Summary

> The 14th Five Year Plan was approved amid a shifting geopolitical landscape and the economic uncertainties from an ongoing pandemic. Beijing responded to this context with a plan that prioritises boosting domestic consumption, investment in innovation, securing critical supply chains, and strengthening energy, food, and financial security.

> Boosting supply chain resilience and innovation in clean economy sectors remains a priority in Beijing’s plans for the next five years, but there are no proactive measures in the 14th Five Year Plan to shrink its fossil fuel economy.

> Ministries and provinces are now working to develop their respective 14th plans based on the principles laid out in the national plan. This will include a dedicated plan on climate and emissions peaking from the Ministry of Ecology and Environment. These plans will be released between the second half of 2021 and early 2022. Beijing will be in a better position to revise the country’s emissions targets once these ministerial and sub-national plans are finalised in late 2021.

> China has proven itself to be a serious contender in the clean economy. While it continues to dominate the manufacturing of clean energy technology, the higher value add segments of emerging green supply chains remain a lot more contested. The EU, while unable to compete with China on cost of manufacturing and research spending, remains more competitive on the capacity to innovate. The EU can additionally leverage the single market and regulatory framework to drive net-zero transition globally.

> The EU has put forward a proactive agenda to sharpen its edge in the green economy in the last five years. It has made great strides in integrating the economic, social, and climate agendas with the European Green Deal and a suite of policies. They have built a good basis for Europe to pull ahead in competition on clean technologies.
> European green industries will increasingly find themselves competing for market shares, materials, and standards with their Chinese counterparts, in Europe, China and along the Belt and Road countries.

> To ensure the EU’s own competitiveness in the clean economy, while effectively engaging China on raising climate ambition and managing competition, the EU and its member states should consider the following actions:

**Domestic policy**

> Lead and drive a green and inclusive transition in industrial supply chains, by putting in place product standards, technology deployment targets, green procurement measures and incentives for cleaner production.

> Agree on the EU’s “Fit for 55” package as the EU’s plan to transition beyond fossil fuel, including a coal-to-clean transition by 2030 in the power sector.

> Driving investment in incremental and breakthrough innovation to boost intellectual property ownership and production capacity of technologies such as batteries, hydrogen, efficient high renewable energy systems and new materials.

**Climate diplomacy**

> Despite the broader EU-China relations characterised by increasing tension, engagement on climate remains essential but concrete cooperation is increasingly contingent on whether China delivers on its commitments to climate action and the international rules-based system.

> In the short term, exchanges on new energy security challenges and building and managing high renewables systems can shape expectations of future energy pathways in the Chinese establishment.

> Engagement with China at the International Platform on Sustainable Finance and the G20 Sustainable Finance Study Group to develop a harmonised set of global standards for defining sustainable investment that are underpinned by the “do no significant harm” principle.

> Develop joint research and exchange platforms with Chinese provinces and state-owned enterprises on financing mechanisms, regional transition strategies for the just transition of coal and high-carbon regions.

> In the long-term cooperation with China on a roadmap towards phasing down short-lived climate pollutants would be possible.
China’s 14th Five Year Plan: The Headlines

On 9 March 2021, China’s National People’s Congress approved its 14th Five Year Plan (14th FYP),¹ that set out the direction of travel of China’s social and economic development for the next five years.

This year’s plan is being delivered alongside Vision 2035, a series of long-term milestones that China intends to achieve in 15 years’ time, when it will become a “modern socialist country” in which its GDP would be on a par with a “mid-level advanced country”,² and carbon emissions would be steadily decreasing.

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¹ The 14th Five-Year plan for National Economic and Social Development of the People’s Republic of China and the Long-Range Objectives Through the Year 2035 (in Chinese), The State Council, March 2021
² Xi Jinping says ‘completely possible’ to double size of economy by 2035, despite foreign hostility, South China Morning Post, November 2020
³ Unless otherwise stated, targets and policy direction are taken from the 14th Five Year Plan.
⁴ Policy direction and targets on electric vehicles were outlined in Development Plan for the New Energy Vehicle Industry (2021-2035), published by the State Council ahead of the 14th Five-year Plan.
⁵ Hybrid electric (HEV), battery electric (BEV), plug-in hybrid (PHEV) and fuel cell (FCEV) vehicles are commonly referred to as “new energy vehicles” in Chinese policy documents.
⁶ Guidance on to drive high quality development of iron and steel sector (Draft) (in Chinese), Ministry of Industry and Information Technology of the PRC, December 2020
Economic growth
China did not include a five-year economic growth target in the plan, a reflection of the uncertain economic outlook caused by COVID-19 and changing geopolitical landscape, or in Mr. Xi’s words, a world “undergoing the most profound and unprecedented changes in a century”. Such reading of the external environment has driven Beijing to place a greater emphasis on resilience and self-sufficiency in strategic industries.

Innovation
Research and development investment currently represents 2.4% of China’s GDP. The 14th Plan carried over the theme of innovation-led growth from the last plan. It has set a new target to increase total R&D investment 7% per year for the next five years. “New energy”, alongside IT, biotechnology, new materials, electric vehicles, environmental technology, and aerospace & nautical engineering, are considered “emerging strategic sectors” in the plan. These sectors have not deviated significantly from those in the last Five Year Plan and Made in China 2025 strategy.

Energy Security
Energy security has been identified as one of the three security risks to China’s development in the 14th Plan, alongside food and financial security. The strategy places the emphasis on securing coal production and raising production of oil and fossil gas. The focus on energy security is primarily a reaction to Beijing’s assessment of the geopolitical context of its development, which the plan characterises as “uncertain” due to rising “unilateralism, protectionism and hegemonism”. It was also in part to boost the resilience of its energy system against extreme weather events and supply fluctuations, which has caused blackouts and gas shortages in the last five years.

Climate and Energy
While the 14th Plan shows that China remains committed to growing its clean economy, there are no proactive measures in the plan to shrink its fossil fuel economy. The “clean and efficient use” of coal remains part of China’s toolbox to build a modern energy system. The overarching national five-year climate goal, the carbon intensity target gives Beijing some room to manoeuvre in case of slower growth, but also space to grow the country’s emissions by 1-1.7% annual in the next five years. Nevertheless, the 14th Plan did include a political message that signals that coal power is on its way out in China’s energy system although it stopped short of calling for a halt in new coal: “controls” will be placed on the pace and scale of coal power construction.

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7 Xi urges breaking new ground in major country diplomacy with Chinese characteristics, Xinhuanet, June 2018
8 China’s R&D spending rises to record 2.4% of GDP in 2020, CGTN, March 2021
9 Refers to solar, wind, geothermal, biomass, hydrogen, tidal, and fusion energy
10 China’s five-year plan: baby steps towards carbon neutrality, CREA, March 2021
**Electric Vehicle**

“New energy” vehicles sales are set to reach 20% of total vehicle sales in China by 2025.\(^{11}\) A phase-out timeline for internal combustion vehicles being considered by relevant ministries.\(^{12}\)

**Iron and Steel**

China is yet to develop a national decarbonisation strategy for its most polluting sectors. The government will continue to limit the development of new iron and steel capacity and shutter existing inefficient ones to drive high-quality growth in the sector. This would be done through company mergers, strengthening environmental and energy efficiency limits, increasing recycling and the use of clean energy and technologies.

**Dual circulation**

Despite the emphasis on self-sufficiency the 14th Plan does not represent an inward shift of China’s development policy. Beijing has signalled in the plan its intention to continue the opening of the Chinese market and deepening of trade ties with its neighbours. This two-pronged approach is an illustration of Mr. Xi’s “dual circulation” growth strategy.

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**China’s Dual Circulation** strategy aims to boost domestic innovation, consumption and supply chain resilience, while promoting external trade and investment. The policy priorities outlined in the 14th Plan reflect the balanced approach of the Dual Circulation strategy:

### Looking inward

- **Building self-reliant and safe supply chains:** Build “whole value chain” for high-speed rail, renewable energy and power equipment; raise competitiveness of new materials, GPS, robotics, electric vehicles sectors; encourage critical supply chain to remain in the country.

- **Enlarging the domestic market:** through reforms on consumer rights protection, tax, logistics networks and financial services.

- **Strengthening security:** Food, energy and financial security highlighted as key risks to development. New targets introduced on food and energy production.

### Looking outward

- **Market opening:** the 14th Plan calls for the opening of service and technology sectors, including telecommunication, internet, education, culture, medical, banking, securities, insurance and asset management.

- **Inbound and outbound investment governance:** to shorten the “negative list” restricting foreign investment; to introduce legislation to govern China’s overseas investment.

- **Open trade:** prioritise RCEP implementation, China-Japan-Korea FYA, and joining the CPTPP; strengthen cooperation on finance, trade, energy, digitalisation and agriculture along the Belt and Road.

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\(^{11}\) Development Plan for the New Energy Vehicle Industry (2021-2035), State Council, November 2020

\(^{12}\) ICE Phase Out: relevant ministers to research phase out timetable during 14th Five-year Plan period (in Chinese), Yicai, December 2020
The last five years: the EU stepping up its game on low carbon competitiveness

Five years ago, E3G’s analysis of China’s 13th Five Year Plan warned that the EU risked losing their competitive advantage in clean technologies if they did not implement strong medium-term decarbonisation targets and integrate Europe’s economic growth, innovation, energy and environmental agendas.

Five years on, China has maintained its lead in some areas of the clean economy and has proposed an ambitious climate target. Beijing has announced an ambitious climate target but has yet to come up with a blueprint to align its economy with the carbon-neutral vision.

The EU, on the other hand, has risen to the challenge with the European Green Deal, an action plan to achieve its climate neutrality vision. It has invested in policies that will enable Europe to pull ahead in the global clean economy. But more needs to be done to ensure strong implementation of the action plan.

China: A New Target

President Xi Jinping announced new climate targets at the UN General Assembly in 2020, committing to peak carbon emissions before 2030 and to achieve carbon neutrality before 2060. Carbon peaking and neutrality have become an overarching principle guiding China’s development. Beijing now considers achieving these new targets as a “test of the Party’s ability to govern”13. Accelerating actions to peak emissions is designated as one of the eight economic priorities for China in 202114.

The “30/60” climate pledge, commonly referred to in China, has opened the political debate on aligning China’s development pathway with Paris Climate goals. But, so far, Beijing has been light on the details regarding policies and legislations to operationalise the targets. The 14th Plan offered some clues regarding the direction of travel of its green economy, but it is not the action plan to rapidly decarbonise China’s economy that some may have hoped for (see analysis in the next section).

The EU: A New Growth Strategy

In 2019, the EU published the European Green Deal, an ambitious plan that integrates economic, social, energy and climate agendas. EU leaders have agreed on a legally binding emissions target to reduce its emissions by 55% by 2030, a critical step in putting the EU on a trajectory to meet its 2050 climate neutrality goal. The European

13 Xi stresses healthy growth of platform economy, efforts for carbon peak and neutrality, Xinhuanet, March 2021.
14 Eight priorities outlined for China’s economy in 2021, The Standard, December 2020
Commission aims to mobilise €1 trillion in the next ten years and roll out a series of legislative proposals – notably the “Fit for 55 Package” - to deliver the Green Deal.

The EU is set to redraw crucial climate, clean energy, mobility, gas sustainable finance, industry, products, and competition policies, in line with the European Green Deal, while steering a green recovery from the COVID-19 crisis.

The race to lead in the clean economy

The 14th Five Year Plan, much like its predecessor, recognises the need to invest in innovation and high-quality growth. While China continues to lead in the manufacturing of clean technologies, the EU remains a leader in its capacity to innovate. The bloc leads on clean technology patent registration over China and it has valuable assets such as its single market and regulatory framework to drive innovation in clean technology development not only at home, but also globally.

The race on clean economy competitiveness will not be called only by production numbers and research spending, but also by patent ownership and the ability to set global standards.

Renewable power

In the last five years, China added three and a half times more solar and wind power capacity than the EU. It manufactures about 70% of the world’s solar panels,\(^{15}\) and Chinese manufacturers have captured over a third of the global wind turbine market.\(^{16}\)

\(^{15}\) Distribution of solar photovoltaic module production worldwide in 2019, Statista, Feb, 2021

\(^{16}\) Globalization in the wind energy industry: contribution and economic impact of European companies, Renewable Energy, Volume 134, April 2019,
Meanwhile, Europe remains the leader in offshore wind technology, with the EU27 home to 42% of the world’s offshore wind capacity\textsuperscript{17}.

Public investment in research and innovation spending in the renewable energy sector continued to rise between 2016 and 2018 in China, but decreased in EU member states over the same period. The EU continues to fall below its OECD peers in terms of R&I spending as a share of GDP.

*Figure 2: Public research, design and development investment in renewable technology (million USD), 2015-2018; Total research and development expenditure (% of GDP), 2015-2019.*

Despite surpassing Europe on research spending, China still lags behind Europe when it comes to another innovation measure – patent. China leads on annual patent registrations but the majority of them are design or utility patents that are less scrutinised as intervention patents, which are considered higher quality patent associated with genuine innovation.\textsuperscript{18} The EU27 registers 2.5 times more green technology patents annually compared to China (and 50% more than the US). The number patents in wind energy, hydrogen technology and smart grids have all increased between 2012-2017 in the EU while the same number decreased in China.\textsuperscript{19}

**Electric vehicles**

Europe\textsuperscript{20} surpassed China in electric vehicles sales in 2020, driven by new carbon emissions performance standards. The subsidy schemes in some EU member states, as part of stimulus package in response to COVID-19, also contributed to the soaring numbers. Sales of EV have risen above one million for the first time within the EU27.

\textsuperscript{17} EU eyes huge increase in offshore wind energy to meet climate goals, *Reuters*, November 2020
\textsuperscript{18} China’s progress towards green growth, *OECD*, May 2018
\textsuperscript{19} Building a smart and green Europe in the COVID-19 era, *European Investment Bank*, January 2021
\textsuperscript{20} Includes EU27 and the European Free Trade Area (EFTA)
China currently dominates global lithium-ion batteries production, capturing 77% of the production capacity (6% in Europe). Nevertheless, the EU is now endeavouring to catch up and boosting domestic production. The Commission launched the European Battery Alliance in 2017 that aims to scale up investment and make Europe a leader in sustainable battery production. It also plans to leverage its market power to set new battery regulations with strong social and environmental safeguards.

**Hydrogen**

China designated hydrogen as an “emerging strategic sector” in the last Five Year Plan cycle. Fuel cell is one of the technologies prioritised for development in the *Made in China 2025* strategy. 22 local governments have published policies to support a hydrogen industry in the first half of 2020. But it has yet to come up with a national industrial strategy for the hydrogen economy. Current strategies focus on strengthening transport infrastructure and do not distinguish between different production methods of hydrogen, each of which come with very different industrial implications.

The EU’s clear commitment to hydrogen from renewable electricity in its Hydrogen Strategy could drive investments into renewables and electrolyser technology, harbouring still large cost reduction potential. While China currently beats Europe on electrolyser cost by a significant margin, the technology race is still open on the whole spectrum of the electrolyser technologies. The EU’s approach to focus the use of

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**Figure 3: Electric vehicle sales, 2016-2020, EU and China**

The EU’s carbon performance standards gave a boost to its electric vehicle market, but China still has the largest EV stock.

Source: *EV Volumes, Xinhua, SMMT, Transport and Environment*

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21 Top electric vehicle markets dominate lithium-ion battery capacity growth, S&P Global, February 2021
22 Prospects of a hydrogen economy with Chinese characteristics, IFRI, October 2020
23 Separating Hype from Hydrogen – Part One: The Supply Side, BloombergNEF, October 2020
24 Report on progress of clean energy competitiveness, European Commission, October 2020
hydrogen on industrial and heavy duty transport sectors where other alternative do not exist, also is a strategy to manage input cost for zero emissions products such as steel and this strengthen competitiveness in the medium term.

**The EU has made some head starts**

The EU has made head starts over China in some areas of the green transition. The Commission and the Member States should build upon the good foundation and continue bringing their regulations and policy instruments in line with the ambition of the 2030 and 2050 climate targets.

**Sustainable Finance**

The Sustainable Finance Action Plan adopted by the European Commission has led to the introduction of a suite of regulations to address climate risks in the financial system, most notably the Sustainable Finance Disclosure Regulation. To maintain the EU’s leadership position in this area, future regulations to be introduced under the renewed Sustainable Finance Strategy Plan, including the Taxonomy Delegated Act, should be in line with the ambition of the 55% target and underpinned by the “do no significant harm” principle.

China has made some progress in greening its financial system in the last five years, including a proposal to exclude all coal projects from its green bond standards, a pilot scheme in which major banks disclosed climate risk data; and the publication of a Green Industry Catalogue that guides green finance in the public sector. However, disclosure of climate risk data by companies and investors are yet to be made mandatory. The governor of the People’s Bank of China has indicated that a package of green finance policies will be introduced in the next five years (see next section).

**Just Transition**

The European Commission set up the Coal Regions in Transition initiative and introduced the Just Transition Fund to stimulate regional exchange and support coal and high carbon regions in addressing the socio-economic aspects of the transition. To ensure the Territorial Just Transition Plans developed by the member states to access the Just Transition Fund are in line with the EU’s new climate goals, the plans should include a coal phase-out by 2030.

Economic transition pilot schemes have been running in Shanxi since 2010, a central Chinese province that derives 46% of its tax revenue comes from coal-related industries. However, local and state-owned enterprise actors would continue to struggle

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25 Shanxi to become “Transition and Comprehensive Reform Demonstration Zone”, Central People’s Government Website, December 2010; Shanxi takes scientific route to help diversify its economy, EShanxi, May 2020

26 Enabling a Rapid and Just Transition away from Coal in China, One Earth, 2020 3(2), August 2020
to commit to more ambitious coal transition pathways without clear strategies from central or provincial governments backed by policy and financial support.

So, how did the EU and China perform on curbing emissions?

To bring its emissions in line with the Paris Agreement goals, it is key for China to bring its emissions to a peak as soon as possible and decline thereafter. When the last Plan was published in 2016, China’s emissions and coal consumption had decreased for three consecutive years due to a slowing economy and the introduction of new air pollution controls. Some commentators even suggested that China’s emissions might have peaked. But the trend did not hold when Beijing introduced fresh stimulus in 2017 that shored up in infrastructure and real-estate, raising demand in high-emitting sectors such as steel and concrete.

Figure 4: Share of green stimulus spending in 2020 as a % of 2019 GDP, EU and China

The EU has made a green recovery pledge in 2020, while China prioritises investment in "new infrastructure" in its recovery.

China deployed the same playbook to post-pandemic economic recovery, causing a surge in steel production which contributed to the emissions rise in 2020. While there is no explicit focus on clean economy infrastructure, Beijing has placed smart infrastructure such as electric vehicle vehicles and artificial intelligence as a pillar in its post-Covid recovery strategy (see Figure 4). The EU, on the other hand, has agreed that 37% of funding will be set aside for climate-friendly expenditure from the €673bn worth Recovery and Resilience Facility.

Greenhouse gas emissions in the EU have continued to decrease over the past five years. A rapidly decarbonising power sector, energy efficiency improvements and

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27 China’s carbon emissions may have peaked already, says Lord Stern, the Guardian, March 2016
28 China’s carbon emissions drive global uptick in 2017, China Dialogue, November 2017
29 Infrastructure investment pillar of China’s economic recovery: report, Xinhuanet, October 2020
30 Analysis: China’s CO2 emissions surged 4% in second half of 2020, Carbon Brief, March 2021
31 Q&A on Recovery and Resilience Facility, the European Commission, September 2020
increased renewable deployment are the main driving force of emissions reductions. Coal capacity in the EU has decreased 60% since 2000 and 8% in the last five years.

The bloc has exceeded its 2020 emission target and is projected to surpass its 2020 renewable energy target. Nevertheless, much remains to be done in the heating, cooling, and transport sectors. Emissions from fossil gas continue to increase in the EU and have overtaken coal as the second largest fossil source of carbon dioxide emissions. The Fit for 55 package will be an opportunity for the EU to reverse this trend and to put the EU on an orderly path towards an almost full phase-out of fossil fuels in the long run.

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32 Renewable energy statistics, Eurostat, December 2020
33 Trends and projections in Europe 2020, European Environment Agency, November 2020
The next five years: to peak or not to peak, that is the question for China

While the 14th Plan shows that China remains committed to growing its clean economy and does place some limits on the pace of coal power development, there are no proactive measures in the plan to shrink its fossil fuel economy.

The strength of the ministerial and local policies to be developed based upon the 14th Plan would decide whether China would be able to peak its emissions in the next five years, which is crucial for China to stay in line with the Paris Agreement climate goals.

Decision Time in Peaking

While the carbon intensity target remains the paramount policy tool to drive cadres in ministries and provinces to deliver climate action, the central government has not ruled out the possibility of introducing a limit on total emissions. The 14th Plan states that “absolute emissions control needs to compliment the intensity target”.

Putting a cap on the total carbon emissions in the next five years would be a significant step forward in Beijing’s approach to climate policy. But whether such cap signals an increase in China’s climate ambition would depend on the stringency of the limit and if a lower limit is introduced in the next Five Year Plan. Some analysts projected that China’s carbon emissions would plateau as early as 2023 with existing policies.34

In a speech to the Party’s top economic decision body in the weeks after the 14th Plan was approved, President Xi Jinping indicated that emissions peaking efforts by ministries and provinces need to be guided by “targets, measures and inspections”35 Beijing will be in a better position to revise the country’s emissions targets once these local plans are finalised in late 2021.

While the 14th Plan has been light on the details on how China intents to decarbonise its high-carbon sectors, ministries, provinces and state-owned enterprises have started to reorient their development plans to accommodate political attention given to carbon peaking and neutrality by the Central Government. 20 out of the 34 provincial-level jurisdictions in China have publicly said that they are preparing their “peaking action plans”.36 Three out of the five biggest utility companies in China have laid out their emissions peaking and neutrality strategies.

34 Accelerating The Net-Zero Transition: Strategic Action For China’s 14th Five-Year Plan, WRI, December 2020
35 Xi stresses healthy growth of platform economy, efforts for carbon peak and neutrality, Xinhuanet, March 2021.
36 Climate ambition in Provincial Level “Two Sessions”, Nanfang Weekly, February 2021
### Announced Policy Direction and Policy Target (2021-2025)

#### Fossil energy
- Coal: “limit the pace and scale” of coal power construction; drive the development of coal plants flexibility retrofitting.
- Oil and gas: “steadily increase” the production, increase reserve, diversify supply, and secure strategic passages key to the transport of oil and gas.

#### Renewable energy
- To increase the share of non-fossil energy in total energy consumption to around 20% in 2025 and 25% in 2030. **This is expected to drive uptake in the pace of renewable energy development** (about 110-140GW of new capacity every year in the next decade).38
- The development of a series of “clean energy bases” in China’s western and northern regions together with long-distance transmissions networks.

#### Innovation
- R&D spending accounts for 2.4% of China’s GDP in 2020 and is set to increase by 7% per year in the next five years.
- Encouraging “critical parts” of the supply chains of “emerging strategic sectors”, including renewable energy, to remain in the country. Together, these sectors will account for 17% of China’s total GDP by 2025.

#### EV
- “New energy” vehicles sales to reach 20% of total vehicle sales by 2025.
- 80% of new government vehicles, taxis and buses must be new energy vehicles by 2021 in air pollution control zones (include Beijing and most key cities)
- Promote EV and battery standards along the Belt and Road, with a focus on ASEAN and central Asian countries.

#### Iron and steel
- Plan to set a 2030 emissions reduction target of 30% for the steel sector, to be driven primarily by production curbs, increasing recycling and the use of clean energy and technologies.
- Increase share of crude steel produced by electric arc furnaces to 20% by 2025.
- Limit the development of new steel capacity and close existing inefficient ones, through company mergers and energy efficiency and environmental controls.

#### Green Finance
- Finalising the revision of the green bond standards to exclude fossil energy.
- Strengthening disclosure of climate data by financial institutions.
- Integrating climate risk factors in financial institution and banks stress testing and China’s foreign reserve investment.
- Encouraging capital allocation in green sectors by introducing green/brown assessment of bank’s asset and favourable monetary.

#### Belt and Road
- The 14th Plan includes commitment to align BRI with international norms and debt sustainability principles.
- Begin the legislation of Overseas Investment Law in the next five years. No further details are provided regarding the new law, but it could complement existing overseas investment mechanisms, which restrict public investments in sectors deemed “sensitive”.

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37 The 14th Five-Year plan for National Economic and Social Development of the People’s Republic of China and the Long-Range Objectives Through the Year 2035 (in Chinese), The State Council, March 2021
38 Remarks by Chinese President Xi Jinping at Climate Ambition Summit (in Chinese), Xinhuanet, December 2020
39 Analysis: China’s new 2030 targets promise more low-carbon power than meets the eye, Carbon Brief, Dec 2020.
42 Speech by Governor of People’s Bank of China at China Development Forum 2021 (in Chinese), Sina, March 2021
The 14th Five-year Plan meets the European Green Deal: How should Europe respond?

As the rubber hits the road for the 14th Five-year Plan and the European Green Deal, European green industries will increasingly find themselves competing for market shares, materials, and standards with their Chinese counterparts, in Europe, China and along the Belt and Road countries.

China has proven itself to be a formidable player in the green economy. It continues to dominate the production of low carbon technologies such as electric vehicles, batteries, solar and wind power. While the current elements of the 14th Plan do not lay out a clear roadmap to rapidly decarbonise China’s economy, boosting supply chain resilience and innovation in clean economy sectors remain priority areas in Beijing’s plans for the next five years.

President Xi has committed China firmly on a carbon neutral development trajectory. He has repeatedly sent strong political signals to bring the Chinese bureaucracy in line with the new climate targets. Officials in ministries and provinces are now racing with each other to come up with ambitious decarbonisation action plans, which will be published from late 2021 onwards.

Over the past five years the EU has put forward a proactive agenda to sharpen its edge in the green economy. The EU also recognises the need to reorient its foreign policy to manage the external aspects of the European Green Deal. Promoting EU’s energy and sustainable finance standards, supporting just transition abroad and aligning trade agreements with climate goals are key pillars of Green Deal diplomacy.

In addition to investing in policies to boost industrial competitiveness, the EU should also actively manage the competition with China to ensure it drives a race to the top and does not impede innovation in low carbon technologies.

The competitive dynamics should not stop the EU from engaging China to raise its climate ambition and working with China on joint initiatives that are mutually beneficial. However, the cooperation should be conditioned on China acting to meet its commitments on climate and the rules-based international system. This can help ensure any backtracking of China’s international pledges will not be legitimised under the veil of cooperation.

To engage China from a position of strength, manage the rising competition, ensure EU’s own competitiveness in the low carbon economy, the EU and its Member States should consider the following actions:
Domestic policy

> Lead and drive a green and inclusive transition in industrial supply chains, leveraging the strength of the EU’s single market and regulatory framework: products standards, technology deployment targets, green procurement measures and incentives for cleaner production.

> Agree on the EU’s Fit for 55 package as the EU’s plan to transition beyond fossil fuel, including a coal-to-clean transition by 2030 in the power sector. This will act as a lever to engage other countries on more ambitious commitments on stopping new coal and ending coal finance.

> Drive investment in incremental and breakthrough innovation to boost intellectual property ownership and production capacity of innovative clean technologies, including in batteries, hydrogen, efficient high renewable energy systems and new materials. Ensure benefits of EU research and innovation policy are spread widely across Member States.

> Build institutional foundations at the EU level to strengthen EU’s competitiveness in the clean economy, by building the connective tissues across departments, in the form of a project group to drive action at all levels of governance.

Climate diplomacy

> Identify clear benchmarks for credible Chinese engagement in multilateralism and climate action. This should include a moratorium on coal investment in China and overseas, and supporting developing countries post-pandemic recoveries by participating in the global effort to strengthen the architecture of international debt. The EU should work closely with the UK, as president of COP26, and the US to align these benchmarks.

> In the short term, foster exchange on new energy security challenges, as identified by Foreign Affairs Council in Jan 2021. The EU can share lessons on how adopting rigorous energy efficiency and clean energy goals can reduce dependence on energy imports and seek cooperation on building reliable and flexible high renewables systems. This can shape expectations of future energy pathways, particularly in parts of the Chinese establishment that is still betting on a high-carbon energy system.

> Engage with China via the International Platform on Sustainable Finance and the G20 Sustainable Finance Study Group (which China co-chairs) to support the development of a harmonised set of global standards for defining sustainable investment that are underpinned by the “do no significant harm” principle.

> In the long-term, deep decarbonization could be accelerated by engaging in joint research initiatives and exchange platforms with Chinese provinces and state-owned
enterprises on financing mechanisms, regional transition strategies for the just transition of coal and high-carbon regions based on the experience with the EU’s Just Transition Mechanism and transition processes in EU Member States.

> In the long-term, cooperating with China on a roadmap towards phasing down short-lived climate pollutants. This could include scientific cooperation on monitoring and verifying emissions and developing joint import and production standards for commodities with high emissions of short-lived climate pollutants, such as gas.
About E3G

E3G is an independent climate change think tank accelerating the transition to a climate safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018 E3G was ranked the fifth most globally influential environmental think tank for the third year running.

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