

# China's Green Finance Strategy: A Key to Achieve Carbon Neutrality



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As climate change has established itself as one of the biggest global threats, the role of green finance, which financially supports green projects and leads financial markets to provide environmental incentives, is being emphasized. After the Paris Agreement on climate change was signed by 190 parties in 2015, the 26th session of the Conference of the Parties (COP) held in Glasgow in 2021 announced that the role of the financial sector has become more important than ever to achieve global carbon neutrality.

China recognizes the fact that green finance is necessary to develop green industries for the realization of carbon neutrality. What is more, China understands how to maximize its utility with green finance strategy, for instance by supplying market liquidities to organize green finance activities, establishing a domestic green finance system, and leading discussions on green finance in multilateral cooperation platforms. And, in fact, China has become a leading nation in this area, actively forming its own green finance market at the most rapid pace in the world.

China's green finance market is one of the largest in the world. The large scale of China's green finance market has attracted a good supply channel of market liquidity for green industry development. China's green finance market largely consists of green loan and green bond markets. In the green loan market, state-owned banks and some large commercial banks are major players providing loans for green projects. The size of this market exceeded 15.9 trillion yuan in 2021, making it the largest green loan market in the world. In the green bond market, local governments and corporations act as important participants by issuing green intermediate and commercial bills, as well as green corporate and enterprise bonds for projects. The size of China's green bond market was reported as 1.56 trillion yuan in 2021, and it is evaluated as the second largest market after the United States according to the Climate Bond Initiative.

In order to manage its growing green finance market, the Chinese government recently introduced various green finance regulations. The most representative is the "Guidance Opinions on Establishment of a Green Financial System" issued in 2016, which provides core guidelines for the domestic green finance system. It is the first document to define the role of green finance in China, namely as providing financial service to support projects in areas such as environmental protection, renewable energy development, and green infrastructure construction, etc., for environmental improvement, response to climate change, and efficient use of resources in economic activities. Also, at the Two Sessions in 2021, the Chinese government declared it would develop green finance actively as one of the main policy directions in the 14th Five-Year Plan and mid- to long-term development goal up to 2035. This shows how the Chinese government considers the regulations and systems of green finance as one of its national development strategies.

The purpose of China's green finance strategy is not only to develop the domestic green economy with the aim of achieving carbon neutrality, but also to play a leading role in the international green finance system. China utilizes green finance strategy to invigorate the domestic low-carbon economy by shaping the business environment to its advantage. China's green industry strategy prioritizes the development of renewable energy, green vehicles, and green architecture. For these industries, the Chinese government has introduced several green finance policies, such as credit rating standards to expand project financing, encouraging local governments to expand the scope of green finance instruments, and supporting consumption and industrial development by providing green loans. This vigorous financial support enables China to develop key technologies and foster companies in areas where it desires to gain competitive advantages. In order to achieve this goal, China attracts foreign capital as well.

Green industries such as new and renewable energy, hydrogen power generation, green transportation, carbon capture, utilization, and storage (CCUS), environmental protection, and recycling of resources have been included in the “Catalogue of Industries for Encouraging Foreign Investment.” At the same time, local governments have expanded administrative support to attract foreign investment for these industries. By encouraging foreign investments in these industries, China aims to resolve the technological bottleneck as well as to promote emerging green industries.

In addition, China intends to solidify its role as a rule-maker by revitalizing international discussions on green finance on a multilateral cooperation platform led by China. Since 2016, China has been strengthening its international position in the field of green finance by utilizing various multilateral cooperation systems, and has been building economic cooperation channels with many countries. There are several multilateral cooperation platforms on green finance where China already plays leading positions, such as the Green Finance Study Group within the G20; the Network for Greening the Financial System, where eight countries are participating including China, France, Germany, and the United Kingdom; the Green Investment Principles for the Belt and Road Initiative; and the International Platform on Sustainable Finance, which is jointly promoted by the European Commission and International Monetary Fund.

According to these green finance strategies, what we can see is that China is leveraging green finance development strategy not simply as an industrial development strategy, but rather as a repositioning strategy in the international community in this time of great change called the “green transition.”

In this regard, Korea needs to analyze China's green finance strategy more closely to accurately determine the opportunities and risks involved. Korea shares similar challenges with China when it comes to achieving carbon neutrality. First, it has a manufacturing-based economic growth structure. Second, it is a country with high CO<sub>2</sub> emissions per capita. Third, the two countries possess similar green industry strategies, such as energy structure transformation, renewable energy, and industrial greening to realize carbon neutrality. However, Korea still has to improve its market and institutional power, especially in the field of green finance. Korea's green finance strategy was initiated in 2020 when it launched a green finance TF, making it somewhat lagging behind China's green finance strategy. Also, Korea is still in the early stages of international cooperation in the field of green finance. Therefore, Korea needs to make efforts to promote its green finance strategy for both domestic industry development and international cooperation, toward which the following recommendations can be made. First, it is necessary to invest in emerging green industries in order to secure market competitiveness

in large green consumption markets, including China. Second, to establish Korea's institutional position within the international community, it will be necessary to actively participate in international cooperation platforms and take the initiative in establishing green finance standards. Third, Korea should cooperate in areas where international cooperation is needed, such as Carbon Border Adjustment Mechanism (CBAM) and the Taxonomy. And lastly, it is hoped that green finance will provide an opportunity for Korea to realize substantial progress in the area of international cooperation. **KIEP**