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Powered by the state or finance? The organization of China’s carbon markets

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Abstract

This paper reviews the progress of carbon trading in China and examines the involvement of the state and financial sectors. China witnessed proliferation of domestic carbon markets before attempting to institutionalize the carbon trading regime. Direct and strong government intervention is a key feature of this process. The domestic carbon markets are primarily created, shaped, and operated by the central and local governments supported by a cohort of macro-economic planners, local economic agencies, state-owned financial institutions, and business organizations with government backing. Key market players are institutionally dependent on the state – much more so than in capitalist economies. Private investments have not been adequately and effectively mobilized due to unfavorable economic, regulatory, and policy conditions. Non-state financial actors are not an active and influential player. This indicates a hierarchical relationship between the state and finance and a clear asymmetry of power in the organization of China's carbon markets. These observations constitute a notable difference to the international carbon markets, which are subject to the strong influence of private finance. China has put the market-based policy instrument of carbon trading under a substantial concentration of state power. The findings have important implications for understanding the rise of carbon markets in non-traditional capitalist economies.

Keywords:

carbon market | emission trading | carbon finance | climate change policy | political economy | China

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Notes

1. Source: United Nations Framework Convention on Climate Change (UNFCCC). Accessed August 31, 2013. http://cdm.unfccc.int/Statistics.

2. Additionality means that whether or not the claimed emissions reductions would still materialize if the project did not proceed.

3. These include "environment," "energy," and "emission rights" exchanges engaging in carbon trading activities.

4. FYP is formally known as "Five-Year Plan for National Economic and Social Development." It is a periodic guiding document and the most prominent strategic blueprint for the country that prescribes national economic and social directions and policy priorities. FYP was renamed to "Five-Year Guideline" since 2006, although it is still referred as FYP in English.

5. Since Shenzhen falls within the jurisdictional boundary of Guangdong Province, its GDP and population form part of the Guangdong estimates, and are therefore excluded from the calculation to avoid double counting.

6. A full list of DNAs is available from the CDM official website hosted by the UNFCCC: http://cdm.unfccc.int/DNA/bak/index.html#T.

7. Available online and in Chinese language: People's Government of Chongqing Municipality (2011), People's Government of Guangdong Province (2012), People's Government of Hubei Province (2013), People's Government of Tianjin Municipality (2013). The ETS implementation notices released by Shanghai and Shenzhen municipalities did not clearly specify the assignment of tasks among departments.

8. Formally known as the Conference of the Parties (COP) to the UNFCCC.

9. As of September 30, 2013. See http://icapcarbonaction.com for updates.