



中国环境与发展国际合作委员会
China Council for International Cooperation on
Environment and Development

CCICED Issues Paper 2020

Recovering Forward

PREFACE

Established in 1992, the China Council for International Cooperation on Environment and Development (CCICED) is a high level not-for-profit advisory body to the Government of China. Along with China's rapid social and economic progress, CCICED has witnessed and taken part in the country's historic shift in development philosophy and model. It opens a door to advanced international experience on sustainable development and built a bridge between China and the international community on environment and development. CCICED also provides a valuable platform of exchange, enabling the international community to understand China and support the country's engagement with the world.

Since 2002 the International and Chinese Chief Advisors have produced an Issues Paper each year for the use of CCICED Members, high level policy makers and others during the Annual General Meeting where research findings and recommendations are discussed.

As the 19th CCICED Issues Paper, CCICED Issues Paper 2020, titled "Recovering Forward", is produced in the context of COVID-19 pandemic. It examines four issues related to the impact of COVID-19 and economy recovery: (i) public health protection, (ii) a green economic recovery, (iii) trade policy and debt, and (iv) integrated policy. The Chief Advisors (Mr. Scott Vaughan and Mr. Liu Shijin) take the lead on preparing this document, but the document has always been a team effort including ICA supporting group and Chinese Associates¹.

¹*ICA supporting group mainly includes Ms. Robyn Kruk, Mr. Knut Alfsen, and Mr. Dimitri de Boer. Chinese supporting team mainly includes Mr. Zhang Huiyong, Ms. Liu Kan and Ms. Li Ying.*



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In 2018, President Xi cautioned that if “mankind conquers nature with science and creativity, nature will take revenge on mankind.” In 2020, COVID-19 reflected the extent of nature’s revenge on human and economic health. Plans for the ‘2020 super-year’ of climate ambition and nature protection have like all else been postponed.

It is likely that COVID-19 impacts and recovery will last far longer than the event and aftermath of the 2008 Great Recession. The legacy of that economic shock included productivity and innovation lags that lingered for nearly a decade (Rodrik, 2018), while global supply chains as a percentage of GDP never recovered from their 2008 levels (World Bank, 2020). The structural aftershocks of COVID-19 are very likely to endure throughout the entire period of the 14th Five Year Plan.

This Note argues that the direction of the economic recovery should not point backwards to previously rigid economic models characterized by unsustainability, inequality and inequity, but rather forwards, towards high-quality, green development, the Sustainable Development Goals (SDGs), de-carbonization pathways, and an Ecological Civilization construction. The 14th Five Year Plan represents a critical roadmap to enhance sustainable development, green innovation, green technology within China, and advance renewed or new forms of international cooperation.

This Note examines four issues related to the recovery: (i) public health protection; (ii) a green economic recovery; (iii) trade policy and debt; and (iv) integrated policy.

I. Public Health

The coronavirus underscores the importance of strengthening risk assessment, preparedness, prevention, surveillance and monitoring to provide accurate and early warnings of threats to human health, as well as maintaining active disease epidemiology programs and technical and human resource capacity to respond to epidemiological investigations. Strong surveillance systems for communicable diseases, environmental hazards and key health status data are key to assessing and minimising health risks and strengthening emergency response activities, including emergency regulations and enforcement to support public health decisions.

Lessons from COVID-19 include the importance of international cooperation, and integrated, holistic approaches that include public health, animal health, land-use change, animal husbandry, zoonotic risk management, ecosystem change including climate change,

and other factors together in a holistic way. Public health education, reliance on good science, and transparency have never been more important not only in controlling acute communicable diseases, but also in lowering chronic public health as well as environmental challenges related to air and water and food safety. New approaches to enhance public health measures and environmental monitoring should be explored, including a greater role for public monitoring and reporting of pollution, freshwater quality and nature protection. Examples from Finland in freshwater monitoring illustrate innovative new approaches to engaging the public, schools and others in environmental stewardship.

Trade protectionism affecting medicines, personal protective equipment, ventilators as well as food have surged during the first three months of the pandemic, leaving developing countries most exposed now, and creating insecurity about the access of current supplies and a future vaccine. China’s commitment to a rules-based, multilateral system of cooperation is ever more urgently needed.

II. Green Economic Recovery

Previous economic slowdowns coincide with or have caused the weakening of environmental protection. Policy attention during economic turbulence tends to focus on GDP, unemployment, balance-of-payments and export competitiveness. Environmental regulations have been viewed as incurring sunken costs and dampening economic recovery. Public support for environmental action has declined during past periods of economic downturns, as households focus on wages, job security and savings. (Dalton 2015; Kenny, 2019)

Some of these previous patterns are being repeated today. Some governments have for example suspended environmental regulatory inspections; delayed new regulations; stopped surveillance of rainforests and other ecosystems. While air pollution and greenhouse gas emissions have declined in the short term, and nature has been left relatively undisturbed during COVID-19, other pressures have been rising, from reports of increased wildlife poaching or a surge in medical waste and single-use plastic pollution, and major projects being accelerated with potentially diminished oversight.

However, the past conflict between either an economic recovery or environmental stewardship is diminishing, as new approaches emphasize stronger win-win results by strengthening the nexus between public health, pollution abatement, climate action, nature

protection, social equity and economic prosperity. For four related reasons why a green economic recovery will avoid past patterns are noted briefly:

First, Science: A growing body of robust scientific research confirms accelerating rates of ecological degradation and destruction. In addition to more accurate modeling, the empirical evidence of ecological change and its consequences is expanding. In 2019, sea levels continued to rise due to warmer average surface ocean temperatures, melting Greenland ice and retreating glaciers (WMO, 2020). Ocean acidity is increasing more quickly than anticipated (University of Colorado, 2020). Heat waves and prolonged drought increased in 2019, including unprecedented wildfires in Australia as well as in Siberia and other Arctic regions (WMO 2020). Global average temperatures in 2019 have risen by 1.1 °C above the preindustrial level, just 0.4°C short of the Paris Climate Agreement lower-bound objective (WMO, 2020). All of this and more have economic costs and must be managed to secure a sustained economic recovery.

Second, People: Before COVID-19, public support for ambitious climate action was increasing. During COVID-19, climate demonstrations have been suspended. Public support has not. Polls conducted during COVID-19 suggest support for climate action has increased, with young people the strongest advocates for ambitious, transformative action (Pew, 2020). Moreover, behavioural changes during the pandemic will lead to behavioural transformations ahead. While COVID-19 shows that governments can impose strict measures, it has been the actions of people that have made the difference. There is hope that this new sense of community and solidarity will create a new, more equitable world ahead. A century ago, the English author D.H. Lawrence wrote “Look, We Have Come Through” to describe of new personal wisdom following alienation, personal loss and uncertainty. The Great Lockdown may lead not only to new practices, from working more from home, fewer face-to-face meetings, less air travel, additional savings and less debt-driven over-consumption splurges. The end of the crisis may open a new, ethical understanding of the importance of public health and value of fair wage compensation for labour in general, and a fair wage for women’s labour, in particular.

Third, Economics: Three years after the Great Recession, Achim Steiner noted that a green economy “can catalyze economic activity of at least a comparable size to business as usual, but with a reduced risk of the crisis and shocks inherent in the existing model.” (UNEP 2011). Green development over the past decade has not only reinforced that view, but also demonstrated that green development can outperform business-as-usual economic

practices. A recent empirical study that underscores win-win benefits of green development is the May 2020 Oxford University report Building back better: A net-zero emissions recovery, authored by Nobel Prize economist Joseph Stiglitz, climate economist Nicholas Stern and others (Oxford, 2020). After reviewing 700 economic recovery plans and interviewing scores of financial, central bank, treasury and other officials and experts, the authors conclude that green, low-carbon and climate friendly economic projects produce “better results” for the economy and the environment compared to business-as-usual investments. Of critical importance, the research concludes that green, low-carbon projects create more jobs compared to brown or neutral projects. For every US\$1 million spent on clean energy infrastructure such as renewable energy or green building construction and retrofitting, an average of 7.49 jobs were created in the early stages. This compares to 2.65 jobs for every US\$1 million spent on fossil fuel-based energy systems like coal. The report reinforces other work highlighting the immediate employment benefits, energy savings, avoided carbon emissions and improved freshwater uses through green building retrofitting, and refurbishment.

Such findings reinforce the benefits of ambitious and comprehensive green development approaches. The European Union Green Deal includes a strategic focus on green employment and green job retraining to compensate for the job effects impacts associated with closing some 230 coal plants, and expanding investments in renewable energy and net zero circular economy heavy industry approaches¹ The European Commission’s Circular Economy strategy similarly highlights the net job benefits stemming from ambitious, comprehensive circular economy approaches.

Perhaps one of the biggest short-term green job creation opportunities is associated with green recovery investments in natural capital investments by government and industry. These include hiring non-skilled and semi-skilled workers for ambitious afforestation and reforestation projects, wetlands restoration and remediation and remediation, cleaning

¹The European Union Green Deal Investment Fund, approved in early 2020, includes a Just Transition Fund of € 7.5 billion, an InvestEU “Just Transition” scheme of € 45 billion, and a public sector lending arm to mobilize € 25-30 billion, to help enact the EU Green Deal target of reaching net carbon zero by mid-century, and more ambitious interim targets by 2030. The Just Transition package is focused particularly on those regions and workers within them that depend on fossil fuels.

waterways and beaches, and creating community collection sites for plastic and other recycling. Other examples of immediate green job creation include the remediation of contaminated soil and contaminated waste sites, which also reduce public liabilities.²In April 2020, Canada announced a job-creation program to restore abandoned oil and gas wells, leading to thousands of immediate jobs. Chinese examples – tree planting?

A green recovery has emerged to become a central feature of economic policy prescriptions. In April 2020, the IMF recommended that countries implement a green economic recovery, with a focus on five strategic priorities:

- Climate-smart technologies such as renewable energy, green technologies such as battery/hydrogen/carbon capture and green infrastructure;
- Climate adaptation such as flood protection, resilient roads and buildings;
- Avoiding carbon-intensive investments such as fossil-fuel power and high-emissions vehicles;
- Supporting public works programs that provide income support;
- Extend debt guarantees and other support to green industries/activities in preference to brown industries/activities³. (IMF 2020)

The economic rationale for these investments is compelling. Since public spending on infrastructure, including buildings, will be a pillar of most countries' recovery plans, implementing green, low-carbon and resilient infrastructure promise to create jobs, large-scale capital investments, while lowering the combined carbon footprint of energy, transport, building and water infrastructure. Together, these count for 60 percent of global greenhouse gas emissions. Examples of successful sustainable infrastructure projects, supported by innovative green financing instruments, are growing. South Korea has

²The U.S. Department of Energy has estimated its contaminated soil and hazardous waste liabilities are currently US\$494 billion, so the economic benefits of supporting workers would entail win-win effects.

³The IMF also notes that in those cases where governments do provide recovery support to carbon intensive activities like coal or airlines, industries and firms should be required to commit to binding emissions reduction targets

deployed intelligent traffic management systems to decrease traffic congestion. The South East Water Authority (U.K.) provides free water-saving technologies, leading to improved freshwater management. The U.S. Corps of Engineers has supported successful natural infrastructure freshwater and coastal marine buffers.

The investment choices made during the economic recovery in energy systems are of critical importance. Prior to COVID-19, the absolute costs of renewable energy at scale continued to decline (IRENA 2019) while comparative costs of renewables to coal continued to favor clean energy sources: In 2019, some 75 percent of all U.S. coal production was more expensive than renewable energy, and was projected to reach 100 percent by 2025. (Energy Innovation, March 2019). During the COVID-19 crisis, renewable energy has experienced a remarkable 5 percent demand growth, while overall fossil use has plummeted and total global energy demand has dropped by 6 percent (IRENA, 2020). The post-COVID-19 energy landscape undergo even swifter and deeper structural changes: The head of the International Energy Agency (IEA, 2020) recently predicted a “significantly different” energy landscape in which renewable energy is outperforms fossil fuels (IEA, 2020). In addition to large-scale energy systems, all countries should support new generations of efficient air conditioners and cooling systems that exclude climate-potent HFCs and other short-lived climate pollutants. The climate dividends from tackling short-lived climate pollutants alone entail avoiding up to 0.6 C warming.

Fourth, Green Finance and Investment Green Trends: Before the crisis, big investors and blue-chip companies have stepped up commitments towards low-carbon and net carbon investments. In January 2020, the European Investment Bank announced halting all financing of fossil fuels by 2021 and investing one trillion Euros in clean energy projects in the coming decade. Goldman Sachs promised US\$750 billion in lending to low-carbon and sustainability ventures. The biggest renewable energy purchases in U.S. markets in 2019 included Amazon, Walmart, Apple and Facebook. In early 2020, Microsoft went beyond net zero carbon pledges by announcing not only negative carbon operations, but actions to compensate for its ‘unpaid carbon debt’ of the past. In January 2020, the head of Blackrock characterized climate as driving a “fundamental reshaping of finance.” Also in early 2020, the Bank for International Settlements (the Basel bank) cautioned that climate change could affect “every single agent in the economy and every single asset price” that could trigger the stranding of fossil-fuel assets, especially thermal coal. In late 2019, Australia’s Reserve Bank warned climate change posed risks to Australia’s financial stability and banking and corporate regulators have become proactive in managing carbon risks.

III. Trade and Debt

Prior to COVID-19, international trade was turbulent and uncertain. Structure changes included a decline in global supply chains and increase in regional hubs concentrated in China, the United States and Germany. Institutional conflicts at the World Trade Organization regarding the mandate of its Appellate body have weakened the multilateral system, while protectionism has been increasing, with tariffs, trade remedies, anti-dumping measures, non-tariff barriers and import bans rising.

During COVID-19, a pronounced spike has occurred in protectionism, as countries scrambled to procure medical equipment, personal protection equipment and related supplies. Protectionism has widened to include trade in food as concerns about food security heightened. Both trends will hurt developing countries the most, and both trends pose serious questions about what will happen if and when a vaccine is discovered. The heads of the WTO and IMF recently pleaded with governments to stop trade protectionism and support greater international cooperation (WTO/IMF 2020) .

Following the crisis, an important area of international cooperation should be trade. Reverting back to Great Depression-era practices of protectionism and mercantilism will stall overall growth and leave developing countries the worse affected. Yet like other systems, from energy to finance to development, the crisis is an opportunity to reshape a new, rules-based trading order fit for purpose of supporting a green recovery and the Sustainable Development Goals. Short-term options include:

- Build on China's earlier waste import ban to ban trade in single-use plastics;
- Support greater linkages between trade and climate mitigation. The September 2019 Agreement on Climate Change, Trade and Sustainability advanced by New Zealand and others call for an accelerated tariff liberalization of climate-related goods and services, as well as the elimination of fossil subsidies in accordance with G20 commitments and compatible with WTO provisions;
- Consider joining border carbon adjustment measures to accelerate a shift towards decarbonization, while adhering to WTO principles on non-discrimination;
- Complement new rules to stop the illegal trade in wildlife with complementary policies, including enforcement, public education, monitoring, public education and development aid. (Traffic, March 2020).

Of all the issues facing the COVID-19 recovery, debt management will likely be the most challenging, complex, urgent, and in need of bold new approaches. Since the 2008 global recession, higher-risk leveraged private debt markets have expanded rapidly, reaching US\$9 trillion globally. While cheap private credit increased, borrowers credit quality, insurance and underwriting rules and other safeguards weakened. This dramatic shift has rightly been dubbed the 'privatization of Keynesian economics', in which the engine of global growth was increasingly unstable private lending, in which record-rates of leveraging coincide with weakening regulatory oversight and new rights protecting creditors (UNCTAD 2019).

In 2018, the Paris Club warned that the "landscape of public debt is undergoing profound change, characterized by growing vulnerabilities, increasingly more diverse creditors and more complex financial investment." (Paris Club, 2018). In 2019, the global debt-to-GDP ratio reached the highest level ever, peaking at over 322 percent of GDP in the third quarter of 2019, representing a total debt of almost US\$253 trillion (or over \$32,000 for every person on the planet). For the past decade, developing country debt has more than doubled, reaching \$72 trillion, of which non-financial corporate debt now exceeds \$31 trillion (IIF, January 2020). While a limited number of countries were categorized as debt distressed in 2019 (Global Development Center, 2019), other countries face high-risk debt management challenges, prompting Yi Gang, Governor of PBOC, in 2019 to note that China would need to "consider a country's complete debt-servicing capabilities."

The economic crisis of 2020 suggests many or most developing countries are facing or will face debt distress. One indicator of this is the request by over 80 developing countries in March 2020 for emergency IMF financing. A month later, the IMF Global Financial Stability Report warned that emerging markets have experienced the sharpest portfolio flow reversal ever recorded, with cascading risks of bankruptcies, the freezing of credit markets and a looming threat of banking failures.

One of the agreed carve-outs by the G20 regarding debt servicing is to allow sufficient fiscal space to advance the Sustainable Development Goals. This provision underscores the importance of integrating green provisions within meaningful sustainable debt management strategies.

China should consider at least three options. First, examine how current and new green finance instruments, including scaled-up green, climate and conservation bonds, can alleviate debt. Second, China should engage with a new generation of innovative,

cooperative financing deals in which leading conservation groups, governments and private sector actors advance representative, sustainably financed, and durable protected area systems around the world, a central pillar of the CBD COP 15. Third, given the inevitable discounting of sovereign debt in the coming months, China should work with other countries, leading investors and conservation groups in structuring debt-for-climate adaptation, debt-for-conservation arrangements/swaps. China could co-convene with France and other countries a meeting before the UN CBD COP 15 to examine new, bold debt conservation arrangements that can be supported by international financial institutions to help alleviate debt-distressed and at-risk developing country debt.

IV. Integrated Policies

An important emphasis of CCICED's 2020 work is supporting policy coherence and integrated policy planning and implementation that move beyond single-issue policy approaches, thereby reinforcing the foundation for Ecological Civilization objectives. There are renewed suggestions to more tightly link the three Rio Conventions to realize climate and nature objectives, and advance comprehensive approaches of three major zones - wilderness areas, cities and farms, and shared lands (Locke et al, 2019). Several CCICED Special Policy Studies have highlighted the importance of tools and platforms to support concrete integrated approaches. Notable examples include large-scale spatial planning which traverse multiple jurisdictions, nature-based solutions linked to Ecological Redline approaches, jurisdictional sustainable commodity sourcing and third-party certification systems to mainstream ecosystem stewardship within and beyond protected areas to include agriculture, oceans and fisheries, forestry, resource extraction and other sectors. Large-scale spatial planning, Ecological Redline approaches guided by natural capital accounting are being expanded in the Yangtze River Economic Belt, and could be shared to green the BRI.

Another important tool is using integrated or comprehensive wealth indices that go beyond GDP, to help balance investments and genuine returns from natural capital, human capital and produced capital investments. (Dasgupta, 2020) Given the importance of enhancing human health and well-being and proactively advancing gender equality, composite indicators are important to measure progress and hold those responsible accountable.

COVID-19 magnifies the importance of integrated and inter-disciplinary approaches. The One Health platform is a notable example by its emphasis on integrated risk prevention and emergency response capacities that include climate change and other risks, stresses the importance of adaptive, holistic and forward-looking approaches to detect, prevent, monitor, control and mitigate communicable and non-communicable diseases and improve health outcomes more broadly. Among the priorities in holistic approaches is assessing complex interconnections among species, environment, and human society, including climate impacts (One Health, Berlin Declaration, 2019). China may wish to lead a new forum to support integrated risk management to coordinate the full multilateral system moving forward.

Future risks that are unknown, non-linear and cascading will also be present. COVID-19 and climate risk have these traits in common. In January 2020, the Bank for International Settlements (BIS, 2020) warned that its current menu of risk assessment quantitative economic models are ill-suited to anticipate climate change impacts, which they warn can have sudden, whip-lash characteristics. They therefore recommend complementing standard quantitative economic modeling tools with scenarios and foresight analysis. Such tools, together with systems dynamics tools, can help policy makers best navigate uncertainty and assist in minimizing potential risk and impacts and maximizing investment returns.

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CCICED Secretariat

Address: No. 5 Houyingfang Hutong, Xicheng District, Beijing, China 100035

Tel: (+86-10)82268653

Fax: (+86-10)82200535

Email: li.yutong@cciced.net



Please scan the QR Code