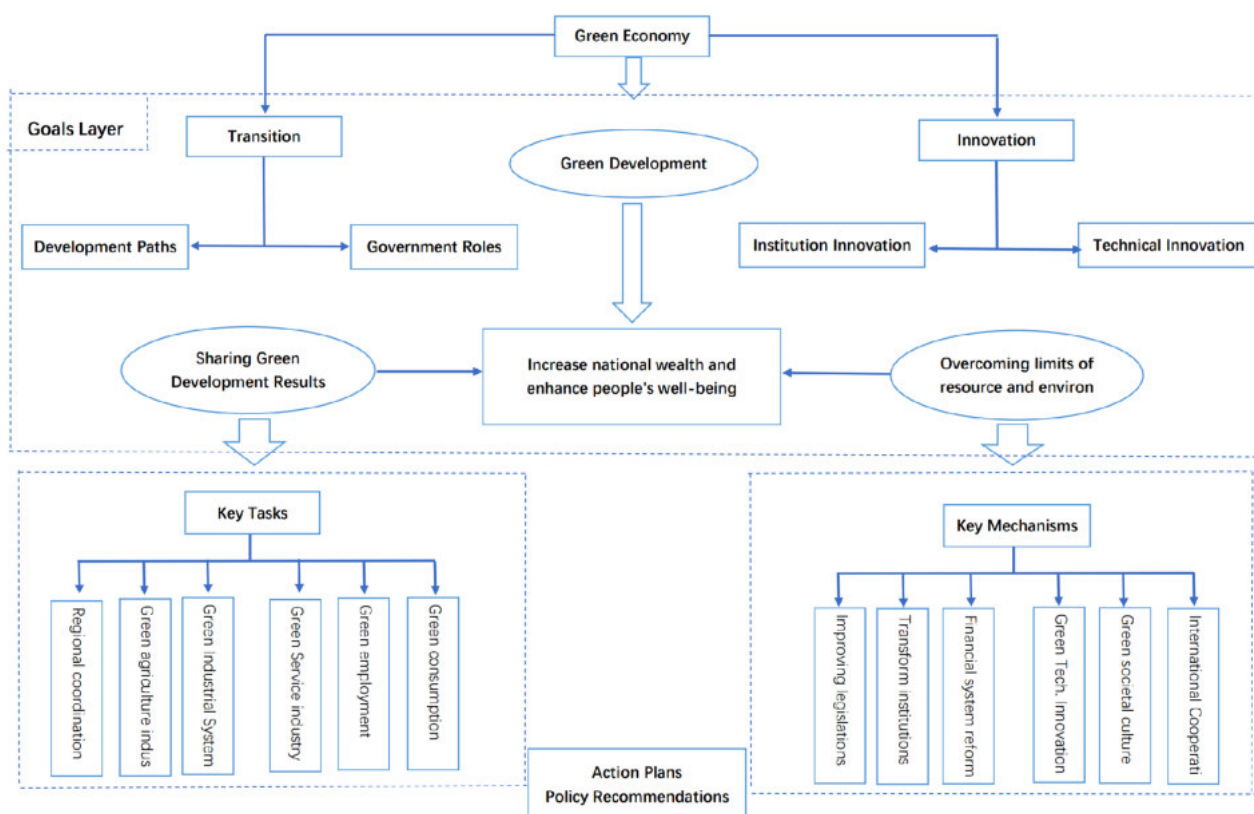


Figure 1. Layout of “China’s green development framework design” (4) (translated version)

The 18th National Congress of the Communist Party of China (in 2012) incorporated the “construction of ecological civilization” into The Five-sphere Integrated Plan, which refers to China’s overall plan for building socialism with Chinese characteristics – that is, to promote coordinated progress in the economic, political, cultural, social and eco-environmental fields. “Building a beautiful China” has become an important discourse in national development policies. At the 19th CPC National Congress (in 2017), President Xi also pointed out that “taking a driving seat in international cooperation to respond to climate change, China has become an important participant, contributor and torchbearer in the global endeavor for ecological civilization.” Therefore, “fighting against pollution” is now listed as one of the three tough battles to build “a moderately prosperous society” in a comprehensive way. At the same time, the principle of “lucid waters and lush mountains are invaluable assets” has been written into the Communist Party Constitution, demonstrating the ruling party’s strong will to safeguard the environment. The concept “ecological red lines” has been written into the Environmental Protection Law and ecological security is now also included in the national security system. All these concrete actions demonstrated the enhancement of national governance capacity in ecology and environment. In July 2020, the National Green Development Fund Co. Ltd. was officially established as a state-level government investment fund with an initial capital of RMB 88.5 billion, which is used to support China’s ecological civilization and green development through market mechanisms.

China's Commitments to Global Sustainability

To understand China's ambition and determination in pursuing the low-carbon and sustainable development, one must also follow President Xi's important announcements in various high-level speeches. At the 75th session of the UN General Assembly (22 September 2020), President Xi said: "We aim to have CO₂ emissions peak before 2030 and achieve carbon neutrality before 2060. We call on all countries to pursue innovative, coordinated, green and open development for all, seize the historic opportunities presented by the new round of scientific and technological revolution and industrial transformation, achieve a green recovery of the world economy in the post-COVID era and thus create a powerful force driving sustainable development." At the Climate Ambition Summit (12 December 2020), President Xi announced "By 2030, China will lower its carbon dioxide emissions per unit of GDP by over 65 percent from the 2005 level, increase the share of non-fossil fuels in primary energy consumption to around 25 percent, increase the forest stock volume by 6 billion cubic meters from the 2005 level, and bring its total installed capacity of wind and solar power to over 1.2 billion kilowatts." Furthermore, in the recent WEF Davos Agenda address (25 January 2021), President Xi urged nations to address global challenges together and reiterated China's ambition: "China will fully implement the 2030 Agenda for Sustainable Development. It will do more on the ecological front, by transforming and improving its industrial structure and energy mix at a faster pace and promoting a green, low-carbon way of life and production."

Apart from domestic construction projects dedicated to enhancing the environment under the headline of "building an ecological civilization", China proposes to co-build a "clean and beautiful world" and actively engages with the international community to promote green development, particularly through the Belt and Road Initiative (BRI) and other multilateral mechanisms. At the first Belt and Road Summit on International Cooperation in 2017, President Xi put forward the initiative for a Green engagement, and announced establishing the Belt and Road Initiative Green Development Coalition (BRIGC). At the second Belt and Road Summit in 2019, China's Ministry of Ecology and Environment (MEE), together with international partners, officially inaugurated the BRIGC. So far, the BRIGC has more than 150 partnership members from more than 40 countries, including government agencies, international organizations, think tanks, corporations; 80 of them are foreign partnerships. Besides, in 2019, the Green Finance Committee of China Society for Finance and Banking together with the City of London Green Finance Initiative jointly took the lead to develop the Green Investment Principles for the Belt and Road. In 2020, China and its international partners took another step to facilitate green investment by establishing the BRI Green Development Institute in Beijing. The Institute is meant to provide all-around support to the BRIGC with the capacity of a team of international experts. In addition to facilitating exchanges on green technologies, the Institute will also advise enterprises on attaching more importance to environmental protection and on enhancing eco-control within corporate management.

Indeed, sound policy-making could not be achieved without consultation with academia. China is also popularizing and leading “green development” (sustainability) research internationally. The study *Research progress and trend analysis of international green development* (in Chinese) used Citespace to track the “green development” relevant articles published (2002–2019) and visualized the distribution and knowledge cluster map. Figure 2 shows that China and USA lead research and publication on “green development”, while, in Figure 3 the topic “climate change” is the focus of discussion. Chinese collaborative research is also evident (with strong ties with English academia and some top institutions in Germany and the Netherlands).

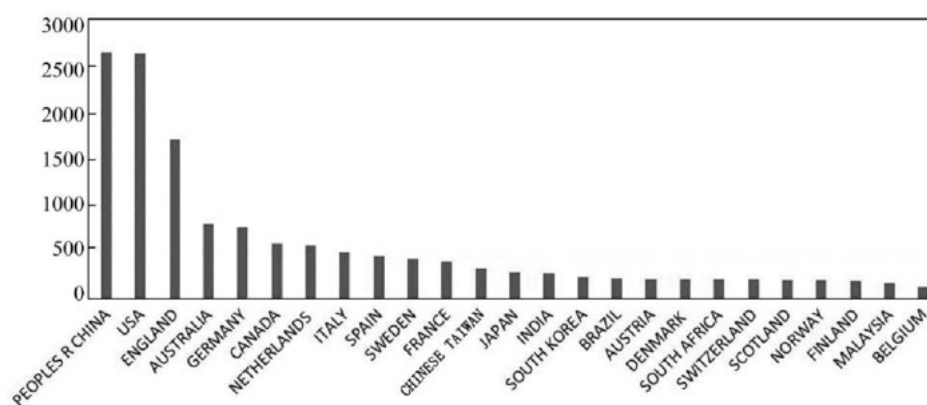


Figure 2. Number of green development publication in various countries/regions (5)

As COVID-19 strikes the world and brings the world economy to a halt, global human development progress turns into regression. Some countries have taken the precaution of adopting the “decoupling strategy” in order to minimize the risk of a rupture in the industrial chain, which may cause disruption in international trade and global value chains. Facing these challenges and aiming at post-COVID recovery, China has adopted the “Dual Circulation Economy” strategy for national development. It is anticipated that during the 14th Five-Year period (2020–2025), China will rely mainly on “internal circulation” – the domestic cycle of production, distribution, and consumption – for its development, while reducing dependence on overseas markets and technology in its long-term development. Yet, China remains open to international cooperation in a fair and mutually respectful spirit, the EU–China Investment Agreement completed in 2020 being a clear example. China is currently engaging in a shift from high growth to green, high-quality development, which requires advancing institutional reform, practicing the new development philosophy, and reforming the approach of development planning.

CiteSpace, v. 5.3.R4 (64-bit)
2018年9月4日 17:02:52/29/9
WoS: I:\Green development\Data
Timespan: 2002-2019 (Slice Length=1)
Selection Criteria: Top 30 per slice, LRF=2, LBY=6, e=2.0
Network: N=162, E=259 (Density=0.0199)
Largest CC: 159 (98%)
Nodes Labeled: 0.6%
Pruning: Pathfinder

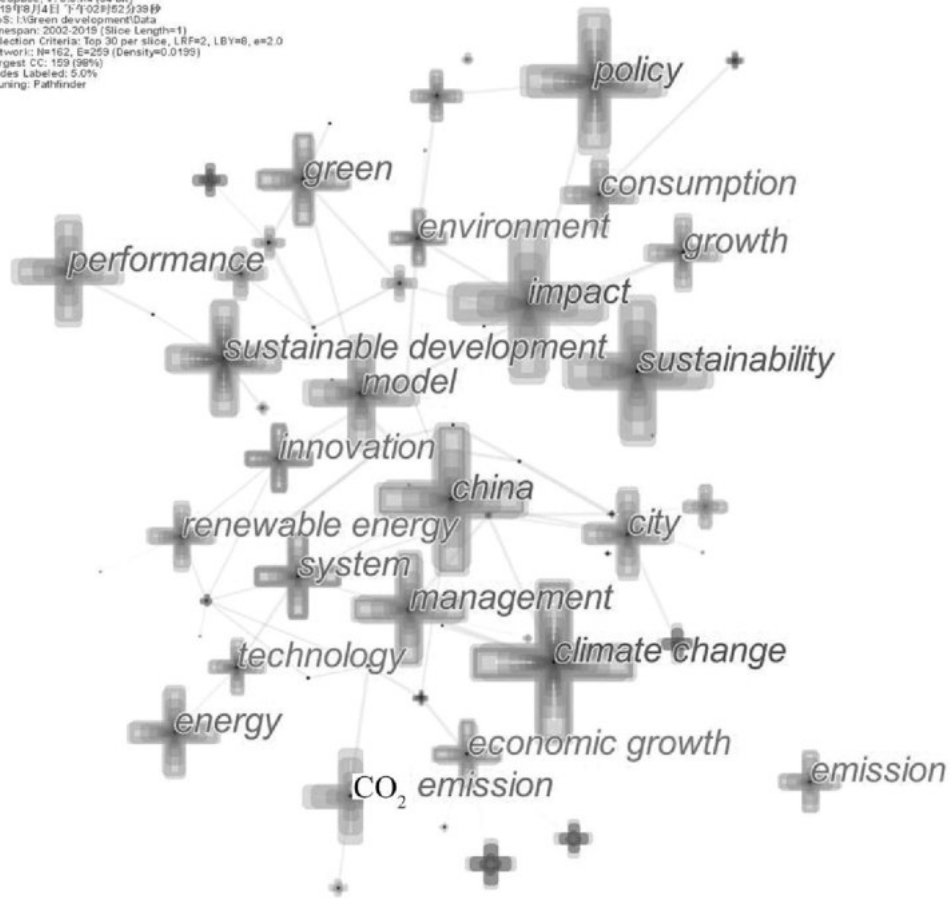


Figure 3. Cluster map of key words of green development research in China (6)

EU–China Cooperation for a Green Partnership

In 1998, the EU and China established a long-term, stable and constructive relationship for the 21st century, then established a comprehensive partnership in 2001, followed by a comprehensive strategic partnership in 2003. The two sides further proposed four major partnerships – “Peace, Growth, Reform and Civilization” – between China and the EU in 2004. Overall, China, in its relations with the EU, has always favored cooperation, innovating new partnerships and, through them, enhancing the well-being of the people of both sides.

Nowadays, China and the EU maintain deep intertwined economic relations. The volume of China–EU bilateral exceeded US\$700 billion for the first time in 2019, with the EU as China’s largest trading partner for 16 consecutive years. China also continues to be the EU’s largest trading partner, the largest source of its imports, the EU’s third-largest export market. At the same time, bilateral direct investment remains strong. By the end of 2020, the EU’s real investment stock in China had reached US\$118 billion. Finally, on 30 December 2020, after 7 years and 35 rounds of negotiations, the EU–China Comprehensive Agreement on Investment was completed, which was the first investment agreement the EU has concluded with another party since it was granted exclusive power to conclude investment agreements by the Lisbon Treaty (2009). The demand for capacity cooperation is rising, and cooperation in third markets is also on the agenda.

China and the EU agreed to develop a green partnership and a partnership on digital cooperation by establishing high-level dialogue mechanisms in September 2020. The EU–China green partnership is another important addition to the four major partnerships of “Peace, Growth, Reform and Civilization”. It builds on the EU–China Partnership on Climate Change and the EU–China Blue Partnership. This new dynamic element in bilateral partnership also fully reflects the commitment of both sides to uphold multilateralism, to work together to tackle global environmental challenges and to provide an international cooperation model for achieving the 2030 Agenda.

Various mechanisms exist for and around the EU–China green cooperation. Over the years, the two sides have carried out pragmatic exchanges and cooperation in air pollution control, climate change, green growth, circular economy and other fields, and have made significant contribution towards promoting environmental governance and sustainable development in China and Europe and at the global level. In addition to the Union level, China has concrete bilateral environmental cooperation mechanisms with several major member states in the EU, such as Germany, France, Italy and Norway. For instance, bilateral mechanisms include: (with Germany) China–Germany Environment Forum (ministerial level), the China–Germany Working Group on Environment and Climate Change (bureau level) and expert seminars; (with France) the China–France Year of the Environment, the China–France Beijing Initiative on Biodiversity Conservation and Climate Change; (with Italy) Cooperation Management Office of the China–Italy Environmental Cooperation Projects and so on, not to mention all those co-financed and co-implemented bilateral and trilateral programs and projects.

On the foundation of the green partnership and these various mechanisms, the bilateral exchange on cooperation informed by the EU's Green Deal may be brought to a range of high-level dialogue tables. For instance, the first High-level Environment and Climate Dialogue between China and the EU was held on 2 February 2021. Besides, the EU Green Deal communication actually indicated that the EU will bring forward the discussion to multilateral floors such as G7, G20 and WTO. It is therefore reasonable to foresee relevant discussions and even negotiations taking place at these round tables.

The completion of the investment agreement negotiations between China and the EU sends a positive signal to the international community and the global market that, it is hoped, will be influential in getting international supply-chain cooperation back on track soon after the COVID-19 pandemic. At the same time, the principles of sustainability, intellectual property protection mechanisms and codes of conduct for different ownership enterprises incorporated within the Agreement represent the new paradigm shift of international investment agreements, creating a cooperation model for emerging economies and developed countries to reach similar investment agreements. It can therefore play a leading role in the reform and upgrading of global investment governance.

Green Partnership Respecting Multilateralism and Interdependence: Concerns about the EU's Carbon Border Adjustment Mechanism

The European Green Deal is a new decarbonizing growth strategy as a response to climate and environment-related challenges. In this regard, China and the EU share similar values and policy objectives. China is vigorously implementing the new development concept of “innovation, coordination, green, openness and sharing”, while the EU is looking for a green and digital transformation of the economy, with both sides putting the concept of sustainable development to the fore. The Green Deal widens the policy window for cooperation, against the backdrop of COVID-19 pandemic, to consolidate global governance mechanisms, and to take the green recovery as the lever for Building Back Better and promoting the 2030 Agenda, while respecting existing UN norms.

There is no doubt that the confidence and determination of the EU–China green leadership are manifested in all high-level dialogues. The next step is to adopt a mutually respectful, reciprocal and fair approach in practice.

A controversial element, however, is the Carbon Border Adjustment Mechanism (CBAM), also described as Carbon Border Tax (CBT). It goes way beyond the technicalities of enabling a global green growth towards imposing unilateral coercive border tax with “much pain and little gain”, as critics note both in Europe (7) and China. Since the EU's Green Deal is clearly communicated as a “new growth strategy” and the EU's growth is embedded within a global post-COVID development agenda (with other countries also demanding growth), the Global Difference Principle (a western political philosophy concept) should be respected when growth and development are discussed. The EU carbon border tax could frustrate developing countries' export trade, resulting in the EU's so-called “new growth” based on the economic frustration and trade disruption of developing countries as a result of green trade barriers. In that case, the EU could achieve the expected “new growth” after the introduction of a carbon border tax, but could fail to “play a role as part of a plan to raise the expectations of the worst-off” in line with the “difference principle”, losing its credibility of justice.

Besides, several concerns are particularly relevant to the carbon border tax:

First of all, while the Green Deal Communication is framed in terms of continued EU support for the Paris Agreement, the CBAM seems to be at odds with the core of the Paris Agreement, namely the “bottom-up” INDC approach, with all countries declaring their own ambitions. CBAM deviates from the self-determined contribution framework to an approach that features “coercive pressures from some nations towards others”. From a critical perspective, the EU's assertion that imposing a CBT could encourage other countries to raise their decarbonization ambition might result in a “slippery slope”, as it is not convincing that the CBT-driven result will be better than the INDC-driven counterfactual result. Besides, it may imply that a “sovereignty-seeking” EU places little trust in the efforts of NDCs from other nations, not to mention that many academic researchers have questioned the so-called “carbon leakage” that serves as the asserted reason for a CBT (8).

Second, the EU Green Deal is generally seen as EU's initiative to reclaim global climate governance leadership. Nevertheless, global leadership in the multilateral system must respect existing UN rules and norms. Analysts have raised two major concerns:

1. The CBT is understood by and large as a protectionist policy which is not yet compatible with WTO legislation.
2. It violates the principle of "common but differentiated responsibilities and respective capabilities" which is endorsed by Paris Agreement and UNFCCC. Therefore, it is understood that if the EU wishes to take the lead in climate policy respecting WTO and UNFCCC principles, then the CBAM should only target developed countries.

A third concern is that the potential EU-USA alliance on CBT (6) risks becoming a source of conflict on a global scale. In the EU's New EU-US Agenda for Global Change, the EU proposes to re-establish a close and open transatlantic partnership. In the new agenda, the EU affirms the "unique" nature of EU-US relations, arguing that if Europe and the US join forces, their global influence will be unmatched in terms of both total economic volume and technological innovation capacities. Some analysts raised the concern that if the Biden administration supports the Clean Energy Security Act, the US-EU consensus on a carbon border tax may also become a new trade-protection tool for developed countries against developing countries. If most developing countries practice solidarity in rejecting the CBT, the world economy might split into parallel systems, namely a lower-carbon-intensity economic system (of developed countries) and a higher-carbon-intensity economic system (of developing countries).

There seem to be other obstacles in the way of the EU implementing the Green Deal. First, implementing the CBT faces many practical barriers, such as 1) the difficulties and costs of carbon-footprint tracking and data access across the whole supply chain, 2) the risk of unjust treatment towards countries with heterogeneous carbon-tracing capacities, 3) the possibility of causing trade deviation that bypasses decarbonization paths etc., which are discussed by the Brussels-based think tank Bruegel (9) and are well covered in Chinese opinions and discussions. Second, it is observed that the Green Deal meets certain opposition from the Visegrad Group (Czech Republic, Hungary, Poland, Slovakia), and it is yet to be seen how the Just Transition Mechanism works to harmonize the conflicts of interest within EU.

Conclusion

The Chinese vice-premier addressed the first High-level Environment and Climate Dialogue between China and the EU, stating that “[t]he two sides should uphold multilateralism, safeguard the international system with the United Nations at the core, abide by the principle of common but differentiated responsibilities, and promote the construction of a fair, reasonable, and win-win global environmental governance system”. Should the EU and China pursue a win-win cooperation and uphold multilateralism, there is huge potential for cooperation in a long list of diverse fields, such as green automobiles, digital technology, big data technology, Artificial Intelligence (AI), renewable energy, the internet of things, circular economy, smart grid, Carbon Capture and Storage (CCS), battery and storage technology, green investment and green standards. The EU and China should work together to consolidate the green partnership for better global governance.

The views expressed in this short paper represent solely the author’s own analysis and not his employer’s nor the publishers.

1 This paper presents purely the author's own observation and opinion, based on academic publications and public opinions.

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4 Cao D., Zhao X., Yang W., Development Mechanism and Policy Innovation of China's Green Economy, *China Population, Resources and Environment*, 2012, Vol.22 No.5 (in Chinese).

5 Zeng T., Wu Z., Research progress and trend analysis of international green development, *Environment and Sustainable Development*, 2020 Vol. 4 (in Chinese).

6 Zeng T., Wu Z., Research progress and trend analysis of international green development, *Environment and Sustainable Development*, 2020 Vol. 4 (in Chinese).

7 Zachmann, G. and McWilliams, B. (2020) A European carbon border tax: much pain, little gain, *Policy Contribution*, 05/2020, Bruegel.

8 On February 18, 2021, the European Commission presented "Trade Policy Review - An Open, Sustainable and Assertive Trade Policy" to the European Parliament, the European Council and relevant institutions. It noted that the EU will work to support more sustainable and equitable trade and enhance the ambitions of trading partners to address global challenges such as climate change, and will make an impact from the trade perspective by influencing World Trade Organization (WTO) reforms. It also aims to influence bilateral trade agreements in order to urge trading partners around the world to practice relevant green principles and standards. In addition, on March 1, 2021, the U.S. Trade Representative's Office released the "2021 Trade Policy and Agenda 2020 Annual Report of the President and the United States on the Trade Agreements Program". The report suggested the U.S. "consider, as appropriate, carbon border adjustment consistent with domestic approaches in reducing U.S. greenhouse gas emissions, such as introduction of the carbon border tax measures".

9 Zachmann, G. and McWilliams, B. (2020) 'A European carbon border tax: much pain, little gain', *Policy Contribution* 05/2020, Bruegel.



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