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Loss and Damage & Climate Finance War with China

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The most recent climate conference, COP27 in Sharm El Sheik, Egypt, offered little. Some were satisfied with acknowledging the Loss and Damage Fund, whose very presence on the agenda was an achievement in its own right; However, its discussion comes only after decades of lobbying by the Alliance of Small Island States and must yet result in something tangible. Once established, the relief fund should serve climate-vulnerable developing countries fighting the impact of natural disasters and weather stress. Moreover, it is meant to constitute legal financial obligations for countries recognized as responsible for climate change, therefore, bringing them closer to legal liability. This is a big thing, the final round of a 30-year fight with immense political consequences. But for whom?

Who are those responsible countries and to whom and how they should pay is yet to be discussed by the Transitional Committee before COP28 in Dubai, taking place at the end of this year. The “Who” now brings China and the Global North into conflict over climate finance. After years of attempting to escape financial responsibility for the world’s climate crisis, the North finally agreed – but under one condition. Other strong economies, especially China, should pay too.

Is this going to happen? By doing so, China would draw attention to its polluting emissions, acknowledge its climate change responsibility and lose the label of a developing country and the status-tied concessions. So no, it is not going to happen. And that means the “Who” now threatens the existence of the Loss and Damage Fund, which seems to depend on the North’s attitude towards China’s stance on the matter.

The responsibility game

China is one of the world’s biggest economies. Since 2006, it has also been the largest emitter of greenhouse gases, absolutely speaking (annually). Still, according to its non-membership in the OECD at

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the 1992 Rio Earth Summit that established the current United Nations climate regime, China is classified as a developing country. And as such, is protected by UN principles from climate change responsibility.

Aligned to the G77, a group of 134 low-income countries, China backed the establishment of the Loss and Damage Fund, yet with no intention of donating. A big part of the North (primarily the EU, the USA, and Canada) disagrees, feeling anxious about three-decade-old unchanging categories and historical emissions that are hard to remedy. Calling on emerging economies with immense financial power, the North attempts to enlarge global climate funding and establish a new sharing of responsibility. However, on which ground?



Frans Timmermans speaks with Xie Zhenhua, China's Special Envoy on Climate Change at COP 27 in Egypt. (Source: Flickr.com/unfccc)

Emissions can be calculated in several ways, but only one of them points to China. Both historical and per capita Chinese emissions are low. That's a fact. Consequently, critics assume that dragging China into the Loss and Damage Fund debate is a calculated move either to slow down the establishment of the fund or to weaken Chinese relationships with other developing countries. That could, after all, happen if the unfulfilled condition of Chinese participation wrecked the entire agreement, yet China knows how to secure its interests.

Not about money

Although the debate revolves around financing, at its core, it is not about money. True, Chinese contributions would promise substantial financial capital to operate with. Still, more importantly, it would acknowledge Chinese responsibility for the global climate side by side with the Global North, taking away the concessions China should – the North claims – no longer have. If it were just about money, there would be no need for this debate as China is fueling the South-South Cooperation Assistance Fund.

What makes the difference here is the word before the hyphen. While South-South cooperation is seen as voluntary and the donors as honorable, the UN Loss and Damage Fund (established as North-South) will be obligatory. The reasoning goes: the North is seen as responsible for global warming and, on top of that, developed enough to fund the Global South and the world's climate change mitigation and adaptation. How scary is that? To camouflage the debate as one about money, China stressed its South-South cooperation as its way of Loss and Damage participation which, however, cannot address the global climate responsibility issue.

A good image is part of the motivation. China's financial contributions through bilateral donations can gain much-obliged admirers that will look away from ambiguities such as renewable energy investment vs coal project construction, financing development projects in the South vs supporting local illiberal leaders, low domestic emissions per capita vs immense inequalities and poverty, and more. Although a pressing issue, at the UN the climate has somehow become a game of framing, and China is the champion. COP27 was not

without Chinese (and BASIC countries’) criticism of the North when pointing at its increased consumption of fossil fuels (also propelled by the Russo-Ukrainian War), double standards when calling on developing countries to phase out this source of energy, and bad leadership (or none) when backtracking on pledges and finance.

Stakes are high: All eyes on the North

The Loss and Damage Fund surely matters. Besides promising additional climate finance, it acknowledges the responsible ones and triggers a debate “if and when emerging economies can be promoted from their Global South status”.

From the perspectives of many developing countries, China is undoubtedly a part of the Global South, a developing country with concessions under Common But Differentiated Responsibilities, already doing enough given the voluntary and solidarity basis of South-to-South assistance. However, the Global North is a different story. And it would have trust-damaging consequences if it refused to participate like China. Therefore, the Northern countries should proceed with the Loss and Damage Fund to comfort developing countries and show the strong leadership that China claims is missing. Accepting their demands is the only way to rebuild mutual trust damaged by problematic and under-delivered financial pledges. The new pledge must avoid the problem of setting an unreal target. The EU must be straightforward with what the states are able to deliver, which should be accompanied by sound reasoning. The Chinese strategy of promising less but delivering more proved functional. The developed countries should do the same instead of going with the never-seen and somewhat random \$100-billion annual pledge.

The Chinese stance then rather does not matter. Although the North framed it as either/or, China would lose little if it didn’t participate – it is the North that may cause huge disappointment and jilted sentiment. But then again, complying with the Fund should not mean accepting possible Chinese manipulation. Clear-cut rules should be set and constructive debate on promoting emerging economies to the “North” status should be initiated. Based on the lessons learned from the Loss and Damage Fund, however, this will take decades. If only we had them...