

Insights into Emerging Economies

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Beyond the obvious

China, a new force in regional and global investment

By Wang Xieshu and Fanny Costes

In 2016, many expressed their concern (or satisfaction) about the moderate slowdown of Chinese growth in 2015. In earlier editions of our "Insights into Emerging Economies" series, we deplored such short-sighted reactions and their lack of analysis. Joël Ruet stressed that this slowdown could in fact signal "a change of strategy in a country that focused on the short term and which now seems to be wagering on the sustainability of its power through long-term investments, including at international level." He considered that China would thus be able to "make a more strategic use of its capital than it has done with its past overcapacities for production of low value-added goods".

This change of direction is reinforced by China's launch of the Asian Infrastructure Investment Bank (AIIB) and the bank's first months of operation. Officially set up a year ago, in December 2015, the first results of the AIIB clearly show the global interest it is arousing, and the stakes it holds for emergence and sustainable development. The AIIB marks not only the fact China is now adjusting its economic and strategic situation to match that of a new assumed power, but also signals a restructuring of global financial institutions.

A structure for regional economic integration

The creation of the AIIB and its first year of existence typify China's desire to enhance the broader regional economic environment. Apart from a few Asian countries such as Singapore and Malaysia, China's neighbours have in no way paralleled its development, and could indeed impair China's own future development plans, particularly when it comes to imports and exports.

For this reason, in 2013, President Xi Jinping announced the bank's creation "to support the process of interconnection and integration of the economic development in the region", by investing in infrastructure. This aim was recently evoked again by AIIB's current President and former Chinese Vice Finance Minister, Jin Liqun, during a forum organised by Peking University. While the pace of globalisation and regional integration has slowed down and lower growth has fuelled protectionism, the AIIB will promote regional connectivity and seek "inclusive" growth by including "marginalised" countries, he said.

This is a welcome message in a region where infrastructure is clearly a core issue. In a February 2016 report, the French MP Michel Destot noted, for example, that "only 31% of Cambodia's population and 52% of Myanmar's population have access to electricity. Transport infrastructure is also lacking, with only 20% of the road network paved, which restricts the development of other infrastructures". These needs "can be estimated at between 100 and 200 billion dollars a year over the next few decades." Not to mention the lack of infrastructure in South and Central Asia. In 2010, the World Bank estimated that 8 trillion dollars would be needed by 2020 solely for infrastructure in Asia.

The AIIB has been operating since January 2016, and its regional ambitions have already been confirmed. In June and then September, it approved its first six loans for a total of 829 million dollars. It is financing a habitat improvement programme in Indonesia, a road construction project and the Tarbela 5 Hydroelectric project in Pakistan, a road-upgrading project in Tajikistan, a project to improve electricity distribution in Bangladesh, and a power plant in Myanmar.

This Chinese-inspired financial institution is, however, already reaching out beyond Asia. "The Bank, seen initially as a strictly Chinese initiative, is now proving to be a more open and multilateral institution", Michel Destot pointed out in his report.

Anti-Americanism or multilateralisation?

For its first investments and depending on the project, the bank joined forces with the World Bank, the Asian Development Bank and the European Bank for Reconstruction and Development.

The AIIB's statutes and initial membership already reflected the bank's international ambitions. The 100-billion-dollar bank has opened up 25% of its capital to non-regional members – even 30% in the future – and China has agreed to limit its shareholding to 30%. Above all, it has very quickly attracted membership applications from countries worldwide. Today, there are some 60 members, including Asian states of course, but also African, Latin American and European countries, and Canada.

Yet, the AIIB's launch did initially raise concerns, particularly with the Americans and the Japanese, who broadly speaking are leading players in the management of the World Bank and the Asian Investment Bank respectively. In April 2015, former Treasury Secretary Larry Summers even commented: "This past month may be remembered as the moment the United States lost its role as underwriter of the global economic system." And it is true that the stature already attained by the AIIB, the share of capital held by states classed as emerging countries (29% by China, 8% by India, 6% by Russia) and the idea – not yet realised – of making investments in yuan or other local currencies rather than dollars, clearly highlights that change is afoot within the family of international financial institutions... a shift to multipolarisation.

While in some respects the AIIB may be seen as counterbalancing the United States' position, it is not shutting its doors to the Americans. A few days after Donald Trump's election to the presidency, Jin Liqun clearly dispelled any doubts on this count: "We cannot rule out the new government in the U.S. endorsing the AIIB or indicating interest to join as member", he said on 14 November.

It should be added that this multipolarisation merely reflects the new global economic and diplomatic order. For example, note that the ratification of the IMF's 2015 by the United States raised China to third place among the Fund's shareholders. China is thus clearly assuming its position of power and playing its part in global economic stabilisation and the rekindling of growth. Further evidence of China's newly assumed posture as a major power came in early September with the ratification of the Paris Agreement on the fight against climate change. Not to mention the position taken by Xi Jinping in Davos: "We must remain committed to developing global free trade and investment, and say no to protectionism", he commented, advocating an open global environment.

On the path to Chinese leadership in infrastructure investment

The AIIB is not only an international instrument with a regional mission. Its early developments show that it may soon extend its financing to other parts of the world such as Latin America or Africa, thus confirming China's wager of investing above all in infrastructure both domestically and beyond its borders.

The projects financed on the African and American continents in the past few years, like the recent implementation of China's grand "One Belt, One Road" plan with a dedicated fund of 40 billion dollars, have already placed China among the major players in infrastructure financing. With the AIIB, China is asserting its intention to provide global leadership. This is echoed in the words of President Jin Liqun in November 2016: "It is universally recognised that investing in infrastructure is a major ingredient in generating growth. China and other emerging Asian economies are proof of this."

The path China has embarked on was also indirectly welcomed by the World Bank in October, during a summit on finance organised in Singapore. Infrastructure investment could become "the new vector for growth and globalisation, as well as provide new revenue streams", suggested Joaquim Levy, World Bank Managing Director and Chief Financial Officer. All the more so given the joint commitment of more than 190 countries to combat climate change, which calls for the design and construction of infrastructure that is low-carbon and/or resilient to climate shocks.

It should be added that the need for infrastructure to stimulate new and sustainable growth is largely focused on developing countries. In this respect, the AIIB, alongside the BRICS bank launched two years

ago, could further strengthen the close ties forged with emerging countries and Africa, where it continues to expand its presence.

The AIIB's president has also recently indicated that his institution will soon begin to finance projects in Africa. "We expect that, in the near future, we could carry out our business in Africa, and could cooperate on the continent with the World Bank, the African Development Bank and the United Nations Industrial Development Organisation (UNIDO)", he said during UNIDO's 50th anniversary celebrations.

At the AIIB's annual meeting in June, Chinese Vice-Premier Zhang Gaoli stressed that "the AIIB belongs to all its members and aims to promote regional and worldwide common development." He also expressed the belief that the institution allowed emerging markets and developing countries to have more say in global economic governance. He then called for a new "comprehensive and strong" partnership between global institutions and for these to benefit from China's development.

By committing to investing in infrastructure via the AIIB, the new Silk Road Fund or the BRICS Bank (NDB), China is certainly asserting its national interests, but above all it is gradually turning into a global driver of emergence.

Perspective on... Chinese investment

Press Review



With “Ajira”, Kenya aims to create a million jobs in digital technologies

The Kenyan Government is determined to solve its youth employment problem. It has just launched a large-scale programme dubbed Ajira (“employment” in Swahili) to train young people on digital skills. The idea is to create a million jobs in digital technologies for young Kenyans, who are set to become on-line freelancers in a few months’ time. www.goo.gl/Mdd2Az

THE BRIDGE TANK TAKE

In fact, digital technologies help to create jobs and promote innovation with a positive social impact. Africa is the future new workshop of the world. It thus needs to develop innovation ecosystems encompassing incentives to promote the industry and training in new kinds of skills.



The tech solutions helping to improve livelihoods of African farmers

From fingerprint contracts to alternative insurance scoring, innovative technologies are being used to increase yields and income for smallholders. www.goo.gl/dSd2oG

THE BRIDGE TANK TAKE

The future of traditional sectors such as agriculture depends on their capacity to innovate, while taking account of local specificities. The Bridge Tank stresses the importance of training human and social capital (research), along with CITs and new technologies that can combine inclusive development, the fight against climate change and economic growth.



Tweet of The Climate Group

@ClimateGroup

Innovation & bold climate action from #RE100 members drives the cost of renewable power to a historic low

THE BRIDGE TANK TAKE

This year’s World Economic Forum at Davos foregrounded the importance of engaging the private sector in the fight against climate change. We are convinced that the energy transition can only be achieved if all public and private actors participate in the implementation of global agreements. The next step is that of national and regional regulations.

Focus on... Clean energy storage in the Global South

Pointers to Emerging Trends

Clean energy storage in the Global South



In the long green revolution that awaits countries worldwide, the Global South – with the emerging countries first in line – will be facing the double challenge of producing more energy while at the same time achieving carbon neutrality.

As we know, renewable energies are one of the tools that the Global South will have to take on board. Particularly well-endowed with sunshine or wind in the case of China and the coastal zones, the questions they face are thus above all technological and financial.

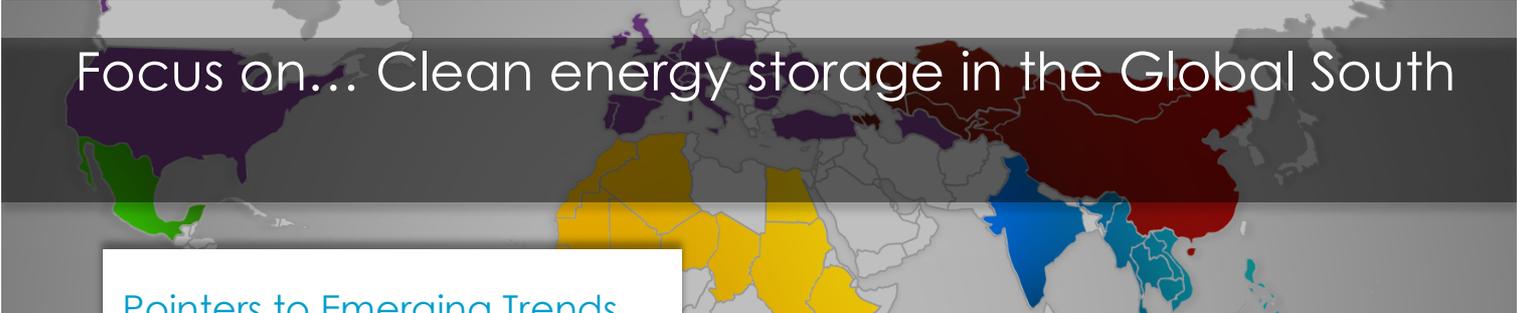
The very steep drop in production costs of kilowatt hours for photovoltaic and wind energies, in which China has played and will continue to play a key role, or the launch of interest groups such as the International Solar Alliance leave little doubt about the emerging countries' propensity to deploy decentralised renewable power.

Yet, intermittent by nature, renewable sources are unable to provide fully satisfactory responses in terms of demand, network stability, and returns on investment, if they are not coupled with storage solutions.

The recent development of projects in Morocco make this clear. Noor, Africa's largest solar power plant due for 2018, is based on concentrated solar power technology. This enables heat to be stored for two to three hours after sunset, as engineers promise, up to six hours for Noor II and Noor III now under construction. The plant will thus be able to power a million inhabitants during the evening, which is a peak time for demand.

Another project, this time a Franco-Moroccan pilot, Demostène has recently launched into an 18-month phase to test a system of electric cells that store surplus energy and inverters capable of ensuring production in the event of momentary power loss.

Focus on... Clean energy storage in the Global South



Pointers to Emerging Trends

Green hydrogen, a promising but still under-explored way forward

For the moment, there is only limited interest in hydrogen as a means of storing renewable energies in the Global South. This method nonetheless holds considerable promise.

As a reminder of how the process works: surplus electricity generated by solar panels or wind turbines is directly transmitted to an electrolyser that transforms it into hydrogen.

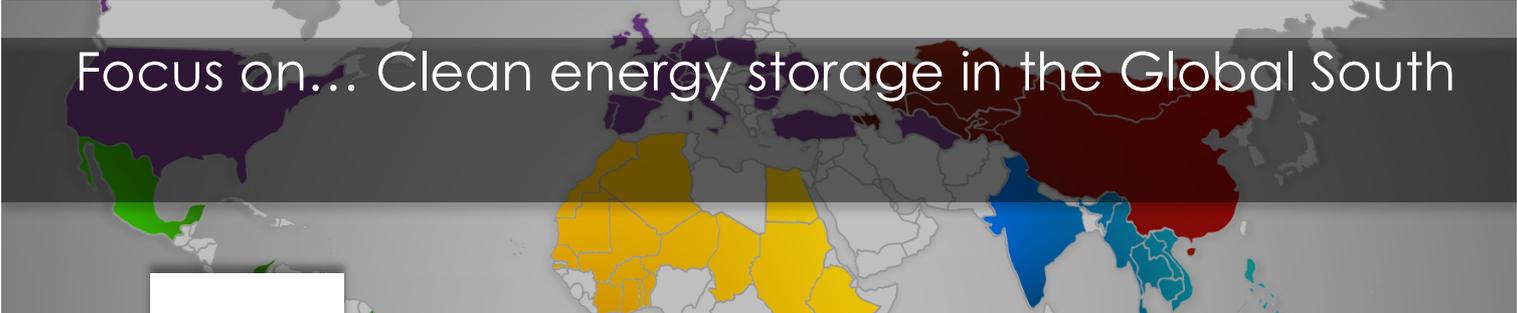
Today, research is making good headway in Europe and Japan to improve the efficiency of these processes and stabilise hydrogen, which is a particularly volatile gas.

Green hydrogen is clearly one of the solutions of the future: as Ademe (French Environment and Energy Management Agency) writes in its report of 16 February, "hydrogen produced from renewable resources can greatly contribute to a zero-carbon energy model. It can help to optimise a territory's energy resources, promote electromobility and the use of renewable energy". This opinion is clearly shared by the leaders of the energy, transport and industry sectors. In Davos, the Bridge Tank took part in the launch of the Hydrogen Council to support the deployment of hydrogen solutions.

The role of hydrogen is thus viewed by many as indispensable, but on a medium-term horizon. To be truly useful, energy mixes not only need to include from 40 to 50% of green electricity, but also the cost of electrolysers needs to decrease. On this count, Areva in France recently opened the country's first electrolyser plant.

This means that if India, the United States and China are to give real momentum to renewables, they will need to consider all types of storage solutions, starting with hydrogen. Once produced, the gas can be turned back into electricity, added to natural gas in the networks (known as power-to-gas), or power the fuel cells that have already given electric vehicles an autonomy of over 500 km. To our mind, the Global South countries would be advised to forge partnerships among themselves and/or with Global North countries to become equipped with cutting-edge technology tools. The scale of Chinese or Moroccan photovoltaic or wind power installations could also enable larger storage solutions to be tested, and doubtless help to reduce future costs.

Focus on... Clean energy storage in the Global South



In brief

Revisiting the COP 22 initiatives:

The World Alliance for Clean Technologies launched by Solar Impulse

“The Solar Impulse flight showed the world that it is possible to push the limits of technology in order to build the foundation for a sustainable future. By harnessing this and other innovative technologies, we can achieve the Sustainable Development Goals,” declared former United Nations Secretary General Ban Ki-moon following the launch of the World Alliance for Clean Technologies.

This Alliance seeks to highlight the importance of clean technologies worldwide. It defines clean technologies as “Any practical solution that allows to bridge the gap between ecology and economy. They are not limited to the production of renewable energy, but encompass technologies, systems, know-hows or processes that protect the environment, improve health, increase energy efficiency or save natural resources, while creating jobs, generating profit and sustaining growth.”

To reach this objective, the Alliance, funded by partners such as Covestro, Solvay and Nestlé Research as well as private donors, brings together start-ups, large companies, institutions and organisations that produce or support the use of clean technologies. The members of the Alliance aim to share their experiences on an ongoing basis and create synergies to help governments, companies and institutions reach their environmental objectives.

China sets priority on the energy transition

Faced with the recent pollution peak that paralysed economic activity in several sectors, China has begun to speed up its adoption of a carbon-free transition. The latest Five-Year Plan, published 5 January 2017 by China’s National Energy Administration, clearly displays this ambition.

Apart from reducing coal power in the energy mix, the Plan aims to devote additional investment of 344 billion euros (2,500 billion yuan) to renewable and nuclear energies by 2020. This will make it possible to reduce the dependence on non-fossil fuels and create 13 million jobs in the sector. This investment will also raise the installed capacity of solar power plants from 43 GW in 2015 to 110 GW by 2020, while the share of coal will be reduced from 62 to 58% over the same period.



News and Events

The Bridge Tank Voice

The Bridge Tank in the media

- «...One of the messages of the COP22 was the importance of innovations that can help fight climate change across sectors. There is one sector that seems to be leading the way by providing a diverse range of businesses with the tools needed to efficiently and effectively reduce emissions: information and communications technology (ICT). The statistics provide overwhelming support that ICT must play a critical role in reducing our carbon footprint in the future. Specifically, ICT has the potential to enable a 20% reduction in CO2 emissions by 2030.... » Our Take on the COP22 by Alessandro Bordoli, Joséphine Glorion & Sophia Semlali , The Bridge Tank, <http://thebridgetank.org/en/2016/12/05/our-take-on-the-cop22/>
- “The only way to construct an industrial approach that falls in line with the goal of limiting global warming to under 2°C is to look at the issue in a holistic manner. In the field of mobility it is important to focus on the breakthroughs that are going to take place, as well as to anticipate the innovations that will be necessary to enable such breakthroughs: they will be all the more important because the demand for mobility will continue to increase. Anticipation thus involves understanding and quantifying the needs upstream, which will make it possible to better comprehend the evolution of the industrial sector.” Talk by Catherine Girard, Expert Leader Renault-Nissan, at the Side Event organised by The Bridge Tank during COP22 on the theme of “Structuring new markets linked to climate change: South-South business models for Post-COP22”. <http://thebridgetank.org/en/2016/12/06/summary-of-side-event-structuring-new-markets-linked-to-climate-change-south-south-business-models-for-after-the-cop22/>

THE BRIDGE TANK TOUR

5 February 2017, Berlin: Workshop on “Key policy options for the G20 to support inclusive trade and investment” (<http://www.ictsd.org/themes/global-economic-governance/events/key-policy-options-for-the-g20-to-support-inclusive>)

23 to 25 February 2017, Bamako: 17th edition of the Forum de Bamako on the theme: “**L’Afrique face à la croissance urbaine : les défis et les enjeux.**”

28 February 2017, Berlin: Meeting of the Task Force of Climate Policy and Finance in Berlin (<http://doodle.com/poll/3akde5b84577xb4p>)

Read all the latest about THE BRIDGE TANK on <http://thebridgetank.org>