

Socioeconomic determinants of China's growing CH₄ emissions

Abstract

Reducing CH₄ emissions is a major global challenge, owing to the world-wide rise in emissions and concentration of CH₄ in the atmosphere, especially in the past decade. China has been the greatest contributor to global anthropogenic CH₄ emissions for a long time, but current understanding towards its growing emissions is insufficient. This paper aims to link China's CH₄ emissions during 2005-2012 to their socioeconomic determinants by combining input-output models with structural decomposition analysis from both the consumption and income perspectives. Results show that changes in household consumption and income were the leading drivers of the CH₄ growth in China, while changes in efficiency remained the strongest factor offsetting CH₄ emissions. After 2007, with the global financial crisis and economic stimulus plans, embodied emissions from exports plunged but those from capital formation increased rapidly. The enabled emissions in employee compensation increased steadily over time, whereas emissions induced from firms' net surplus decreased gradually, reflecting the reform on income distribution. In addition, at the sectoral level, consumption and capital formation respectively were the greatest drivers of embodied CH₄ emission changes from agriculture and manufacturing, while employee compensation largely determined the enabled emission changes across all industrial sectors. The growth of CH₄ emissions in China was profoundly affected by the macroeconomic situation and the changes of economic structure. Examining economic drivers of anthropogenic CH₄ emissions can help formulate comprehensive mitigation policies and actions associated with economic production, supply and consumption.

Keywords: China's CH₄ emissions; Consumption-based accounting; Income-based accounting; Input-output analysis; Structural decomposition analysis

1 Introduction

China is one of the countries most vulnerable to the adverse impacts of climate change. However, it is also the largest CO₂ emitter in the world (Li et al., 2016). China's rapidly increasing CO₂ emissions have prompted the measures to address climate change and to achieve emission mitigation. The country's government has pledged to lower its CO₂ emissions per unit of GDP by 60-65% relative to the 2005 level and committed to peak its CO₂ emissions by around 2030. A series of energy and climate policies have been developed and implemented to ensure such mitigation targets. Nevertheless, most of these policies and actions have focused on the reduction of CO₂ emissions.

Methane (CH₄) is the second largest greenhouse gas (GHG) after CO₂, but is more active than the latter. For a time horizon of 20 years, CH₄ has greater short-term climate impacts than CO₂ with a Global Warming Potential 84 times larger than CO₂ (IPCC, 2014), while it is responsible for nearly one fifth of global warming (Montzka et al., 2011). In the recent decade, the atmospheric concentration of CH₄ has witnessed a disturbing surge (Saunois et al., 2016) to the extent that it has more than doubled compared with the level before the Industrial Revolution. The growth of CH₄ levels in the atmosphere has been largely driven by increasing emissions from human activities such as agricultural activities and fossil fuel extraction, and then mitigation of anthropogenic CH₄ emissions can generate direct effects on its atmospheric concentration (e.g., Ghosh et al., 2015; Nisbet et al., 2016).

China is the world's largest contributor of anthropogenic CH₄ emissions. To date, there are three national GHG inventories including CH₄ emissions reported by the Chinese government (CCDNDRC, 2017; Zhang et al., 2018a). According to the last official national GHG inventory, which was published in the first Biennial Update Report (BUR) on Climate Change submitted to the UNFCCC (CCDNDRC, 2017), China's total CH₄ emissions amounted to 55.9 Tg in 2012. Even by the lower GWP value of 21, this amount was equal to 1174 Mt CO₂-eq, much larger than the CO₂ emissions in some developed countries such as England and Japan. In view of the importance of CH₄ in the whole GHG emission inven-

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4 tories, China's significant CH₄ emissions have attracted considerable research in inventory
5 compilation and analysis over the last decade. Some researchers and international institu-
6 tions have published their own estimates for China's CH₄ emissions at the national scale
7 (e.g., USEPA, 2012; Yang et al., 2014; Zhang and Chen, 2014; Zhang et al., 2014; Peng
8 et al., 2016; Janssens-Maenhout et al. 2017). All unanimously reported that China's CH₄
9 emissions had witnessed dramatic increases over the past three decades (Zhang, 2011; Peng
10 et al., 2016). Recently, the EDGAR database provided a consistent series of China's CH₄
11 emissions inventory covering 1970-2012 (EDGAR, 2017). Existing emission inventories have
12 identified the surge in livestock, energy and waste-related CH₄ emissions in China, especially
13 since 2005, as well as how this fast growing trend is unlikely to be reversed in the near pe-
14 riods (Yao et al., 2016). Given the severe challenges that increasing CH₄ emissions poses in
15 mitigating GHG emissions, more attention should be paid to understanding and quantifying
16 China's CH₄ emissions and to propose potential mitigation measures.
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32 In China, CH₄ emissions are directly related to economic production such as energy
33 extraction and supply (Zhang et al., 2014), rice cultivation and livestock farming (Wang et
34 al., 2017b), and waste management services (Du et al., 2017, 2018b). Besides mitigating
35 CH₄ emissions on the production side, it is essential to understand the role of socioeconomic
36 activities in anthropogenic emissions and reveal the opportunities available for mitigation
37 (Zhang et al., 2015; Zhou et al., 2018). It is widely acknowledged that resource extraction and
38 environmental emissions are induced by final consumption demand (Liu et al., 2010; Wu and
39 Chen, 2017; Tang et al., 2018). Environmentally extended input-output analysis (EEIOA)
40 facilitates a deeper appreciation of sector-specific direct/visible and indirect/hidden emission
41 requirements (Miller and Blair, 2009). By using the Leontief demand-driven input-output
42 models, a series of studies have been performed to measure consumption-based accounting
43 of GHG emissions at different scales (Feng et al., 2015; Hawkins et al., 2015). An increasing
44 amount of literature has focused on China's CO₂ emissions embodied in final consumption
45 and international trade (e.g., Chen and Zhang, 2010; Feng et al., 2012; Yuan et al., 2018).
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4 Particularly, Zhang and his colleagues (Zhang and Chen, 2010; Zhang et al., 2015, 2018a)
5 have conducted a series of studies on the embodiment analysis of CH₄ emissions in China.
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7 Environmental emissions can also be driven by primary inputs. Higher income translates to
8 higher consumption capacity and greater demands for environmental resource inputs. The
9 Ghosh supply-push input-output model can capture the linkages of value-added with primary
10 inputs, which has been used to estimate the enabled emissions of CO₂ and air pollutants
11 driven by the value added using the income-based accounting method (e.g., Liu et al., 2010;
12 Zhang, 2010; Marques et al., 2013; Liang et al., 2016a,b; Liu and Fan, 2017). Furthermore,
13 the method of structural decomposition analysis (SDA) enables researchers to examine the
14 driving forces of resources, emissions and other physical quantities (e.g., Hoekstra and Van
15 Den Bergh, 2002; Su and Ang, 2012, 2017; Arto and Dietzenbacher, 2014; Malik et al., 2016;
16 Deng and Xu, 2017; Wang et al., 2017a). By using this method, energy, air pollutants and
17 carbon emissions in China have been widely analyzed (e.g., Kagawa and Inamura, 2004;
18 Peters et al., 2007; Guan et al., 2008, 2009, 2014; Zhang, 2009; Xu et al., 2011; Zhang and
19 Qi, 2011; Feng et al., 2012, 2017; Xie, 2014; Zeng et al., 2014; Deng et al., 2016; Yuan and
20 Zhao, 2016; Jiao et al., 2017; Liu and Liang, 2017; Mi et al., 2017a, 2017b; Shi et al., 2017;
21 Wei et al., 2017; Zhao et al., 2017; Du et al., 2018a; Zhang et al., 2018b). Despite of the
22 existing literature on GHG emissions accounting, the current understanding of China's CH₄
23 emissions from both consumption- and income-based perspectives is insufficient.
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26 Exploring and explaining the socio-economic drivers behind China's growing anthro-
27 pogenic CH₄ emissions is of critical importance for three reasons. First, China has not only
28 been the largest CH₄ emitter in the world, its level of emissions has also increased constantly.
29 Identifying major emission drivers provides guidance on further mitigation. Second and more
30 importantly, the world-wide rise in CH₄ emissions over the last decade is poorly understood.
31 Unlike CO₂ emissions, there is an ongoing dispute over the determinants of the surging at-
32 mospheric CH₄. Various sources have been suggested to be responsible for this increase,
33 such as agricultural activities in Asia (Schaefer et al., 2016), feedback effects from tropical
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4 wetlands (Nisbet et al., 2016), and declines in hydroxyl radicals (Turner et al., 2017), yet
5 no consensus has been reached. Surprisingly, explaining CH₄ emission growth with socio-
6 economic factors barely draws any attention from researchers, even though atmospheric CH₄
7 is closely associated with human activities. Third, CH₄ monitoring is especially inadequate.
8 Although some developed countries have refined their CH₄ measurement equipment to mon-
9 itor emissions from various sources, upgrading to better equipment for monitoring individual
10 sources is costly for developing countries. Therefore, analyzing the socio-economic drivers of
11 CH₄ emissions and their corresponding mitigation potentials is not only meaningful but is
12 also a practical option for most developing countries with limited resources.
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23 This paper aims to shed light on the issue of China’s anthropogenic CH₄ emissions, and
24 explore the socioeconomic determinants of its growing emissions from 2005 (the baseline for
25 China’s emission reduction commitment) to 2012 based on the EEIOA and SDA methods.
26 Key sectors and driving forces for embodied and enabled CH₄ emissions in China are identi-
27 fied by using income-based accounting and consumption-based accounting, where the former
28 involves a supply-side SDA and the latter a demand-side SDA. The main contribution of our
29 work is to reveal the supply- and demand-side impacts on anthropogenic CH₄ emissions aris-
30 ing from structural changes in the economy. Finally, we discuss the development of emission
31 trend and future mitigation policies, especially in the economic “new normal”.
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44 **2 Methodology and data sources**

45 **2.1 Consumption-based accounting and structural decomposition** 46 **analysis** 47

48 Consumption-based accounting covers the embodied CH₄ emissions caused by final demand
49 (e.g., rural and urban consumption, government consumption, investment and export) and
50 relocates the emission responsibility to final consumers. Performing structural decomposi-
51 tion on embodied emissions can provide a comprehensive understanding towards the socioe-
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4 conomic determinants of CH₄ emissions from the demand side. According to the principle
5 of EEIOA model, e denotes a row vector of sector-level CH₄ emissions and x denotes the
6 sector-level output vector, the CH₄ emissions embodied in final demand, u , can be calculated
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$$10 \quad u = (e'\hat{x}^{-1})(I - Z\hat{x}^{-1})^{-1}\hat{y} \quad (1)$$

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12 where Z is the inter-sectoral transaction matrix denoting the monetary relationship among
13 different sectors of the economy; y is the vector of final demand for each sector; and the
14 operator $\hat{\cdot}$ represents a diagonalizing matrix. The term $e'\hat{x}^{-1}$ stands for a vector of sector-
15 level CH₄ emission intensities, and $(I - Z\hat{x}^{-1})^{-1}$ is the Leontief inverse matrix. Since y
16 represents the final demand, $(I - Z\hat{x}^{-1})^{-1}\hat{y}$ can be interpreted as the inputs from each sector
17 to produce the final demand. Thereafter, embodied CH₄ emissions induced by any given
18 final demand category such as consumption, can be obtained through Equation (1).
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21 We consider five factors, i.e. population, production efficiency, production input struc-
22 ture, consumption structure and absolute consumption volume, for analyzing the deter-
23 minants of embodied CH₄ emissions. Consequently, the CH₄ emissions embodied in final
24 demand can be decomposed into five terms by rewriting Equation (1) into:
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$$30 \quad u = F \times L \times \hat{p} \times \hat{y}_s \times \hat{y}_v \quad (2)$$

31 where $F = e'\hat{x}^{-1}$ is the emission intensity which represents production efficiency, and
32 $L = (I - Z\hat{x}^{-1})^{-1}$ represents the linkage between final demand and total output, therefore
33 suggesting the production input structure of the economy. The final demand is decomposed
34 into three terms $y = \hat{p} \times \hat{y}_s \times \hat{y}_v$. Here p is a scalar denoting total population; y_s represents
35 per capita consumption patterns; and y_v stands for per capita consumption of each final
36 demand category.
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Performing a structural decomposition analysis on Equation (2) yields:

$$\begin{aligned} \Delta u = & \Delta F \times L \times \hat{p} \times \hat{y}_s \times \hat{y}_v + F \times \Delta L \times \hat{p} \times \hat{y}_s \times \hat{y}_v + F \times L \times \Delta \hat{p} \times \hat{y}_s \times \hat{y}_v \\ & + F \times L \times \hat{p} \times \Delta \hat{y}_s \times \hat{y}_v + F \times L \times \hat{p} \times \hat{y}_s \times \Delta \hat{y}_v \end{aligned} \quad (3)$$

where Δx denotes the change in x . Each of the five components with Δx in the right hand side of the equation represents the contribution to CH₄ emission changes triggered from the changes of x , where all other components remain constant.

The structural decomposition analysis on the input-output model is subject to the non-uniqueness problem since there are 120 alternatives for any decomposition with 5 factors. To address this issue, we follow Dietzenbacher and Los (1998) and Hoekstra and Van Den Bergh (2002) to use the average of all possible first-order decomposition alternatives as the contribution of each component.

2.2 Income-based accounting and structural decomposition analysis

Income-based accounting evaluates the downstream CH₄ emissions enabled by primary inputs (e.g., supplies of labor forces and capital), which accounts for the emissions embodied in the value-added chain. Besides the demand function, the value-added function can be employed to capture the functioning of the EEIOA model from the perspective of income-based accounting. The value-added enabled emissions can be measured as

$$d = \hat{v}(I^{-1} - \hat{x}^{-1}Z)^{-1}(\hat{x}^{-1}e) \quad (4)$$

where v is the vector of value-added, and $(I^{-1} - \hat{x}^{-1}Z)^{-1}$ is the Ghosh inverse matrix that links value-added with primary inputs. Therefore, the right-hand side of Equation (4) amounts to the enabled CH₄ emissions triggered by intermediate input demand.

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4 Because the difference between consumption-based and income-based measure is the emis-
5 sion induced by either final demand or intermediate input demand, the quantity of gross
6 emissions remains unchanged, i.e. $\sum e_i = \sum u_i = \sum d_i$.
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10 The structural decomposition on enabled emissions can further identify the socioeco-
11 nomic determinants of China's increasing CH₄ emissions from the supply side. Similarly,
12 we decompose the income-based measure into five terms in terms of total population, per
13 capita income, the input structure, production output structure and production efficiency,
14 as follows
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$$20 \quad d = \hat{p} \times \hat{v}_s \times \hat{v}_d \times G \times F \quad (5)$$

21 where $G = (I^{-1} - \hat{x}^{-1}Z)^{-1}$ and $\hat{v} = \hat{p} \times \hat{v}_s \times \hat{v}_d$. The scalar p again denotes total population;
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24 v_s stands for the input structure vector, whose element v_{s_i} indicates the share of sector i 's
25 inputs to gross income; v_d stands for per capita income; the matrix G denotes production
26 output structure; and F represents production efficiency.
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32 The structural decomposition form of Equation (5) can be written as:
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$$35 \quad \Delta d = \Delta \hat{p} \times \hat{v}_s \times \hat{v}_d \times G \times F + \hat{p} \times \Delta \hat{v}_s \times \hat{v}_d \times G \times F + \hat{p} \times \hat{v}_s \times \Delta \hat{v}_d \times G \times F \\ 36 \quad + \hat{p} \times \hat{v}_s \times \hat{v}_d \times \Delta G \times F + \hat{p} \times \hat{v}_s \times \hat{v}_d \times G \times \Delta F \quad (6)$$

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42 We use the same approach by calculating the average of all possible first-order decompo-
43 sitions to tackle with the non-uniqueness problem.
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48 2.3 Data sources

49 The empirical design involves two kinds of dataset: time-series input-output tables and
50 sector-level CH₄ emissions. We obtain the deflated national IO tables for 2005, 2007, 2010
51 and 2012 from Mi et al. (2017a). They employed double deflation method to deflate the
52 input-output tables. More specifically, they used price indices from China Statistical Year-
53 book to deflate input-output tables. The real value-added was calculated by the difference
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4 between real output and real intermediate inputs to balance the IO tables. Based on the
5 deflated results, all the data of input-output tables were aggregated into 20 economic sec-
6 tors. Sectoral aggregation provides the convenience of presenting and analyzing empirical
7 results, meanwhile it has limited impacts on our decompositions, because CH₄ emissions
8 are largely concentrated in three sectors (Agriculture, Mining and Other service), and little
9 heterogeneity exists among the merged sectors. Detailed procedures to illustrate the compi-
10 lation process of the input-output tables at 2012 constant prices can be referred to Mi et al.
11 (2017a).
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21 In this study, the inventories of China's anthropogenic CH₄ emissions from the EDGAR
22 4.3.2 database (EDGAR, 2017; Janssens-Maenhout et al., 2017) are adopted directly. The
23 time-series emission inventories make it possible for a more systematic study on China's
24 CH₄ emissions via the methods of EEIOA and SDA with more strength consistency. We
25 use the time series CH₄ inventories from the EDGAR database to link the industrial sectors
26 of input-output tables directly. The emissions of CH₄ originate from a wide variety of
27 anthropogenic sources, including enteric fermentation, manure management, rice cultivation,
28 coal mining, oil and gas system leakage, fuel combustion, landfills, wastewater treatment,
29 etc. The EDGAR database reports China's detailed CH₄ emissions for more than 80 sources.
30 We merge them into related economic sectors and obtain the sector-level CH₄ emissions.
31 It is worth noting that the uncertainties of input-output analysis can be affected by the
32 accuracy of emission data, especially for developing countries with limited official national
33 GHG inventories. Authoritative time-series inventories of GHG emissions at the national
34 level in the future will improve the performance of EEIOA and SDA models and reduce the
35 uncertainties.
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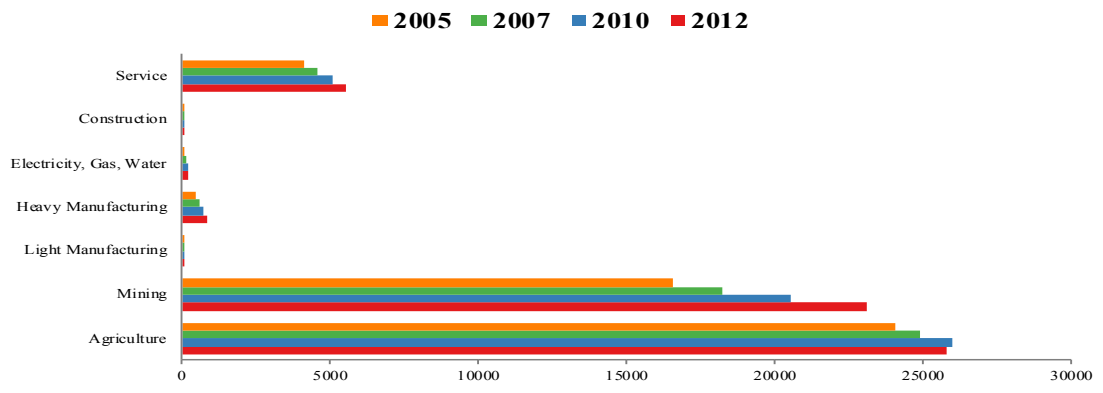
3 Results

3.1 Direct and indirect CH₄ emission features

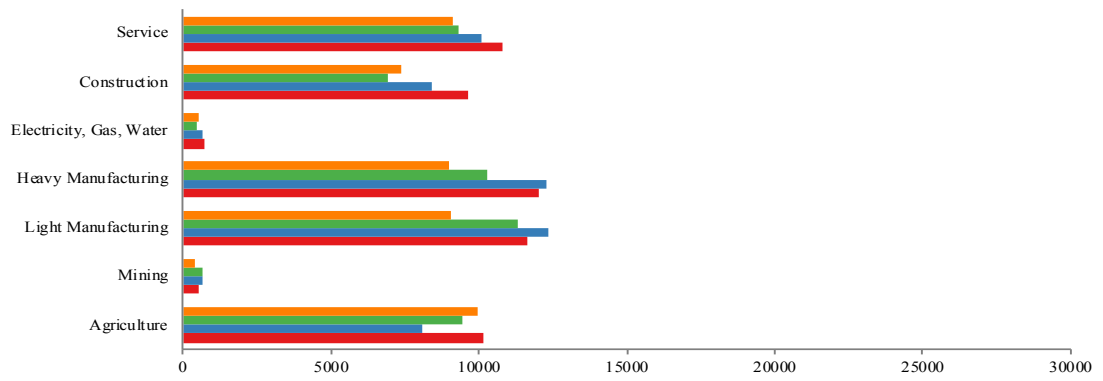
In Figure 1, we employ production-based, consumption-based and income-based accounting to quantitatively analyze the dynamics of CH₄ emissions in different sectors. The 13 manufacturing sectors are classified into light and heavy industry sectors for the convenience of presenting the dynamic patterns. The aggregate CH₄ emissions were 45370 Gg in 2005 and grew to 55440 Gg in 2012. Agriculture was the greatest direct contributor to CH₄ emissions, accounting for 47% of national emissions in 2012, although its emissions grew at a moderate rate (7%). Mining was the second largest CH₄ direct emitter, whose emissions grew nearly 40% (from 16576 Gg to 20371 Gg) over the same period. Another important contributor was the service sector, and its direct emissions grew steadily from 3858 Gg to 5020 Gg. These three sectors altogether accounted for 97% of the total national emissions. Other sectors had negligible direct CH₄ emissions.

For consumption-based accounting, the contribution of Agriculture was significantly smaller, only accounting for 18% of the total emissions in 2012. More than half of the emissions from this sector are transferred to the production processes of Light Manufacturing and Service as primary material inputs, which highlights the crucial role of Agriculture in providing food, fiber and other plant or animal products for the intermediate use in other industrial sectors. The contribution of Mining decreased to almost zero, suggesting that the Mining sector was more important as a direct emitter of CH₄ emissions than final consumer that induced upstream emissions. Meanwhile, the Manufacturing sectors claimed to be the largest contributor of consumption-based emissions, accounting for 43% of the total emissions in 2012. For both heavy and light manufacturing sectors, their embodied emissions experienced dramatic increase from 2005 to 2010 and slightly decreased in 2012. The production processes of manufacturing required CH₄-intensive intermediate inputs from the Agriculture and Mining sectors. Construction was another major embodied CH₄ emission

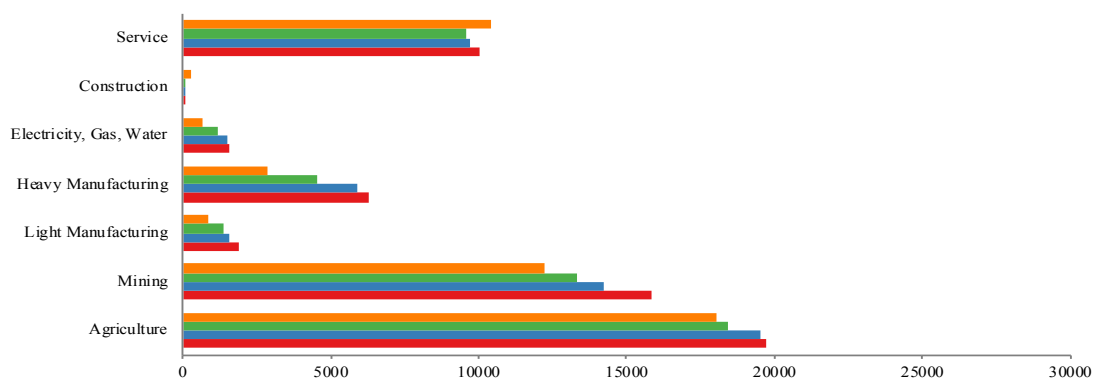
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(a) Production-based CH₄ emissions (Gg)



(b) Consumption-based CH₄ emissions (Gg)



(c) Income-based CH₄ emissions (Gg)

Figure 1: Direct, embodied and enabled CH₄ emissions of 7 general sectors

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4 sector. It can be explicated that construction sector has high demand for cement, steel,
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6 wood and other building materials, which incurs large indirect CH₄ emissions.
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9 In terms of income-based accounting, Agriculture regained its dominant role as a major
10 CH₄ emitter, despite that it contributed less to total enabled emissions compared with its
11 direct emissions. Furthermore, the two different emission measures for Agriculture shared
12 similar moderate growth trends. Mining also remained the second largest income-based
13 emission sector and grew at a steady rate from 12220 Gg to 15850 Gg. Although the
14 enabled emissions of Manufacturing sectors were increasing over time, their contribution
15 to aggregate income-based emissions was significantly smaller than the consumption-based
16 emissions, suggesting the CH₄ emissions of manufacturing sectors were mainly incurred by
17 final demands instead of intermediate inputs. For the Construction sector, it had negligible
18 income-based emissions. This again emphasizes the role of construction sector as a final
19 consumer instead of primary supplier. No matter what accounting approaches are used,
20 the Service sector accounted for 10% to 20% of the national total enabled or embodied
21 emissions, indicating that Service played equally important roles as primary suppliers and
22 final consumers.
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38 Overall, Figure 1 not only displays the constantly increasing trend of CH₄ emissions in
39 China, but also highlights the sharp distinction in consumption- and income-based measures,
40 which further underlines the importance of conducting decomposition analysis from both
41 demand and supply sides.
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48 **3.2 Structural changes in consumption-based CH₄ emissions**

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51 Figure 2 presents the determinants of consumption-based emission changes. The aggregate
52 CH₄ emissions increased more than 20% from 2005 to 2012, with an annual growth rate
53 about 3%. The greatest driver of this aggregate emission change was the change in per
54 capita consumption, which increased emissions almost 50% during the study period. China
55 kept a rapid economic growth rate with an annual average at 10.7%, and national house-
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hold consumption grew even more aggressively, i.e. 150% from 2005 to 2012. This surging residential consumption drove up embodied emissions in two ways. On the one hand, the increasing food consumption boosted the growth of CH₄ emissions since Agriculture was the major CH₄ direct emitter. On the other hand, the consumption of other commodities and services also escalated the growth rate of CH₄ emissions, because production of other commodities required intermediate inputs from direct CH₄-intensive sectors (i.e. Agriculture and Mining).

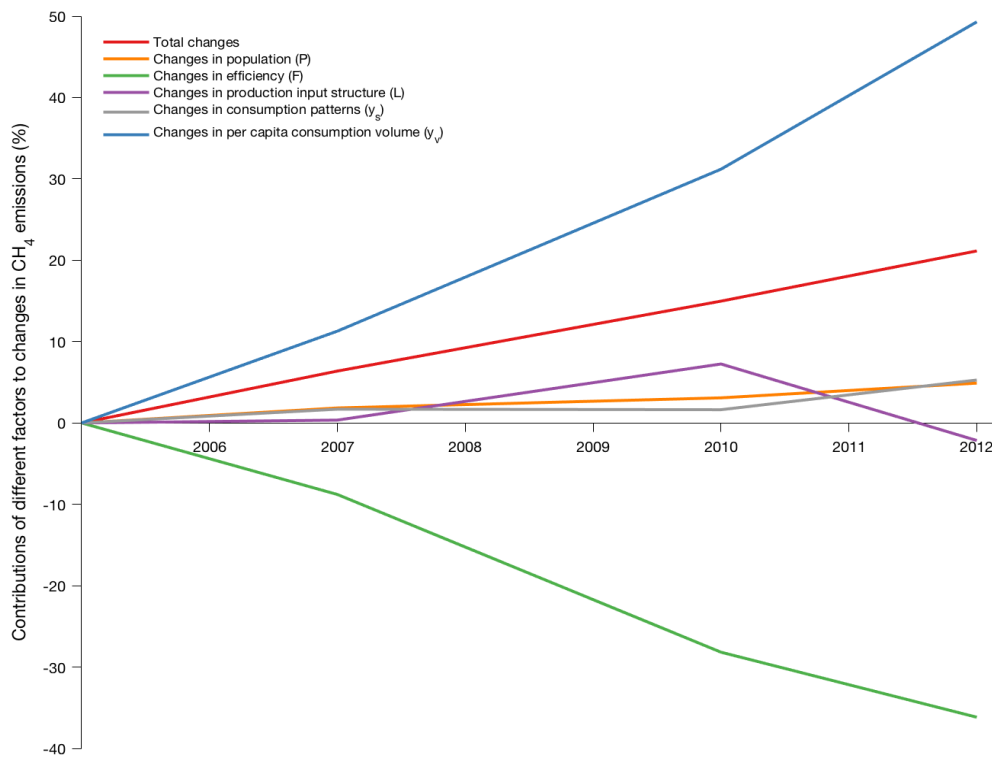


Figure 2: Contributions of different factors to changes in embodied CH₄ emissions

Meanwhile, the efficiency gains offset a large magnitude of CH₄ emission growth (about 35%). Technology progress significantly increased productivity, which suggests firms were able to use fewer inputs to produce the same amount of outputs, therefore inducing fewer CH₄ emissions. Other factors were less important in driving the emission growth. Population changes only increased 5% of CH₄ emissions from 2005 to 2012. The impacts of production input structure on the emission growth were increasing until 2010. After that, its impacts

diminished to negative in 2012. This structural change coincided with the “new normal” period during which China put more emphasis on transforming economic development mode and restructuring the economy for balanced and sustainable development. Furthermore, for the consumption structure, it increased at a rather small rate before 2010 and then at a faster pace, reflecting the shift in household consumption towards more CH₄ intensive goods.

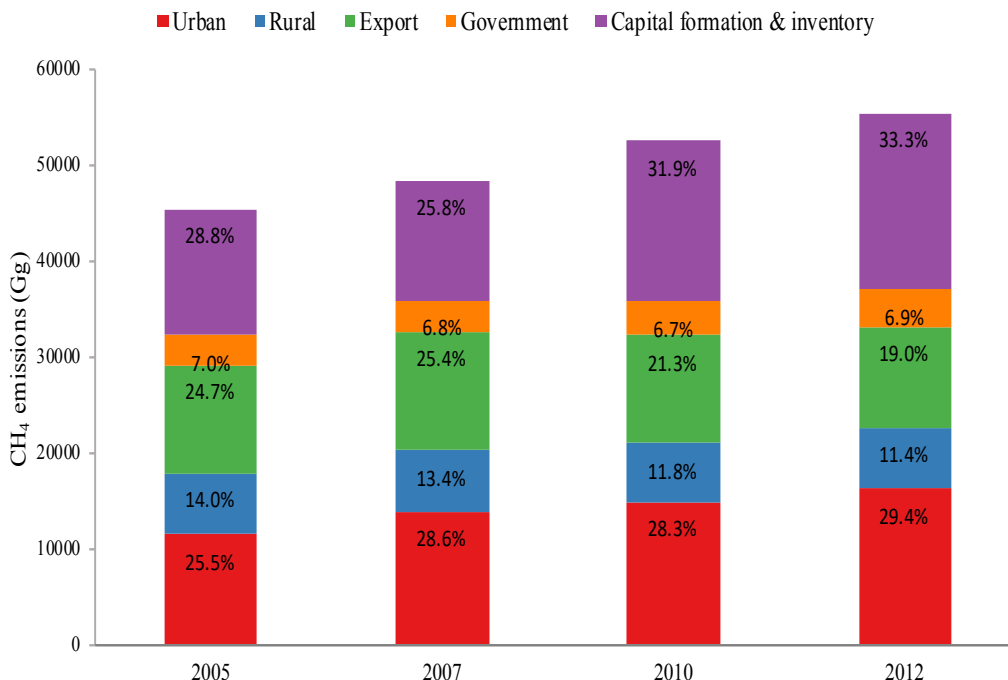


Figure 3: Embodied CH₄ emissions induced by final demand

To present more detailed descriptions on the forces behind the dynamics of embodied CH₄ emissions, we decompose them into five different final users in the perspective of consumption-based accounting, as displayed in Figure 3. The contribution of urban household consumption was increasing from 25.5% in 2005 to 29.4% in 2012, while the contribution of rural household consumption was decreasing over time. This is consistent with the urbanization process of China. From 2005 to 2012, the ratio of urban population to the total population increased 22%, and the ratio of rural population decreased 17% (NBSC, 2013). The share of CH₄ emissions induced by export also decreased after 2007. This decline can be attributed to two reasons. First, the global financial crisis sharply decreased China’s export

volume after 2007, hereby dragging down embodied CH₄ emissions. Second, to deal with the dramatic decline in exports, the Chinese government adjust export structure by reducing the exports of farm products and minerals, and increasing manufactured goods. This structural change leads to decrease in the embodied CH₄ emission intensity of exporting goods. Meanwhile, the contribution of capital formation increased dramatically after 2007 and became the greatest contributor hereafter, coinciding with the national economic stimulus plan during the financial crisis to maintain the economic growth. The four trillion investments were mainly made on infrastructure construction, which incurred higher demands for CH₄-intensive intermediate inputs. As for government consumption, it accounted for only 7% of CH₄ emissions and remained quite stable during the sample period.

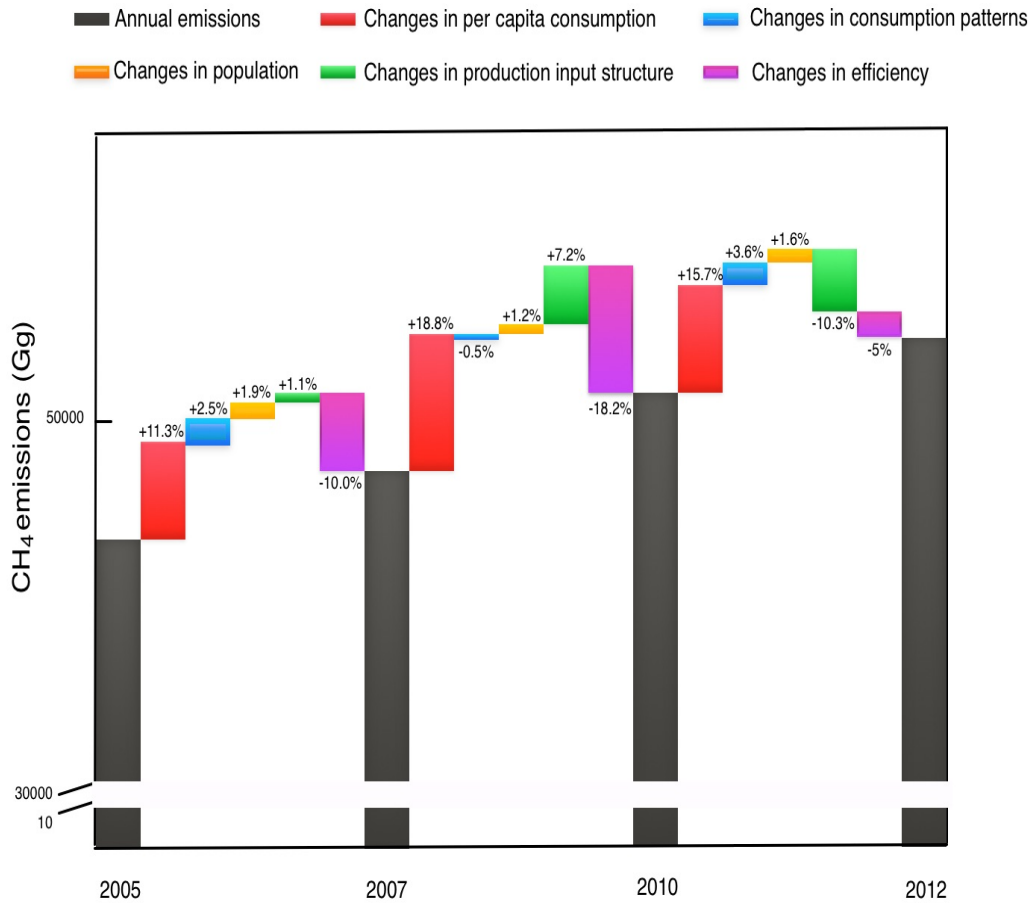
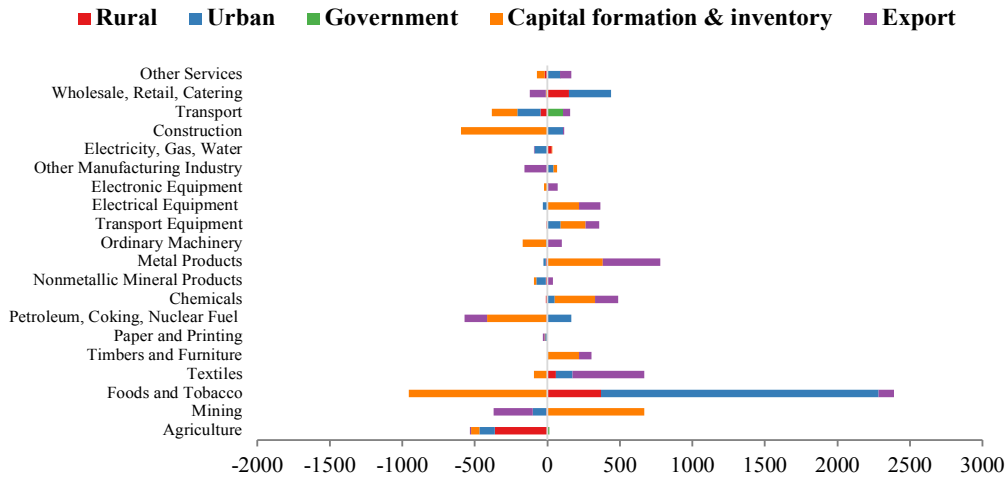


Figure 4: Fluctuations of the contributions of different factors to embodied CH₄ emissions

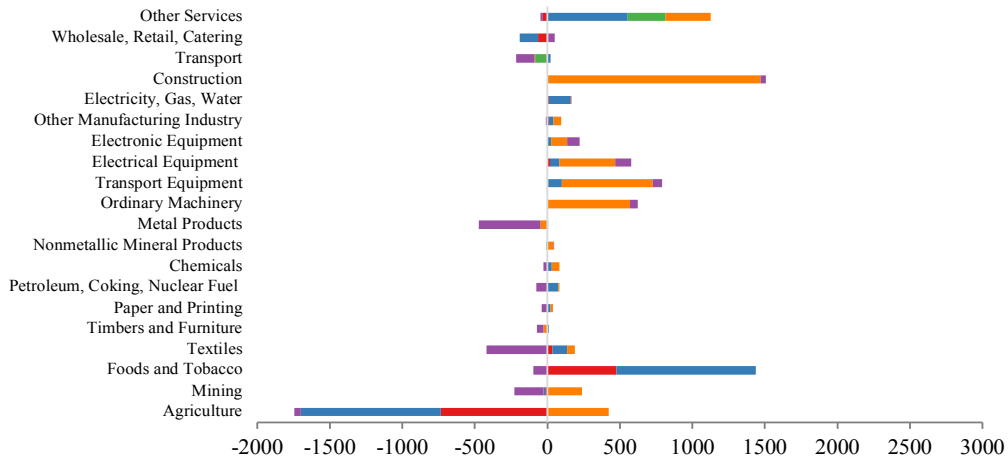
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4 Although the changes in those determinants varied greatly over time, the CH₄ emissions of
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6 China kept a stable growth rate. Figure 4 displays how the changes in the five components
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8 led to the observed CH₄ emissions. Efficiency change was the major driver of offsetting
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10 CH₄ emissions, but the advantage of efficiency improvement decreased suddenly after 2010,
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12 reflecting the slowdown of productivity growth. Consistent with the economic stimulus plan
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14 of expanding domestic demand, the growth rate of CH₄ emissions induced by per capita
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16 consumption reach its peak in 2010 and then decreased marginally. A startling change was
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18 the contribution of production input structure after 2010. It remained increasing until that
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20 time but suddenly jumped to negative. As aforementioned, this was the result of economic
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22 restructuring. The growth rates of the contribution from consumption patterns experienced
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24 ups and downs as well but at a more moderate rate.
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28 Employing structural decomposition, we next examine CH₄ emission changes by sectors in
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30 the perspective of consumption. As presented in Figure 5, the Agriculture sector experienced
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32 notable changes: its consumption-based emissions witnessed a steady decline during 2005-
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34 2010 which decreased from 9950 Gg in 2005 to 8110 Gg in 2010, followed by a sharp increase
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36 to 10180 Gg in 2012. The sharp decrease during 2007-2010 was mainly driven by the declines
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38 of urban and rural consumption, due to the global financial crisis and economic downturn,
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40 while the considerable increase during 2010-2012 could be attributed to the reform of income
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42 distribution which promoted urban and rural consumption. For most manufacturing sectors,
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44 capital formation was the major driver of embodied emission changes before 2010. Capital
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46 formation actually significantly drove up almost all sectors' emissions from 2007 to 2010.
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48 This coincides with the economic stimulus plan that focused on fixed-asset investments and
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50 infrastructure. However, after 2010, the contribution from capital formation became much
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52 smaller, except for the Construction sector whose products are counted as fixed assets. This
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54 decrease again reflects the economic structure shifting from investment-driven economy to
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56 consumption-driven economy. Contrary to the trend of Agriculture, the embodied emissions
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58 from the Foods and tobacco sector increased significantly from 2005 to 2010, and decreased
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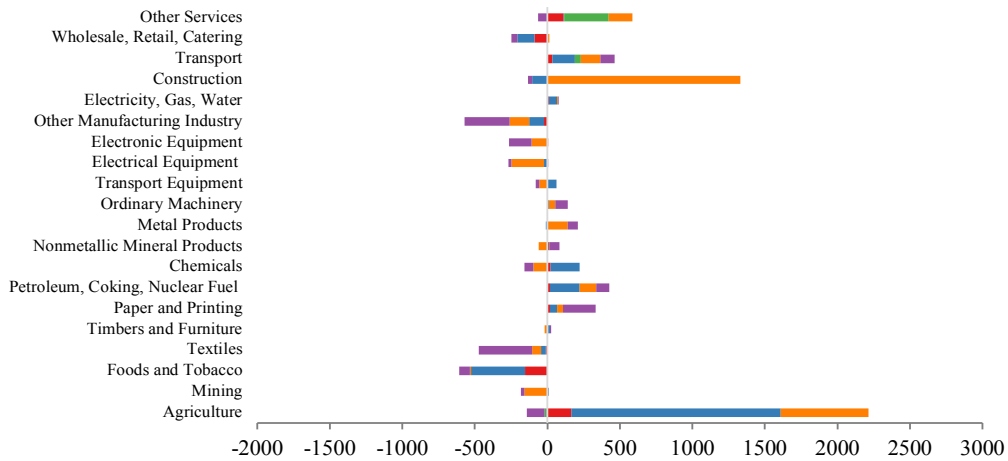
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(a) Changes from 2005 to 2007 (Gg)



(b) Changes from 2007 to 2010 (Gg)



(c) Changes from 2010 to 2012 (Gg)

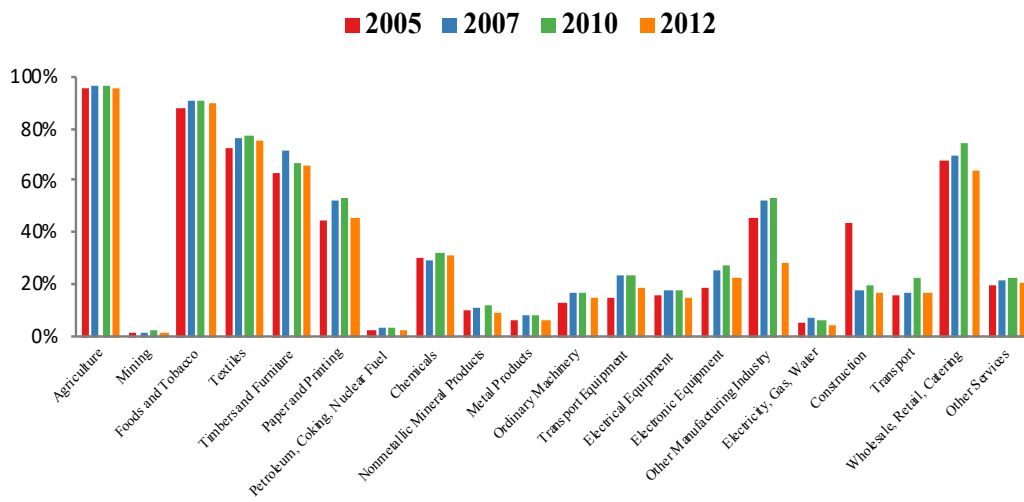
Figure 5: Contributions of different sectors to embodied CH₄ emissions

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4 about 8% after 2010, which were mainly led by urban and rural consumption changes.
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6 The role of export is also significant. Before the financial crisis, it increased embodied
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8 emissions of China's major export sectors, e.g. Textiles, Chemicals, Metal Products and
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10 Electrical Equipment. But between 2007 and 2010, the contributions from export diminished
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12 to negative or negligible due to the sharp decline in foreign demand, and then it recovered
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14 gradually after 2010. Government consumption contributed negligible shares to all sectors
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16 except Transport and Other Services.
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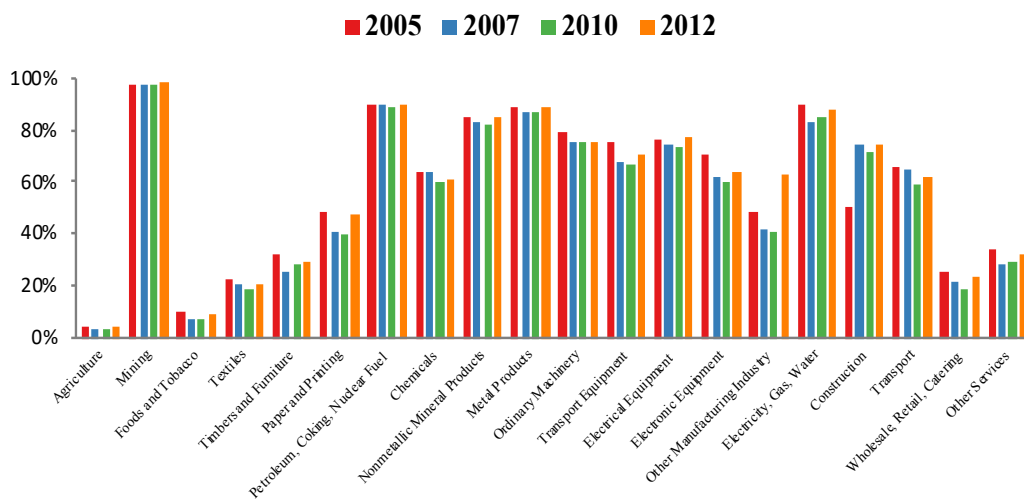
19 To better understand the role of Agriculture in the embodied CH₄ emissions, we conduct
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21 a counter-factual analysis by assigning the emission intensity of other sectors to be zero
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23 and leaving the emission intensity of Agriculture unchanged, then calculating the embodied
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25 emissions for each sector. Figure 6 presents the percentages of the fabricated emissions to
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27 actual induced emissions. More than 95% of Agriculture's CH₄ emissions came from itself,
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29 and about 90% of Foods and tobacco's emissions also came from Agriculture. CH₄ emissions
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31 induced from the final demand towards Textiles, Timbers and Furniture, and Paper and
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33 Printing were mainly attributed to Agriculture as well, while it contributed little to the
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35 Mining sector's CH₄ emissions.
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38 In contrast to the previous results of Agriculture sector, the embodied emissions induced
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40 by the Mining sector almost completely came from itself, while it contributed little to the
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42 emissions of the Agriculture sector. About 90% of the embodied emissions from Petroleum,
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44 coking, nuclear fuel, which required primary energy as intermediate inputs, could be at-
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46 tributed to the Mining sector. Moreover, Mining's contribution was concentrated on the
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48 heavy industries such as Metal Products, Nonmetallic Mineral Products, Ordinary Machin-
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50 ery, Transport Equipment, Electrical Equipment, and Electronic Equipment. Most of the
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52 embodied emissions from Construction and Transport also came from Mining. These sectors
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54 consumed large amounts of energy and industrial raw materials which could be ultimately at-
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56 tributed to the resource extraction of the Mining sector and were consequently energy-related
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58 CH₄-intensive inputs.
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(a) Agriculture



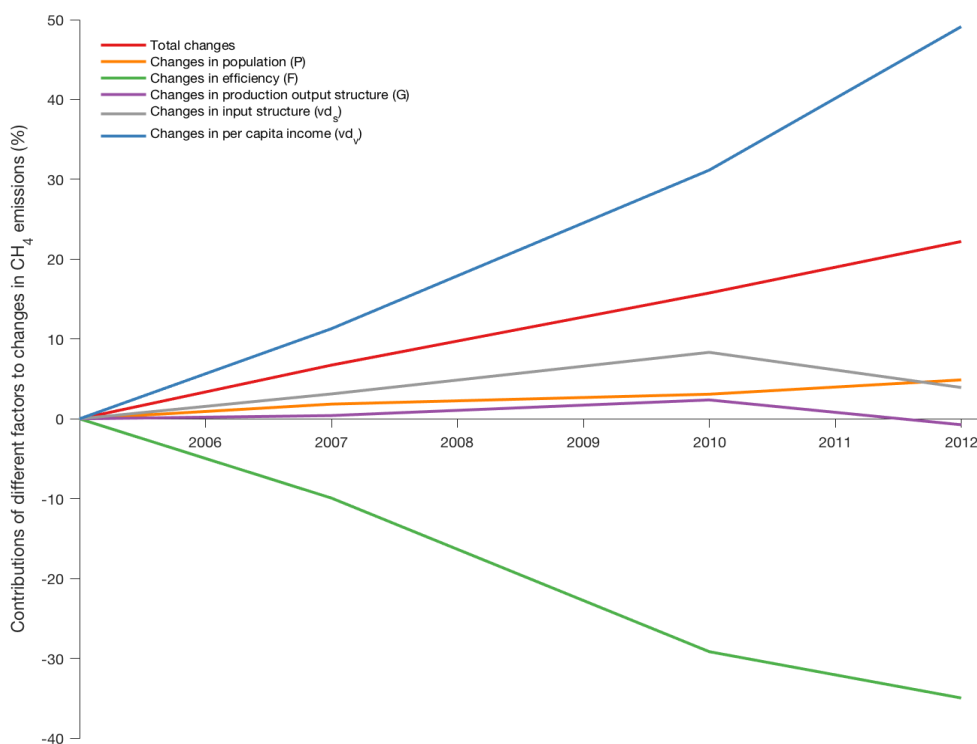
(b) Mining

Figure 6: Counterfactual analysis on the contribution of Agriculture and Mining to embodied CH₄ emissions of 17 sectors

3.3 Structural changes in income-based CH₄ emissions

From the income-based perspective, Figure 7 shows how the five determinants evolved from 2005 to 2012. Per capita income was the greatest driver of emission changes and shared the same trend as per capita consumption in Figure 2 due to the positive correlation between income levels and consumption. The changes in efficiency also remained the largest counterpart of CH₄ emissions. The contribution from production output structure fluctuated in a

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4 similar trend but at a more moderate rate compared with the production input structure in
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6 Figure 2, implying production input structure changed at a greater extent than production
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8 output structure. The change in input structure was another non-negligible contributor,
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10 which kept increasing up to 10% in 2010 then decreased to 5% in 2012. This reflects the
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12 transformation on economic structure towards more balanced and sustainable developing
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14 mode. Moreover, the contribution of input structure was significantly larger than produc-
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16 tion output structure, implying how inputs are organized plays a more fundamental role in
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18 reducing enabled CH_4 emissions.
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49 Figure 7: Contributions of different factors to changes in enabled CH_4 emissions

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52 Later on, we decompose the enabled CH_4 emissions into four different income-components,
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54 as shown in Figure 8. Employee compensation was the major contributor of enabled CH_4
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56 emissions all the time, and its contribution was increasing steadily from 53% to 62%. The
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58 contribution of net operating surplus continued decreasing from 25% to 17%. This phe-
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60 nomenon actually coincided with the national reform on income distribution system, which
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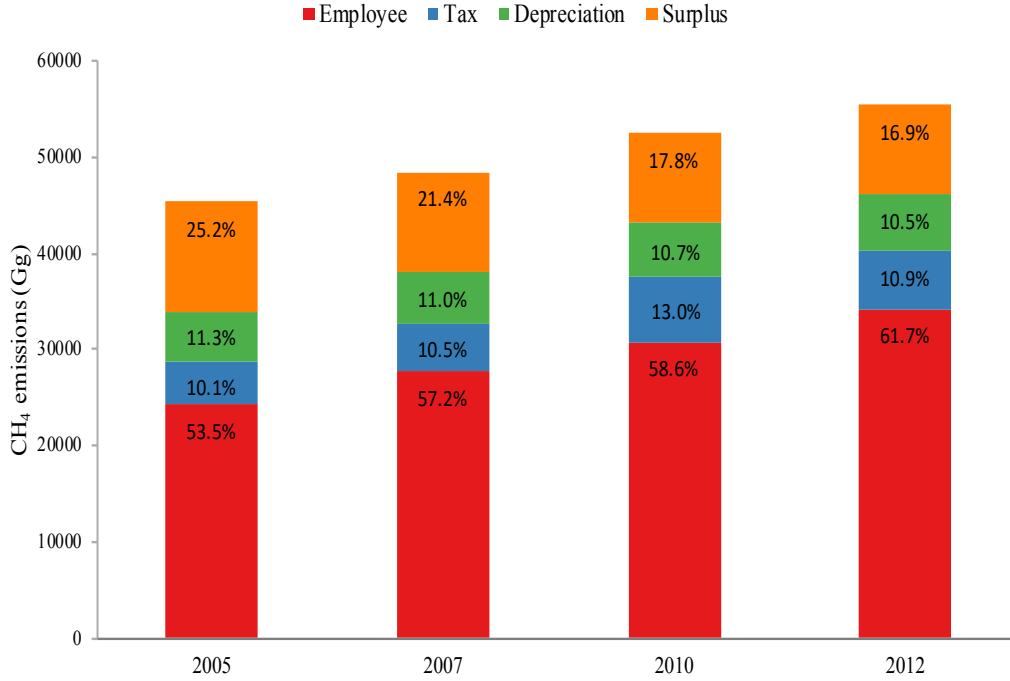


Figure 8: Enabled CH₄ emissions induced by primary inputs

increased the share of individual income in the distribution of national income and the share of work remuneration in primary distribution¹. Therefore, the compensation to employees witnessed a notable surge and incurred higher CH₄ emissions, while the surplus of enterprises experienced a significant decrease and contributed less to the aggregate CH₄ emissions. As for the other two components, the contributions of net taxes on production and depreciation of fixed assets remained quite stable (around 11%) for all years.

Figure 9 describes how the determinants from structural decomposition led to the fluctuations of enabled CH₄ emissions from 2005 to 2012. The changes in per capita income, efficiency and population shared the same trend as Figure 5. Input structure became a major driver next to per capita income and efficiency, with the role of production output structure being more trivial. This was inherently consistent with the concept of income-based accounting because income-based emissions reflected the enabled emissions in primary

¹According to the official report from National Bureau of Statistics of China, the share of household income to national income increased 3% from 2009 to 2012, while the share of enterprise surplus decreased 3.9%: http://www.stats.gov.cn/tjsz/tjsj/tjcb/dysj/201511/t20151112_1273538.html.

inputs.

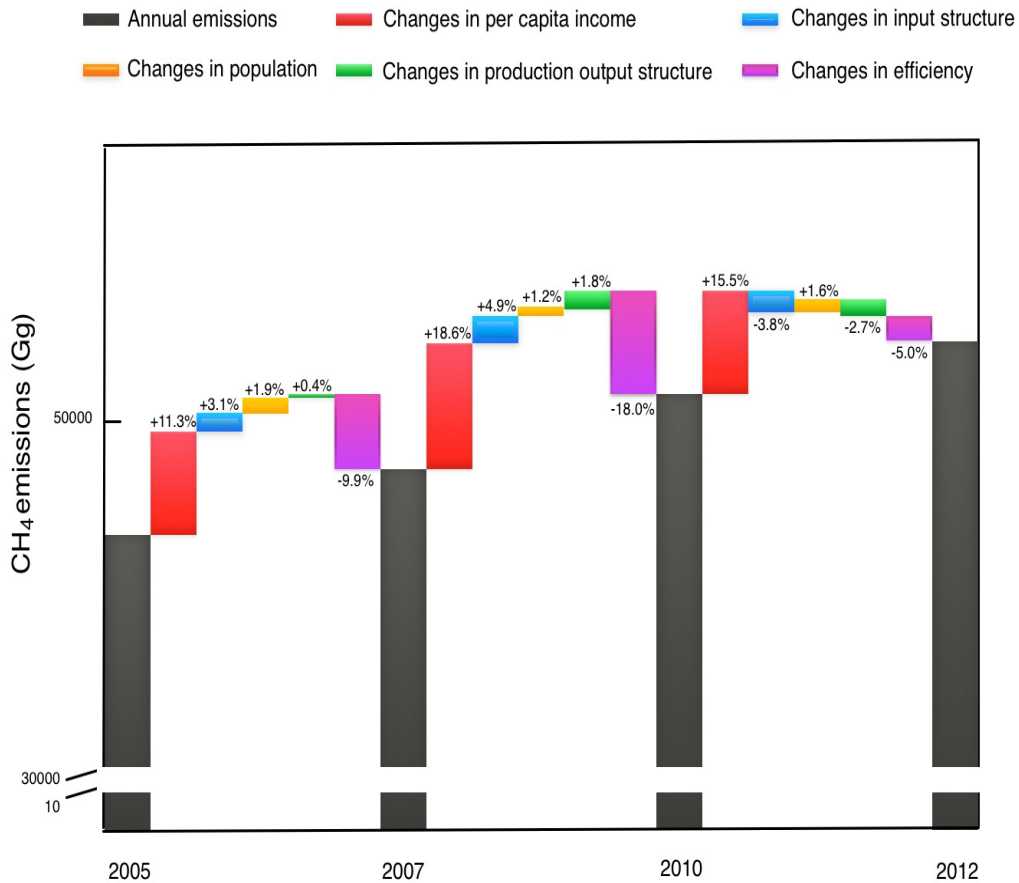


Figure 9: Fluctuations of the contributions of different factors to enabled CH₄ emissions

For the enabled emissions at sector level, Figure 10 shows Mining and Agriculture were the two sectors that experienced the largest increase in enabled CH₄ emissions from 2005 to 2012. In the Agriculture sector, the increase was driven by employee compensation all the time. But for the Mining sector, although employee compensation remained the greatest driver during the periods from 2005 to 2007 and from 2010 to 2012, net taxes on production surpassed wage compensation from 2007 to 2010. Furthermore, production taxes generally played a minor role except for years from 2007 to 2010, during which tax incentives were used to help enterprises live through economic downturn. Those tax incentives consequently led to production expansion and more enabled emissions. Another interesting fact on produc-

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4 tion tax is for the Agriculture sector, whose production taxes almost completely offset the
5 emission increase incurred by employee compensation from 2010 to 2012. While employee
6 compensation was the major driver of enabled CH₄ emissions, net operating surplus offset a
7 large proportion of the enabled emissions from 2007 to 2010, but this offsetting effect almost
8 disappeared during the period of 2010-2012. Depreciation of fixed assets accounted little for
9 the enabled emissions in all sectors except Chemicals, Metal products, Utilities and Mining,
10 which demand a large quantity of fixed assets to initiate production.
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19 Similar to the analysis on consumption-based emissions, we conduct counter-factual de-
20 compositions for Agriculture and Mining and present the results in Figure 11. Again, more
21 than 90% of Agriculture, Foods and Tobacco's enabled emissions came from the Agriculture
22 sector itself, but it contributed much less to the emissions from Textiles, and Timbers and
23 Furniture compared with Figure 6. This suggests that the two sectors used CH₄-intensive
24 goods as intermediate inputs from Agriculture not to manufacture intermediate commodities
25 for other sectors, but to produce final products for consumers. Moreover, in the sector of
26 Chemicals, Agriculture explained much more enabled emissions than embodied emissions,
27 indicating the intermediate goods supplied by Chemicals were made by the CH₄-intensive
28 inputs from Agriculture. As for the role of Mining, besides itself, it also contributed a signif-
29 icant magnitude to most manufacturing sectors, suggesting its importance as intermediate
30 input for those sectors.
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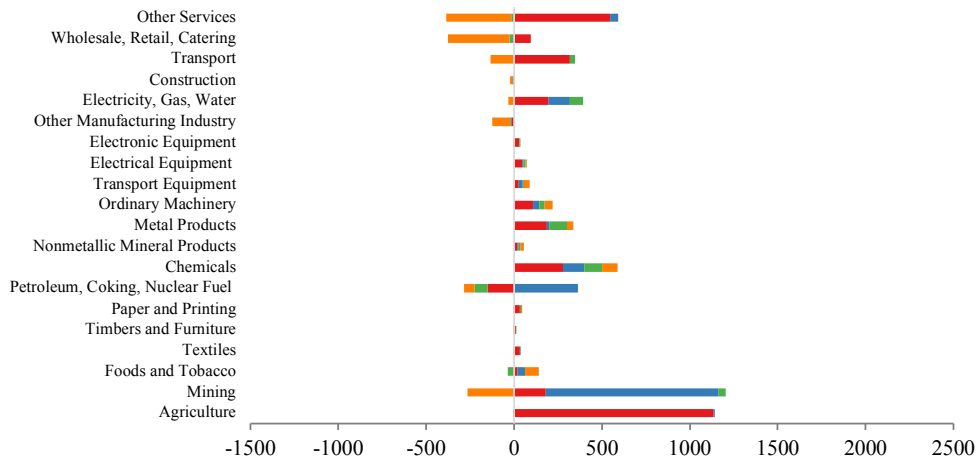
47 **4 Discussions**

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50 China's CH₄ emission has been maintaining a steady growth rate over the last decade, its
51 determinants, however, were profoundly affected by the global financial crisis and national
52 economic policies. The changes in per capita consumption/income and the changes in effi-
53 ciency together shaped the trend of CH₄ emissions. Due to the rapid economic development
54 and the reform on income allocation, household income as well as consumption witnessed
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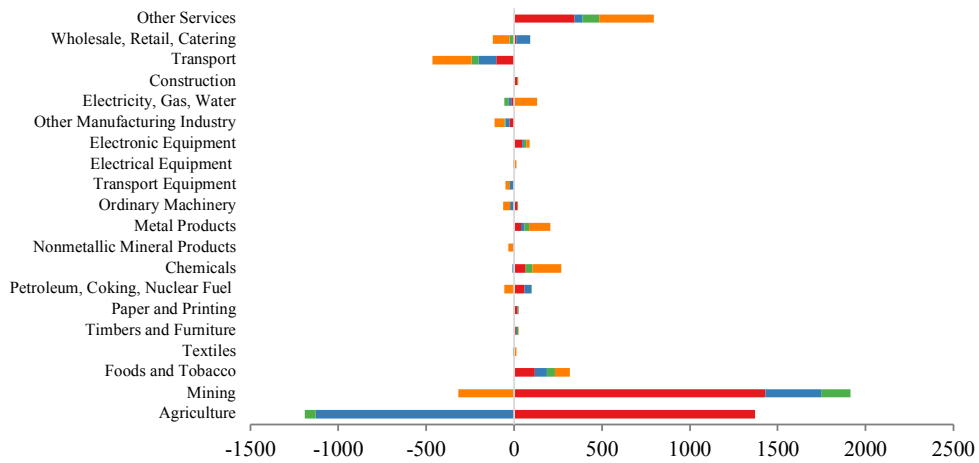
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(a) Changes from 2005 to 2007 (Gg)



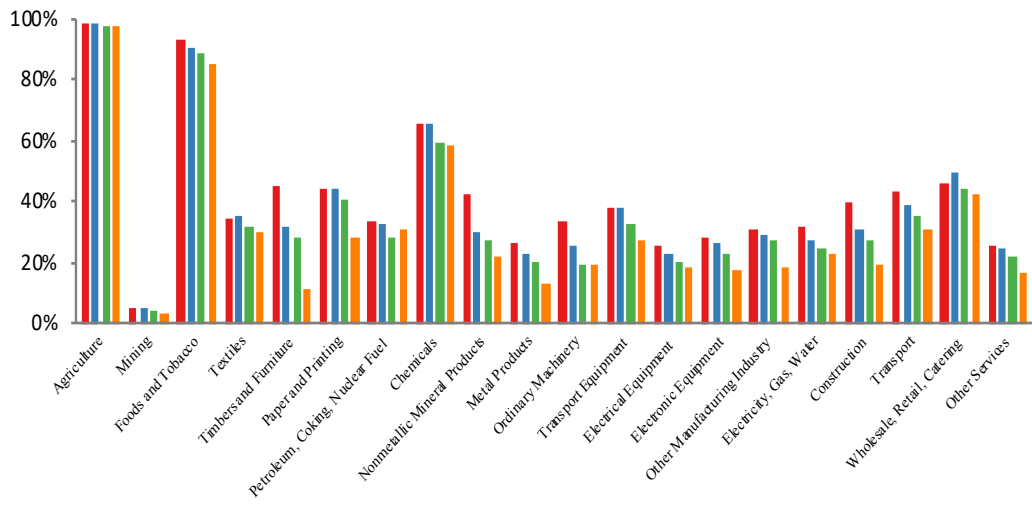
(b) Changes from 2007 to 2010 (Gg)



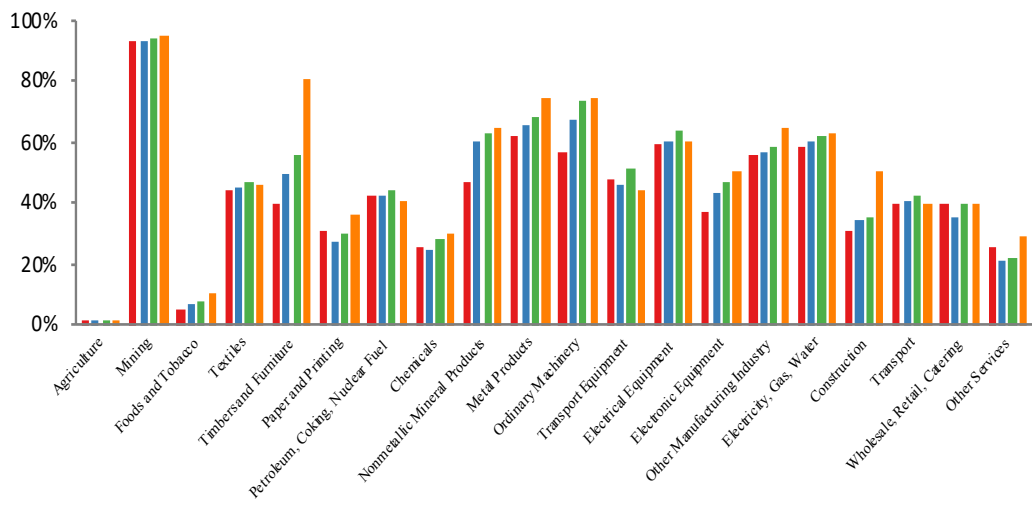
(c) Changes from 2010 to 2012 (Gg)

Figure 10: Contributions of different sectors to enabled CH₄ emissions

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(a) Agriculture



(b) Mining

Figure 11: Counterfactual analysis on the contribution of Agriculture and Mining to enabled CH₄ emissions of 17 sectors

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4 sharp increases, pushing up CH₄ emissions, which was also reflected in the contributions of
5 employee compensation and enterprise surplus to aggregate CH₄ emissions. This surge in
6 income and consumption could impose practical limits on the reduction of emissions as long
7 as the growing trend continues. Furthermore, with Agriculture being the largest contrib-
8 utor to CH₄ emissions, income growth generally shifts the structure of food consumption
9 towards more CH₄-intensive agricultural products (e.g., meat and dairy). This inevitably
10 imposed further threats on CH₄ emission reduction. Meanwhile, efficiency change overall off-
11 set 60% of the emission increases induced by per capita consumption/income, implying the
12 improvement in technology and productivity significantly reduced CH₄ intensity. However,
13 the contribution of efficiency declined a large magnitude after 2010. This poses another po-
14 tential threat on emission reduction because the advantages of efficiency improvement might
15 have been well exploited and little room was left for further improvement on the basis of
16 current technology.

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32 Besides consumption and income, the contribution of export and capital formation also
33 witnessed dramatic changes. Affected by external shocks of the global financial crisis, CH₄
34 emissions induced by export decreased after 2007, due to both the decline in external demand
35 and the adjustment of export structure that lowered the export shares of farm products and
36 minerals. Contrary to the trend of export, the CH₄ emissions induced by capital formation
37 experienced a dramatical surge after 2007, coinciding with the four-trillion economic stimulus
38 plan during the financial crisis. Those structural changes imply that the focus of controlling
39 CH₄ emissions should be laid on the investment in construction and infrastructure instead
40 of export.

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51 Next we compare the determinants in our decomposition with related literature. Table 1
52 summarizes some literature that applies structural decomposition analysis to energy use and
53 environmental emissions of China. In line with most existing studies, our findings emphasize
54 the importance of consumption on CH₄ emissions. Meanwhile, efficiency change is found to
55 be the major inhibitory factor in nearly all related literature, even in the studies of other

countries and regions like the United States (De Nooij et al., 2003), Japan (Kagawa and Inamura, 2004) and Taiwan (Lee and Lin, 2001). Similar to the research on CO₂ emissions (e.g. Feng et al., 2012; Mi et al., 2017a,b; Wang and Feng, 2017), our decomposition results imply that population had a minor effect on CH₄ emissions. Capital formation and exports, as the dominant driver of China’s CO₂ emissions (Feng et al., 2017) and energy demand (Xu et al., 2014; Wu and Zhang, 2016), also contributed significant shares to China’s CH₄ emissions.

Table 1: SDA studies on China’s environmental emissions and energy use

Publication	Indicator	Sample period	Method
Guan et al., 2008	CO ₂ emissions	1980-2030	Consumption-based SDA
Guan et al., 2009	CO ₂ emissions	2002-2005	Consumption-based SDA
Zhang, 2009	CO ₂ emissions	1992-2006	Consumption-based SDA
Xu et al., 2011	CO ₂ emissions	2002-2008	Consumption-based SDA
Guan et al., 2014	PM _{2.5}	1997-2010	Consumption-based SDA
Xie, 2014	Energy use	1992-2010	Consumption-based SDA
Wu and Zhang, 2016	Energy use	1997-2012	Consumption-based SDA
Yuan and Zhao, 2016	CO ₂ emissions	2005 and 2010	Consumption- and income-based SDA
Feng et al., 2017	CO ₂ emissions	1995-2009	Consumption- and income-based SDA
Liu and Liang, 2017	Pollutants	2007-2012	Consumption-based SDA
Mi et al., 2017a	CO ₂ emissions	2005-2012	Consumption-based SDA
Su and Ang, 2017	CO ₂ emissions	2007-2012	Consumption-based SDA
Wang and Feng, 2017	CO ₂ emissions	2000-2014	Income-based SDA
Zhao et al., 2017	CO ₂ emissions	1992-2012	Income-based SDA
Zhang et al., 2018b	Mercury	1997-2012	Consumption- and income-based SDA

The shocks of the global financial crisis on GHG emissions are also detected by other researchers. Feng et al. (2015) found that the co-movements between CO₂ emissions and economic growth in the US, i.e. emissions before 2007 were risen by economic growth, and were decreased by the economic recession after 2007. Consistent with our findings on the contribution changes of export and capital formation to total emissions, Mi et al. (2017a) reported that CO₂ emissions induced by export declined while the emissions induced by capital formation surged upwards. Moreover, as we demonstrate that changes in production and input structure after 2010 decreased CH₄ emissions, they also found structural upgrading significantly offset CO₂ emissions. But contrary to the shift towards consumption-driven economy, at the aggregate level, the contribution of capital formation to CH₄ emissions has

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4 been increasing and it has become the greatest contributor since 2010. The importance of
5 capital formation has also been noticed by the studies on energy consumption and pollutants
6 emissions. Guan et al. (2014) and Deng et al. (2016) found that capital formation was the
7 largest final demand category for increasing air pollutants, most of which were embodied
8 in the construction sector. Energy-related CH₄ emissions account for a significant share of
9 China's CH₄ emissions, while CO₂ emissions are mainly attributed to the energy consump-
10 tion. Joint efforts and coordinated control should be taken on CH₄ and other environmental
11 emissions.
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23 **5 Concluding remarks**

27 Reducing global emissions of CO₂, CH₄ and other greenhouse gases is a major challenge.
28 The significant amount and sustained growth of anthropogenic CH₄ emissions in China has
29 greatly affected the country's own efforts to mitigate GHG emissions. In combination with
30 EEIOA and SDA methods, this paper employs both consumption- and income-based ac-
31 counting technologies to clarify the socioeconomic determinants of China's CH₄ emissions
32 from a systemic perspective. In contrast to production- and income-based emissions mainly
33 from the Agriculture and Mining sectors, the Manufacturing, Construction and Service sec-
34 tors accounted for a large magnitude of consumption-based emissions. Changes in per capita
35 consumption/income and efficiency improvement collectively shaped the trend of CH₄ emis-
36 sions, with per capita consumption and income proving to be the greatest driving forces.
37 While changes in efficiency offset a significant amount of emission increases, its contribu-
38 tion plunged after 2010. Capital formation- and exports-driven CH₄ emissions surged and
39 declined separately after 2007. The relevant components of final demand and primary in-
40 puts fluctuated dramatically, but capital formation and employee compensation remained
41 as major determinants of embodied and enabled emissions respectively. China's growing
42 CH₄ emissions were found to be profoundly affected by the global financial crisis of 2007,
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4 as well as its economic stimulus plan and the income distribution reform implemented there
5 after. These findings provide additional insights for policy makers on the mitigation of CH₄
6 and other emissions. Declining contribution from technology reinforces the unheeded warn-
7 ing that the efficiency changes might have limited mitigation potential, and that relying on
8 technology improvement alone is insufficient to achieve mitigation goals. Moreover, growing
9 household income and consumption further doubts on the country’s ability to reducing CH₄
10 emissions. With the Chinese economy entering into a “new normal”, adjusting the consump-
11 tion and supply structures could be more effective in mitigating CH₄. Since China still lacks
12 a comprehensive plan for CH₄ emissions reduction, examining both consumption-based and
13 income-based emissions will be useful for understanding the drivers of China’s anthropogenic
14 CH₄ emissions and thus for crafting appropriate mitigation policies and actions covering the
15 entire supply chains.
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