



# CCICED ANNUAL POLICY REPORT

## ECONOMIC DEVELOPMENT MODE: GREEN TRANSFORMATION

2011



CCICED

ANNUAL POLICY REPORT

# **ECONOMIC DEVELOPMENT MODE: GREEN TRANSFORMATION**

CHINA ENVIRONMENTAL SCIENCE PRESS • BEIJING

## 图书在版编目 (CIP) 数据

中国环境与发展国际合作委员会 2011 年度政策报告: 中国经济发展方式的绿色转型=Cciced Annual Policy Report: Economic Development Mode: Green Transformation: 英文/中国环境与发展国际合作委员会编. —北京: 中国环境科学出版社, 2012.4

ISBN 978-7-5111-0976-7

I. ①中… II. ①中… III. ①环境保护—研究报告—中国—2011—英文 IV. ①X-12

中国版本图书馆 CIP 数据核字 (2012) 第 074039 号

责任编辑 黄 颖  
责任校对 尹 芳  
封面设计 玄石至上

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出版发行 中国环境科学出版社  
(100062 北京东城区广渠门内大街 16 号)  
网 址: <http://www.cesp.com.cn>  
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联系电话: 010-67112765 (编辑管理部)  
010-67112417 (科技标准图书出版中心)  
发行热线: 010-67125803, 010-67113405 (传真)  
印装质量热线: 010-67113404

印 刷 北京中科印刷有限公司  
经 销 各地新华书店  
版 次 2012 年 5 月第 1 版  
印 次 2012 年 5 月第 1 次印刷  
开 本 787×1092 1/16  
印 张 24.25  
字 数 580 千字  
定 价 72.00 元



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## Preface

The China Council for International Cooperation on Environment and Development (CCICED) was established with the approval of the Chinese government in 1992. Consisting of senior Chinese and international officials and experts, it serves as a high-level advisory body with a mandate to conduct research and to provide policy recommendations to the Government of China on China's environment and development. The Council reports to the State Council and each year meets with a senior leader to discuss its recommendations.

Over the past 20 years, CCICED has witnessed significant change and marked progress in China in the field of environment and development policy. Over the Council's tenure, issues have evolved in number, complexity and significance from those discussed at the 1992 Rio UN Conference on Environment and Development to those demanding environmental challenges, such as climate change, that have become mainstream economic and political concerns throughout the world. CCICED continues to be a unique body, highly relevant to China's domestic needs and to fostering a better international understanding of China's contributions to global environment and development.

With ongoing support from the Chinese government, governments of many other countries, and international agencies, CCICED has completed four phases. Phase I (1992—1996) carried out initial policy studies and research on key issues in the field of environment and development, and disseminated and exchanged international experience and information on successful policies. Phase II (1997—2001) shifted the focus from policy research to policy and project demonstrations. Phase III (2002—2006) was established with broader priorities, and a number of major policy studies were conducted. Based on the successful experience of previous phases, Phase IV (2007—2011) drew support from a larger number of donors and focused concerted attention on issues that will determine China's pathway toward becoming an environmentally friendly society. China has entered into a new era, and CCICED will play a major role in promoting China's strategic transformation in environment and development.

2011 is the first year of the implementation of the “12<sup>th</sup> Five-Year Plan for National Economic and Social Development” marking the green transformation of China’s economic development mode. At this new starting point, Chinese Government policy will be based on scientific development as the principal theme, transformation of the economic development mode as the main thread, promotion of ecological civilization as a new requirement, and the development of a resource-saving and environment-friendly society as the principal focus. China will make greater efforts to protect its environment and to promote ecological civilization.

Against this background, the China Council for International Cooperation on Environment and Development held its 2011 Annual General Meeting on the theme of “Economic Development Mode: Green Transformation” and its 20<sup>th</sup> Anniversary Forum on the theme of “Sharing the Achievements, Embracing the Future”. The event focused on measures that will facilitate low-carbon industrialization, green investment and trade, and how to achieve green development through institutional and policy innovations.

This Annual Policy Report 2011 contains documents presented to, and policy recommendations approved by, the CCICED’s Annual General Meeting in November 2011. It includes an Issues Paper, prepared as a discussion document addressing green transformation; final reports submitted by three task forces and two special policy studies; and the Council’s 2011 Recommendations, which have since been forwarded to the State Council and other governmental agencies. The task force reports represent the views of the individual teams, which are not necessarily those of the Council as a whole, while the Recommendations reflect a consensus among CCICED members attending the 2011 Annual General Meeting.

The materials in this volume offer a great many options for China to consider as it continues to strengthen its governance of environment and development. We wish to share them within and outside of China, in the hope that they will lead to a better understanding of the environment and development challenges facing China and of China’s contribution to resolving environmental issues domestically and internationally. Further information may be found on the CCICED web site ( <http://www.cciced.net/encciced> ), including texts of task force reports and special policy studies, on which this year’s summary reports are based, as well as reports from past years.

We extend our thanks to those who support CCICED’s work and China’s environmental undertakings. We appreciate the financial and other support from the Government of China and generous donors, and the contributions of many Chinese and international experts who conducted the research reflected in this volume. The

invaluable assistance of the Chinese and International Chief Advisors and their group of experts, who provided guidance to the research work, the assistance of the International Secretariat Support Office at Simon Fraser University in Vancouver, and the advice of Council members, who volunteered their time and expertise in support of this undertaking, are all gratefully acknowledged.

The Secretariat of CCICED  
January, 2012

# Acknowledgments

The China Council for International Cooperation on Environment and Development (CCICED) carried out a series of policy research studies on the theme “Economic Development Mode: Green Transformation” with strong support of CCICED Chinese and International Members, experts, and scholars as well as partners. Reports on and recommendations from these studies were presented to the CCICED Annual General Meeting in November 2011. An Issues Paper was also submitted, which summarized current issues related to environment and development in China. Based on these documents, Policy Recommendations were prepared by the Council’s scientific advisors and approved by the Council for submission to the Government of China. These documents are presented as chapters in this current volume.

The Chinese and international experts and other individuals who prepared each document are listed below:

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We would like to express our heartfelt thanks to the Chinese and International Members of the Council, experts, and scholars listed above for their outstanding contributions to CCICED's policy research activities. We also would like to thank the following partners who have provided funds and other forms of support to CCICED's policy research and routine operations: Canada, Norway, Sweden, Germany, Britain, Japan, the Netherlands, Italy, Australia, France, Denmark, EU, UNEP, UNDP, UNIDO, WWF, US Environmental Defense, the Rockefeller Brothers Fund and the Shell Company.

Last but not the least, we would like to express our sincere gratitude to CCICED staff members for their hard work in editing and publishing this volume. They include: Zhang Menheng, Zhou Yubao, Ding Yangyang, Carolyn Weeks Tilney, Huang Ying and others.



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# **Chapter 1    Policy Recommendations to the Government of China**

The 5<sup>th</sup> Annual General Meeting (AGM) of the 4<sup>th</sup> Phase of the China Council for International Cooperation on Environment and Development (CCICED) was held from November 14-17, 2011 in Beijing. The theme of the 5<sup>th</sup> AGM was “Economic Development Mode: Green Transformation.”

The Council members noted that the Government of China has formulated the development strategy for the “12<sup>th</sup> Five-Year Plan” period (2011—2015), taking “Outlook of Scientific Development” as the main approach, with “transformation of development mode” as the main mechanism for achieving a “higher level of Ecological Civilization”. In addition to being the first year of the “12<sup>th</sup> Five-Year Plan”, 2011 also marks the 20<sup>th</sup> anniversary of CCICED’s establishment. Moreover, global preparations are now underway for the June 2012 Rio+20 United Nations Conference on Sustainable Development. Therefore the green transformation theme is particularly meaningful for the AGM this year. Internationally, there is considerable discussion and rising levels of commitment to implementation regarding new concepts such as green growth, green economy, low carbon economy, circular economy, and green technology. Green transformation has become a favored approach for post-financial crisis economic recovery.

The world over the coming two decades will be characterized by an enormous growth of population, increasing living standards, a growing global middle class and a high level of urbanization. The consequences will be resource and pollution constrained patterns of development, a situation already existing in many places. Competition for resources and green solutions will be inevitable. There is a global Green Race underway—a green competition between countries to become leading suppliers of resource efficient, low polluting solutions, products and services. The “12<sup>th</sup> Five-Year Plan” is the starting point for positioning China well in this race. Transforming the domestic economy and building demand for green solutions will create the competencies and scale for greener exports.

The evolution to a future resource-efficient, low-polluting world will be very dynamic.

Traditional business models for different industry sectors will be challenged. The future will belong to those who understand this dynamism and can develop new offerings of products, systems and services that are Green in the broad sense of the word. It is very important, therefore, that Chinese businesses adhere to international models of Corporate Social Responsibility (CSR) and other approaches that emphasize concern for environment and social concerns. These approaches can be good for profitability as well, even though there are costs to implement them. China will have to consider how best to stimulate businesses to prepare for this new world. The effort should include Chinese domestic and FDI enterprises, and Chinese businesses operating abroad, including ODI. All need to be brought eventually to an equal and high standard of action for environment and development, and be backstopped by a green financial sector. Much more attention will have to be given to green market supply chains.

China has a choice at this very important junction: embrace the inevitable Green Race and position itself as a global leader and supplier of resource-efficient, low-polluting solutions, or, try to maintain the old role as the supplier of low cost products to a growing world population. While China's choice may seem obvious, even already made in the case of some technologies such as solar and wind energy, the Green Race is still at an early stage. There are no inherent reasons why China could not chart a Green Transformation course that will support future well-being and wealth creation. The future of China's positioning is mainly in the hands of its leaders and people—not in the hands of external forces.

In fact, China's "going green" fits well with the domestic drive toward an environmentally-friendly society and the new scientific development outlook. Green transformation reflects the dynamism of innovation and reform. It should be regarded as an approach to development that emphasizes vigor, balance and sustainability. The ultimate goal of this form of development is to achieve a new balance in the relationship of environment and resources, social inclusiveness and harmony, while enhancing China's overall status and competitiveness regionally and globally. Green transformation will depend upon a better level of transparency and openness in decisions, and on careful attention to appropriate roles for government and market forces. Government needs to provide a clear regulatory framework to guide the operation of the market, and then to allow the market to operate freely within that framework.

As China intensifies its efforts to change the current development mode, and gains deeper understanding of the process and new needs, green transformation is now understood to be central to the direction and core content of this change. The experience gained during

the “11<sup>th</sup> Five-Year Plan”, and through the inclusion of environmental objectives within the 2008 post-financial crisis stimulus package, has set in place a good basis for future efforts. China’s national will and existing experience now must be further drawn upon to create a comprehensive and coordinated approach that can accelerate the pace of change towards sustainable development; and be more efficient and effective in green transformation of economic development.

Participation by China’s citizens in green transformation is essential. Certainly as wealth is created there will be further stimulation of domestic consumption, and it is essential that the patterns of consumption are sustainable in terms of energy, pollution control, environmental impacts and maintenance of ecological services, plus many other aspects related to health, well-being and quality of life. It is essential therefore that a new level of transparency and openness be achieved so that citizens in both cities and the countryside gain a full understanding of the roles they can play as they participate in decision-making and implementation of environment and development matters. Transparency can be thought of as a driver of change, as an incentive, and as an enforcement mechanism. Not only is it important in China’s domestic green transformation, but also in the greening of China’s international brand with respect to exports and also the long-term success of China’s investments abroad.

CCICED members are pleased to see that environment and development considerations have been given considerable attention within the new “12<sup>th</sup> Five-Year Plan”. However it is important to emphasize that environmental transformation and economic transformation need to become much better aligned since they are interconnected in terms of impacts. This alignment becomes a central theme for green transformation. China urgently needs a comprehensive and practical implementation blueprint for green transformation that includes a development strategy, concrete approach and supporting policies.

CCICED members believe that China’s green transformation could have significant implications globally. Global environment and development progress has fallen short of people’s expectations, including the quite limited achievements so far of the Millennium Development Goals, climate change action and ecological protection in many parts of the world. It is therefore important to identify new directions for sustainable development, explore a new path and make new breakthroughs. Rio+20 offers one opportunity for China’s contributions and role to be highlighted, and hopefully its role in global environmental improvement strengthened. China should be giving the world a clear and unambiguous picture of its intentions concerning green transformation.

Council members deeply feel that China faces complicated environment and economy

problems and unprecedented challenges as it implements green transformation. “Speed first” practices, as shown in a number of serious accidents and scandals, seriously harm human health and the environment, threaten people’s lives, impair social stability and development results, and affect public opinion about governance. These incidents have revealed deep-rooted problems of unbalanced, uncoordinated and unsustainable development—as China’s leaders have expressed. The shortcomings of social ethics and cultural values are reflected in problems with across-the-board impacts. Indeed, green transformation of development pattern is not only a matter of policy, institutional reform and technological innovation, but also one of social ethics and values.

CCICED members have noted that China’s commitment to all-round transformation of development pattern and a green development road was once again demonstrated during the recently concluded 6<sup>th</sup> Plenary Session of the 17<sup>th</sup> Party Congress, as well as in the Opinions on Strengthening Key Environmental Protection Work just issued by the State Council. The Opinions document stressed that “reform and innovation shall be the new driving force for exploring the new path of environmental protection featuring low cost, good returns, low emission and sustainability”. The Session and the Opinions are an important demonstration of China’s continued national will to strengthen environmental protection. Cultural development should also be part of the green transformation efforts. Promoting an environmental culture and ecological civilization in this process will help to build environmental ethics in China. To be fully successful, this effort must be linked to strategy for sustainable livelihoods, and new, more environmentally friendly strategies for economic growth.

There are less than 10 years left for achieving the goal of an all-round well-off society in China, and less than 40 years for achieving a fully mature stage of modernization. For the navigators of this huge ship with the largest population in the world, the journey ahead is filled with challenges. During this journey, China has to strike a proper balance between economic growth and environmental protection, transform environmental targets into genuine and lasting progress on sustainability, propel enterprises to shoulder more environmental and social responsibilities, and assess and guide its own green transition process within a global context. If China is successful in making substantive environment and development breakthroughs during the “12<sup>th</sup> Five-Year Plan”, a solid foundation will be laid for China’s sustainable future. Otherwise the process of green transformation will encounter even greater difficulties—or worse still, may even see existing gains reversed.

CCICED established three task forces linked to the green transformation theme: Research on the Development Mechanism and Policy Innovation of China’s Green Economy;

Low Carbon Industrialization Strategy in China; and Trade, Investment and Environment, focusing on FDI entering China and ODI on the part of China. The Council also carried out special policy studies on greening China's supply chains, and on mercury management in China. The goal for all of these studies is to contribute to the roadmap for transformative green development in China.

Based upon the research results of these studies and discussions during the AGM, CCICED proposes five policy recommendations to the Government of China.

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## 1.1 Recommendation 1: Rebuild Social Values, Adjust Government Roles, and Cultivate Human Resources to Reinforce and Serve an Unswerving National will on Green Transformation of Development Mode

Green transformation of China's development pattern requires significant shifts in social values and behavior. Considering the historical experience of developed countries and today's economic realities in China, it will be a long, complex and challenging process for China to fully realize such transformation. There is a need to understand root causes, systematically adjust the approaches of the old development mode, and guide both the economic and environmental transformations. The shift requires consideration of some basic ideas and values, such as social, cultural and environmental ethics, the role of government in economic and social development, institutional changes and mechanisms of administration.

### 1.1.1 Establish a long-term and unswerving national will on the green transformation of development mode

Although under the severe challenges of the current international economic slowdown, financial market instability, debt crisis, and slow growth, the Government of China should not weaken environmental controls, or lower environmental targets and standards to yield to the economic pressures. It is crucial for the national government to step up its guidance and supervision of local governments, especially those which may be inclined to ignore green transformation in favor of strong economic growth. Reversals of this sort may be common. Therefore green transformation will require unswerving national commitment and determination.



### 1.1.2 Incorporate the concept of Ecological Civilization into overall social and cultural development, and reward sound social values and environmental ethics

Greater efforts should be made to promote ecological civilization and environmental culture, abide by rules of ecology and of social development, and, as appropriate, draw upon traditional Chinese values and ethics. Environmental values need to become part of an overall ethical system. Such a system will help provide strong moral and spiritual support to the green transformation of China's economic development pattern.

### 1.1.3 Reform government functions, strengthen its management of public goods and social service functions for green development

China's economic system has been progressing, but the government has been relatively slow in adjusting itself to societal needs in a market-based economy. What's more, the global financial crisis to some extent has provided more room for governmental interventions in the economy. During the post crisis period, it is a pressing concern for the Chinese economy to shift from overdependence on policy incentives towards a more spontaneous growth pattern. The boundaries of government's role should be identified more clearly, and its public service role strengthened.

First, government should not displace the market, and clear distinction needs to be established between the respective roles of governments and enterprises. Market mechanisms should help to optimize the allocation of financial resources and government should help enterprises to play a main role in the green transformation of economic development mode. Government should refrain from taking market resources, setting up unnecessary entrance barriers, forcing new investment activities on behalf of enterprises unless necessary for protection of human health and environment, and using administrative measures to influence market order and prices. Second, government should play a major role in environmental protection, energy conservation, social safety, and fair competition. Third, government should reduce its long-term dependence on administrative measures and reform natural resource pricing and introduce environmental pricing to provide a favorable market condition for those enterprises that invest in green economy and reduce the advantage of those which pollute the environment and squander natural resources.

In addition, government needs to improve its transparency in disclosing matters related to public affairs and in decision-making processes. It is also important for government to build up regionally appropriate emergency response and early warning systems and to