

# THE TURNING POINT

## 2019 UPDATE TO RESEARCH REPORT ON SUSTAINABLE FINANCING IN CHINA'S GREATER BAY AREA – OPPORTUNITIES FOR GROWTH



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# **The Turning Point – 2019 Update to Research Report on Sustainable Financing in China’s Greater Bay Area – Opportunities for Growth**

## **Introduction**

The “Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area” (Framework Agreement) was signed by the governments of the Hong Kong and Macao Special Administrative Regions, the government of Guangdong province and the National Development and Reform Commission of the People's Republic of China in July 2017. In June 2018, Hong Kong Quality Assurance Agency (HKQAA), with the support of HSBC Centre of Sustainable Finance, published the Research Report on Sustainable Financing in China’s Greater Bay Area – Opportunities for Growth (the Report), which considered the green elements in the Framework Agreement and analysed the current developments and environmental situation in the Greater Bay Area (GBA). The Report proposed key investment directions related to green development and highlighted the potential for sustainable financing.

In February 2018, the Chinese Central Government announced the “Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area” (the ODP), which substantiates the Framework Agreement and sets out the directions guiding the development of the GBA. One of the basic principles of the ODP is to pursue green development and ecological conservation. The ODP also supports the development of special financial products and services, including green finance.

In this paper, the key points in the ODP which relate to green development and the research findings identified in the Report are tabulated for comparison. The comparison table shows that the ODP reinforces the suggestions proposed in the Report. At the end of the paper, an update on the issue of green growth in the GBA is given, and recommendations proposed.

# Green Development in the ODP and Research Findings of HKQAA 2018 Report

<i>Green Development in the ODP</i>	<i>Research Findings of HKQAA 2018 Report</i>
<p><i>Building a Modern Comprehensive Transport System</i></p> <p>To take forward the construction of railway projects, the preliminary work of regional routes, etc. To speed up the construction of major international land routes with outbound motorways, high-speed rails and express railway lines. To draw up a development plan for inter-city railway links, improve the backbone railway networks, and speed up the construction of inter-city railways.</p> <p><i>Chapter Five, Section 1 of the ODP (p.21)</i></p>	<p><i>Clean Transportation</i> is regarded as one of the three investment directions with the most potential.</p> <p>After analysing the existing major industries in each GBA city, it is concluded that almost all cities have the potential to develop <i>Clean Transportation</i>.</p>
<p><i>Developing an Energy Security Protection System</i></p> <p><u>To enhance the energy supply structure:</u></p> <p>To vigorously develop green and low-carbon energy, expedite the use of natural gas and renewable energy, develop the safe and efficient use of nuclear power, vigorously take forward the clean and efficient use of coal, control overall coal consumption, and continuously increase the ratio of clean energy.</p> <p><i>Chapter Five, Section 3 of the ODP (p.24)</i></p>	<p>As there are relatively few natural resources in the GBA cities, <i>Clean Energy</i> is the least promising of the six categories classified in the People's Bank of China Green Bond Endorsed Project Catalogue.</p> <p>After analysing the existing major industries in each GBA city, it is concluded that Shenzhen has the greatest potential to develop <i>Clean Energy</i> related projects.</p>

<i>Green Development in the ODP</i>	<i>Research Findings of HKQAA 2018 Report</i>
<p><i>Strengthening Protection for the Security of Water Resources</i></p> <p><u>To improve water infrastructure:</u></p> <p>To enhance cooperation and exchanges in water technology and resources among Guangdong, Hong Kong and Macao.</p> <p><u>To improve flood prevention and mitigation systems:</u></p> <p>To step up hydrological and water resource monitoring at the Pearl River Estuary, jointly develop a system for disaster monitoring and warning, collaborative prevention and control as well as emergency response, and increase the ability to respond to disasters.</p> <p><i>Chapter Five, Section 4 of the ODP (p.24-25)</i></p>	<p>Based on the analysis of the relevant enhancement and mitigation practices implemented in each city, the local governments of Dongguan, Guangzhou, Huizhou and Zhaoqing are more suited to improving <i>Water Quality</i> than other cities.</p>
<p><i>Expediting the Development of the Advanced Manufacturing Industry</i></p> <p><u>To expedite the structural adjustment of the manufacturing industry:</u></p> <p>To accelerate the green transformation and upgrading of the manufacturing industry, emphasise the promotion of the green upgrading of traditional manufacturing industries as well as the development of green products, and create a green supply chain. To vigorously develop the remanufacturing industry.</p> <p><i>Chapter Six, Section 1 of the ODP (p.27)</i></p>	<p>Guangdong province is China's southeastern manufacturing hub. Pollution control is one of the critical issues. <i>Pollution Prevention and Control</i> is also a potential area.</p>
<p><i>Expediting the Development of Modern Service Industries</i></p> <p><u>To vigorously develop special financial products and services:</u></p> <p>To support the development of Hong Kong into a green finance centre and set up an internationally recognised green bond certification institution. To support Guangzhou in developing a pilot zone for green finance reform and innovation, and study the establishment of a futures exchange that takes carbon emission as its first trading commodity.</p> <p><i>Chapter Six, Section 3 of the ODP (p.29)</i></p>	<p>As an international financial centre, Hong Kong can play an important role as the global gateway for foreign investors who wish to access the GBA.</p> <p>The Hong Kong Government supports and promotes the development of green finance. HKQAA has launched the Green Finance Certification Scheme.</p>



## Green Development in the ODP

## Research Findings of HKQAA 2018 Report

### Taking Forward Ecological Conservation Establishing Ecological Protection Barriers:

To step up cooperation in ecological and environmental protection, enhance ecological and environmental systems, and strengthen the protection and restoration of wetlands.

*Chapter Seven, Section 1 of the ODP (p.33)*

### Strengthening Environmental Protection and Management:

To focus on solving historical environmental protection-related issues of concern to the people, including water and air quality, pollutants discharged into the sea, waste issues, contaminated soils, etc.

*Chapter Seven, Section 2 of the ODP (p.34)*

### Adopting an Innovative, Green and Low-carbon Development Model:

To explore the potential of reducing greenhouse gas emissions, adopt proactive measures, and actively adapt to climate change. To strengthen exchanges and cooperation in low-carbon development and environmental protection technologies, for example, by implementing near-zero carbon emission demonstration projects; developing a green development demonstration zone; encouraging conservation across the board; promoting recycling; and implementing an extended producer responsibility system.

*Chapter Seven, Section 3 of the ODP (p.35)*

Besides *Clean Transportation*, the other two investment directions with the greatest potential are *Energy Saving* and *Resource Conservation & Recycling*.

After analysing the existing major industries in each GBA city, the cities that have higher potential to develop *Ecological Protection and Climate Change Adaptation* related projects are Dongguan, Hong Kong, Huizhou, Jiangmen, Shenzhen and Zhaoqing.

Based on the analysis of the relevant enhancement and mitigation practices implemented in each city, the aspects of *Air Quality, Ecology Protection and Waste Management* receive high levels of support from the local government in several cities. *Emission Reductions* and *Rural Environmental Protection* receive less support, except in Guangzhou.

## Discussion

As shown in the above table, the green development described in the ODP covers all three main investment directions suggested in the Report – *Clean Transportation*, *Energy Saving* and *Resource Conservation and Recycling*. The ODP provides strategic directions for green development in the GBA, taking into consideration the area's geographical and environmental factors, as well as the characteristics of different industries. The Report also proposes individual development plans for each GBA city.

### *Clean Energy and Energy Saving*

The Report points out that due to the limited natural resources in the GBA cities, *Clean Energy* is regarded as the category with the least potential. Despite the limitations on developing renewable resources in the GBA, the ODP promotes the use of natural gas and renewable energy as far as practicable, suggests “progressively develop[ing] wind power resources, develop[ing] solar photovoltaic electricity generation and biomass energy” and “continuously increas[ing] the ratio of clean energy”. It also supports the development of nuclear power and the clean and efficient use of coal. In order to guarantee energy supplies and achieve emission reduction targets, the ODP proposes optimising the fuel mix to improve efficiency.

### *Clean Transportation*

“Expediting Infrastructural Connectivity” is a major development aspect, according to the ODP. With the aim of reducing travelling time between major cities within the GBA to one hour or less, a rapid transport network involving high-speed rail and inter-city railways will be a key part of the construction plan. These types of *Clean Transportation* facilities can significantly reduce carbon emissions and other pollutants associated with transportation.

### *Climate Resilience*

As a result of climate change, extreme weather is becoming more frequent. The entire southern China region will be affected. The Hong Kong Observatory has predicted that there will be more and stronger typhoons in the future. The ODP stresses the importance of improving water infrastructure, flood prevention and mitigation systems. It clearly lists the projects that need to be strengthened. Undoubtedly, these major projects will require a huge amount of investment.

## *Green Finance*

China has established various policies and standards for the development of green finance in order to support green industries. For example, the National Development and Reform Commission issued the “Green Industry Guidance Catalogue (2019 edition)” on 6 March 2019 to clarify the scope of different green industries. In 2018, the State Council executive meeting decided to launch five pilot zones to promote green finance in Guangdong and four other provinces. The People’s Bank of China and the China Securities Regulatory Commission issued “Guidelines for the Assessment and Certification of Green Bonds (Interim)” in 2017 to regulate green bond assessment and certification, and improve the quality of certification. In 2015, the Green Finance Committee of the China Society for Finance and Banking issued the “Green Bond Endorsed Project Catalogue (2015 edition)”. These policies and standards offer substantial tools for the realisation of the green development proposed in the ODP.

A considerable amount of funds will be required to complete the various green projects proposed in the ODP. In 2018, the total value of green bonds issued in Hong Kong was approximately US\$6.7 billion (i.e. around RMB 45 billion), a more than threefold increase over the US\$2.2 billion (i.e. approximately RMB 14.8 billion) in 2017. According to a study conducted by the “Green Finance team” of the Renmin University of China, the required capital investment for sustainable energy in China is estimated to be RMB 790.7 billion; the estimate for green transportation capital investment is RMB 560 billion; capital investment for other environmental protection facilities is estimated to be RMB 190.3 billion; and the estimation for industry pollution prevention and treatment is RMB 362.3 billion. These enormous numbers reflect the continuous growth of market demand.

## Conclusion and Recommendations

The ODP has given a clear direction for current and future cooperation and sustainable development in the GBA. According to the ODP, potential green investment areas include fuel mix for electricity generation, clean transportation, water infrastructure, upgrading of manufacturing industry, innovative environmental protection and low-carbon technologies, and ecological protection.

In addition, the ODP proposes vigorous development of special financial products and services, and supports the development of Hong Kong into a green financial hub for the GBA, and the establishment of an internationally recognised green bond certification institution. The advancement of sustainable financing requires the support of government, regulatory bodies, financial institutions, enterprises and investors; but it is also necessary to raise public awareness and gain public support. Governments and financial institutions should offer incentives to corporations and investors to promote sustainable financial markets.

As mentioned in the Report, in order to build a more sustainable GBA, the development of green projects is not enough in itself: the social component of sustainability is equally important. “Developing a quality living circle for living, working and travelling” is one of the goals articulated in the ODP. Investment projects related to sustainability will help enhance public services and develop a quality living environment. It is expected that more studies on the social sustainability of the GBA will be conducted in the near future, and that more opportunities will emerge in sustainable financing.

In addition to green finance, developers and investors will need to consider other special financial products such as social bonds and sustainability bonds when making investment decisions. These types of financial products will bring about additional positive social impacts and contribute to the sustainable development of the GBA.

## About HKQAA

Hong Kong Quality Assurance Agency (HKQAA) is a non-profit organisation established by Hong Kong Government in 1989. As one of the leading conformity organisations in the Asia-Pacific region, HKQAA is committed to providing certification and assessment services. Through knowledge sharing and technology transfer, HKQAA helps enterprises enhance management performance and competitiveness. Apart from introducing world-class management systems to Hong Kong, HKQAA has also developed a wide range of innovative services to cope with increasingly diversified market demands and the growing need for sustainable development, bringing benefits to the community.

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