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China's Great Green Grid by Laurence Brahm

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China is the world's greatest carbon-emitting nation, responsible for most of the greenhouse gases that are quickly destroying our planet. Some 70 percent of China's energy comes from coal. Hydropower and nuclear account for most of the remaining output, while renewable energy – mostly solar and wind – is a remarkably low 0.7 percent. That is not even 1 percent of the total.

The first response of an economist or businessman might be, "the market is too small, there is no possibility of solar and wind becoming significant power players. Market forces will rule and that means cheap coal." That is only a very short-term perspective, however.

In China, coal is cheap. The wind and solar industries are in recession. These are pure market issues. Solar and wind capacity remains small and issues remain concerning the quality of energy output and scale. Still, these obstacles are merely simple technical or technological issues that can be addressed through finance and investment. All these obstacles to the mass adaptation of renewable energy as a national priority can be seen as industrial opportunities.

While in the United States, research and development are struggling to get costs down, in China the sheer volume of production is achieving the same outcome because everything there occurs on a massive scale.

The truth is with a global recession teetering on depression, China needs a new economic stimulus. But with all its redundant roads and cement blocks, what is left to invest in? The answer is not another mortar and brick Great Wall, but the Great Grid.

First, China will need to undertake massive state investments into the conversion of China's grid from fossil fuel based to renewable energy. This will need to be funded by new green bond issues. This comprehensive grid conversion will create waves of jobs from the most senior engineers to the blue-collar workers in every province and region. The government will need to make a strategic decision to wipe out the coal industry altogether – this will have to be political. About 70 percent of China's coal comes from Inner Mongolia and the remaining 30 percent from Shannxi Province. This demands political will of the new leadership to placate the economic and business interests of these provinces, possibly through massive investments into wind energy (which Mongolia has a lot of). China is already the second largest owner of wind production assets in the US.

Second, industrial economic policies must encourage a new growth cycle in developing and manufacturing products that are energy efficient for consumers and also required for the production of renewable energy (solar panels and wind systems, everything needed for the new Great Grid). This will need to be encouraged through fiscal levers such as tax incentives and rebates. In 2012 China was already giving rebates to encourage consumers to purchase energy saving television sets. This is a repeat of China's export surge in the 1990s. Export incentive (rebates and tax reductions) will be needed to encourage Chinese energy efficiency exports (in all light manufacturing and electronic product sectors) to the rest of the world.

Third, the banking system and financial sector will need to take a leading role. On one level to provide favorable lending through "green credit" for low carbon developments in the property sector and on another for companies investing in renewable or energy efficiency products. It is not all about carbon trading, after all. Capital market regulatory authorities could favor the listing of energy efficient or renewable energy driven companies as fusion economics encourages policy guidance with the market, introducing new standards of stakeholder value.

Here is the twisted irony and potential business opportunity: renewable energy accounts for less than 1 percent of China's energy needs, while China now leads the world in both investment in renewable energy and production of renewable and energy efficiency systems. Cleaning up the environment and reducing the carbon footprint is in China's self-interest.

Global financial recession is already affecting China and the government fears an economic slowdown will breed social unrest. If it wishes to continue using its current growth model, then Beijing needs a new approach and green growth presents this opportunity. In the end it may be a question of political sustainability as well as economic opportunity. Just as the Great Wall proved the best defense for previous dynasties, the Great Grid may prove to be this government's best defense. For the rest of China, it is a business opportunity.

The ultimate power to reduce absolute carbon output in China lies with its leadership. The tools to achieve this are its regulatory and fiscal levers.

By 2012, China's banking sector sensed that a massive green financing opportunity was available and waiting to be seized. But it is not yet clear how this opportunity could be tapped. Government policies must await the leadership transition. But what the market wanted was clear. Chinese banks were not just interested in carbon trading, but how to finance low carbon buildings.

Enter the concept of a low-carbon, city financing mechanism. This is the response to the challenge of how to establish financing products and services for a host of interconnected urban services – both publicly and privately managed – from green energy transport buildings and waste treatment to a plethora of related products needed to make a city work. Imagine entire buildings where the glass windows are actually solar panels. As futuristic as it might sound, this is something China could accomplish.

The vision of a pilot program is underway. The Ministry of Construction has selected several test cities such as Suzhou, Hangzhou and even Baoding to become trial green cities during the coming five-year plan. The China Banking Regulatory Commission wants to come up with guidelines for financing.

For those outside the system, the edifice of growth and short-term profit seemed insurmountable. For us on the inside, China's economy has become very fragile. It needs massive financial and industrial reforms, driven with new products for each, and somehow to use massive stimulus to drive the economy. And a new green economy may prove the only way to do this.

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