of oil consumption in China is bucking global trends and continues to grow. Thirdly, last year, despite the world being in the grip of the Covid-19 pandemic, global power generation and electricity consumption did not see dramatic reductions and instead remained roughly the same thanks to China. The global increase in renewable energy has mainly come from China as well. Fourthly, the leading global trend in primary energy structure change is the continuing decline in the use of fossil fuels.

Ms Margaret CHEN, BP China Chief Economist

China Macro Outlook >

Growth weakens, though more structural reforms are underway

Growth has weakened, especially in services. In August, industrial output grew 5.3% y/y, and was up 11.2% from August 2019, with an annualized growth rate of 5.4%, down 0.2 ppts from July, and down 1.2 ppts from Q2. The service production index has slowed since Q2, and grew only 4.8% y/y in August, after being further hit by the COVID outbreaks, down 2.9 ppts from Q4 2020, and down 2.1 ppts from 2019.

Investment was up 8.9% y/y January-August, and increased 8% from August 2019, with an annualized growth rate of 4%, down 0.5 ppt from H1. Real estate is cooling dramatically, to the 2008 financial crisis level. COVID outbreaks in August negatively impacted consumption. Retail sales of social consumption goods rose 2.5% y/y, down 6 ppts from July. Their growth rate after price adjustment was 0.9% y/y. As we forecast, trade became weaker. Exports rose 15.7% y/y, down 4.4 ppts from Q2. Imports rose 23.1% y/y, down 8.5 ppts from Q2.

Producer prices increased further in August. The ex-factory price index of industrial goods rose 9.5% y/y; PPI increased 13.6% y/y, both 0.5 ppts higher from July. However, we forecast that producer price appreciation will stabilize in November, and that prices will begin to fall. CPI rose 0.8% y/y, falling for three consecutive months. We expect the lowering of CPI to be temporary, and to reach around 2%, after food prices stop declining.

In August, monetary policy continued its tightening trend. M2 rose 8.2% y/y, basically stable since April. M1 rose 4.2% y/y, continuing to fall, reaching its the lowest of 2021, down 0.7 ppts from July.

China is announcing intensive policies in specific key areas, to address structural reform. In the financial industry area, President Xi Jinping announced on September 2nd that a third stock exchange in Beijing would be established, in addition to the existing two exchanges in Shanghai and Shenzhen, to serve small and medium-sized businesses. In regional policies, Shenzhen's Qianhai and Zhuhai's Hengqin areas are being pushed to deepen their ties with bordering Hong Kong and Macau. The Qianhai economic zone is to expand eightfold. There are also other new industry rules for the real estate and education sectors. All of these plans underscore the central government's effort to develop a healthier economy, by being more open and more market-based. But policy uncertainty looms over investment in the short term. The possible default of real estate companies such as Evergrande also raises some fear of turmoil in China's financial market. But we do not see this as a systematic threat.

Based in Shenzhen, Guangdong Province, China Development Institute (CDI) is a non-governmental and market-oriented think tank which was founded in 1989 on approval from the Chinese State Council. CDI was designated as one of the 25 China Top Think Tanks in 2015.

CDI develops solutions to public policy challenges through broad-scope and in-depth research to help advance China's reform and opening-up. CDI is committed to providing proactive, innovative and practical research and consultation for China's central and local governments and businesses at home and abroad. Its research and consultation is centered on macro strategy, regional economy, urbanization, industrial development, business strategy and decision-making.

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CDI
China Development Institute
NEWSLETTER
2021 volume 4

Seminar on Hong Kong-Shenzhen biotechnology collaboration and launch of joint report

China Development Institute, China Center for International Economic Exchanges and Our Hong Kong Foundation jointly conducted research on the strategy for collaboration between Hong Kong and Shenzhen in biotechnology development by leveraging the synergistic effects of the Shenzhen-Hong Kong Cooperation Zone for Technology and Innovation at the Lok Ma Chau Loop.

To foster the growth of a world-class biotech cluster, the three think tanks in their report, entitled Strategic Collaborations between Hong Kong and Shenzhen in Biotechnology—Capitalising Opportunities in the Loop for Policy Innovations, puts forward seven recommendations, including bringing in leading biotechnology corporations, establishing a mega research institute, developing comprehensive supporting facilities for the entire supply chain, and providing a one-stop service platform to advance biotechnology development in Lok Ma Chau Loop.

On July 26, 2021, the three think tanks bring together government officials, academics and industry leaders in the discussion of the outlook of Hong Kong-Shenzhen biotechnology collaboration, and jointly release the research report.

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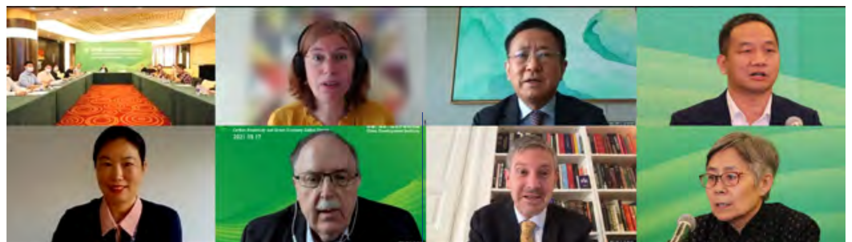
Carbon Neutrality and Green Economy



With the consensus of limiting global warming, China, the world's largest developing nation and greenhouse gas emitter, has announced the goal to reach CO2 emission peak before 2030 and carbon neutrality before 2060. It goes without saying that enormous challenges lie ahead. Meanwhile, many developed nations have already reached peak emission before the turn of the century and have since accumulated abundant and mature case experiences.

China to promote international collaboration on climate change to achieve peak emissions and carbon neutrality goals

Firstly, enterprises and local governments need to have a better understanding of the rationale behind China's peak emissions and carbon neutrality goals. This will require extensive education regarding these goals and carbon transition. Secondly, scientific and policy research is essential, especially in dealing with the relationship between the government and the market, and the government and the private sector. Thirdly, the emphasis should be shifted from total energy consumption to total carbon emissions to avoid unhelpful restrictions being placed on renewable energy generation as we endeavour to reduce the consumption of fossil fuels. Fourthly, carbon lock-in should be prevented, building new coal power plants should be prohibited and R&D and application of carbon caption and sequestration technologies should be undertaken.

Prof. FAN Gang, President of CDI

The core of "carbon neutrality" action is to advance the transition from the resource-dependent development model to the technology-driven development model across both the economic and social planes. This transition manifests in three areas: growth model, energy system and lifestyle. It is important that carbon neutrality is approached without compromising energy or economic security. To better advance this energy transition, it is important to first, complete the policy transition from total energy consumption control to total fossil fuel consumption control; second, promote an earlier carbon peak of coal consumption with appropriate control of coal power plant development; third, control the development of non-fossil fuel energy such as wind power and solar power; fourth, create systematic safeguarding of the advancement of this energy transition.

Prof. LI Junfeng, Director of Chinese Renewable Energy Industries Association

Climate change poses great challenges for all mankind. It is crucial for all nations to avoid zero-sum thinking and to instead keep an open mind and work collaboratively towards realising the common goal of advancing green development and climate change action while reserving differences and allowing competition. The Asia-Pacific region could explore the establishment of a regional cooperation framework to better facilitate energy transition, green infrastructure construction, green finance implementation and green BRI development.

Mr David MORRIS, Vice President of the United Nations Sustainable Business Network for the Asia-Pacific

The structural reform of the supply side of business is vital to achieving peak emissions and carbon neutrality. Taking Shenzhen as an example, the city's structural upgrade of its industries, energy and technologies in recent years has successfully shifted its economic growth pattern while meeting air quality standards and reaching peak carbon emissions. The Shenzhen experience proves the close correlation between advancing manufacturing and reaching peak carbon emissions.

Prof. TANG Jie, Professor of the School of Economics and Management, Harbin Institute of Technology, Shenzhen; Former Deputy Mayor of Shenzhen Municipal Government, China

The sixth IPCC assessment more accurately observed that the Earth's climate system is undergoing a significant change characterised by warming at an unprecedented speed. The heavy rainfall seen in China and many countries around the world in 2021 is an example of the danger of global warming. These grim facts warn all mankind to take immediate action to mobilise the necessary resources to adapt to climate change, thereby reducing the impact of natural disasters. The advantage of appropriate adaptation measures is three-fold: they avoid future losses, encourage economic growth through innovation and offer wide-ranging social and environmental benefits.

Dr LI Lailai, Affiliated Researcher at the Stockholm Environment Institute, Sweden

Firstly, carbon neutrality and energy transition is a comprehensive project; the approach to which varies, as illustrated by the different methods employed in developed countries. It is important to find a route that is appropriate for China's economic development. Secondly, a healthy and functional energy market is fundamental to the advancement of energy transition and the achievement of carbon neutrality. Thirdly, it has been proven in many instances that carbon neutrality is viable. We need to have faith in ourselves and settle our minds on success. The general public needs to be informed and motivated as well.

Prof. YANG Lei, Deputy President of the Energy Institute at Peking University, China

The European Union has been aware of the severity of climate change since the 90's. In the following decades, related policies and legislations were introduced. In 2005, carbon exchange was set in motion, as well as a corresponding standards and policy system. Recently, the European economy has suffered a major blow from the Covid-19 pandemic. The green economy and digital economy will be the driving forces behind the region's post-pandemic economic recovery. The European Green Deal has proposed even stricter goals for carbon neutrality. In the future, the EU will further improve energy foreign policy to facilitate a synergic energy transition. Here, there is great potential for China and the EU to collaborate to create standards for environmental protection, energy transition and R&D for green technology.

Dr Louise VAN SCHAIK, Head of Unit EU & Global Affairs, the Netherlands Institute of International Relations

Firstly, China and the EU both play important roles in setting the global climate policy agenda and coordinating initiatives for the implementation of the Paris Agreement. They are thus able to collaboratively mobilise resources for the Green Climate Fund and work towards building the global carbon market and strengthening the link between climate policy and development. Secondly, China and the EU should enhance trade coordination to minimise the negative environmental impact that trade activities can have on other nations. Thirdly, considering China's extraordinary success in reforesting, China and the EU could potentially collaborate in sustainable agriculture policymaking. Fourthly, China and the EU could initiate joint cooperation activities with African nations for sustainable land use, food security, forest protection and energy innovation.

Prof. Joachim VON BRAUN, Director of the Center for Development Research (ZEF) University of Bonn, Germany

Firstly, it is important to focus on coordinating the energy transition and economic development, especially the balance between costs and benefits, as well as between short term and long-term goals. Secondly, the road map for reaching peak carbon emissions and carbon neutrality needs to be clarified to avoid carbon lock-in. Thirdly, coordinated planning at the regional level should be explored taking into account regional variations and local needs. Fourthly, international cooperation and exchange should be strengthened to seek mutual benefits.

Mr LIU Qiang, Director of Programmes (China) of Children's Investment Fund Foundation

Firstly, the decline in total primary energy consumption in 2020 was significant, nearly 5%, with carbon emissions falling by about 6%, the largest annual decline since World War II. However, the huge reduction in oil consumption in the transportation sector was caused by Covid-19 prevention measures, which are unsustainable. Secondly, the world's energy structure is still moving towards cleaner energy and low carbon. The use of coal and oil has been decreasing while the use of natural gas and renewable energy has been increasing. However, the level