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The current macro political economy framework for climate change policy in China

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Environmental policy is among the highest priorities of government

- Wong and Karplus (2017): under President Xi Jinping, policies have been bold and ambitious, calling for deep cuts in emissions and pollution, to be achieved using a mix of command and control mechanisms
- Plans and targets were introduced, assigned by sector and region – including cutting production capacity, retrofitting equipment and outright plant closures
- targets were increasingly detailed and stringent, partially cushioned by rapidly growing financial support from central government
- The trend has continued apace, while also building a legal framework and enforcement levers as well as testing the use of market mechanisms

A partial list of laws, regulations and action plans issued since 2015

- “Ten Articles of Atmosphere” (10 September 2013), “Ten Articles of Water” (16 April 2015) and “Ten Articles of Soil” (28 May 2016)
- In July 2015, State Council called for building an independent system of **eco-environmental monitoring** (国办发〔2015〕56号)
- Nov 2016, State Council issued the **13th Five-Year Plan for Ecological Environmental Protection**, followed by sectoral five-year plans:
 - urban wastewater treatment and recycling facilities
 - urban solid waste treatment facilities
 - comprehensive improvement of rural environment
 - Environmental and Health Work Plan
 - Nuclear Safety and Radioactive Pollution Prevention
- **Environmental Tax Law** passed in December 2016
- **Revised Water Pollution Prevention and Control Law** – June 2017
- December 2016, MEP issued **Trial Management Measures for Soil Pollution**, followed by MOA’s **Trial Management Measures for Farmland Ecological Management** in September 2017
- February 2017 MEP issued the **2017 Action Plan for the Prevention of Air Pollution in Jing-Jin-Ji Area**
- July 2017 State Council issued the **Implementation plan for reforming the management system for the import of solid wastes** that would gradually ban the importation of solid wastes for recycling
- In March 2018, “**ecological civilization** (生态文明)” was written into the Constitution

Monitoring has been greatly strengthened

- July 2015, Central Leading Group for Comprehensively Deepening Reforms approved the **Inspection Plan for Environmental Protection**, establishing detailed guidelines for environmental inspections:
 - **High-level inspection groups** to be created, each led by a current/recently retired leader at the provincial level, with a deputy leader a vice-minister level official from MEP, plus senior officials from the Central Discipline Inspection Commission, the Central Organisation Department, or other units of the central government
 - **Targets** of inspection to be expanded beyond enterprises to include local party committees and governments
 - **Results** are to be sent to the Central Organisation Department, to be used for performance evaluation of cadres
 - **Scope**: aside from policy compliance and implementation outcomes, inspection to focus on how the system of accountability is set up
- To reinforce the assignment of responsibility clearly to Party and government officials, in Sept 2017 State Council “**Opinions on Deepening Environmental Monitoring Reform ..**” clearly stated that local party committees and governments have to take responsibility for environmental policy implementation

Modus operandi for inspections

- Each inspection to last for about one month
- During the inspection period, a phone number and a postal address are provided, and the public is invited to log complaints
- Inspection to be done in three stages:
 - First, at the provincial level, interviewing senior officials, reading relevant documents, and attending to complaints (信访举报);
 - Second, at the prefecture level, collecting evidence to evaluate how serious problems identified at the provincial level are; and
 - Third, forming conclusions based on the work during the first two stages and carrying out supplementary inspection if necessary
- Within 30 working days after inspection, local governments are required to submit their rectification plan to the State Council.
- Within six months after inspection, local governments should report rectification results

Timeline for the first inspection round: all 31 provincial level units inspected

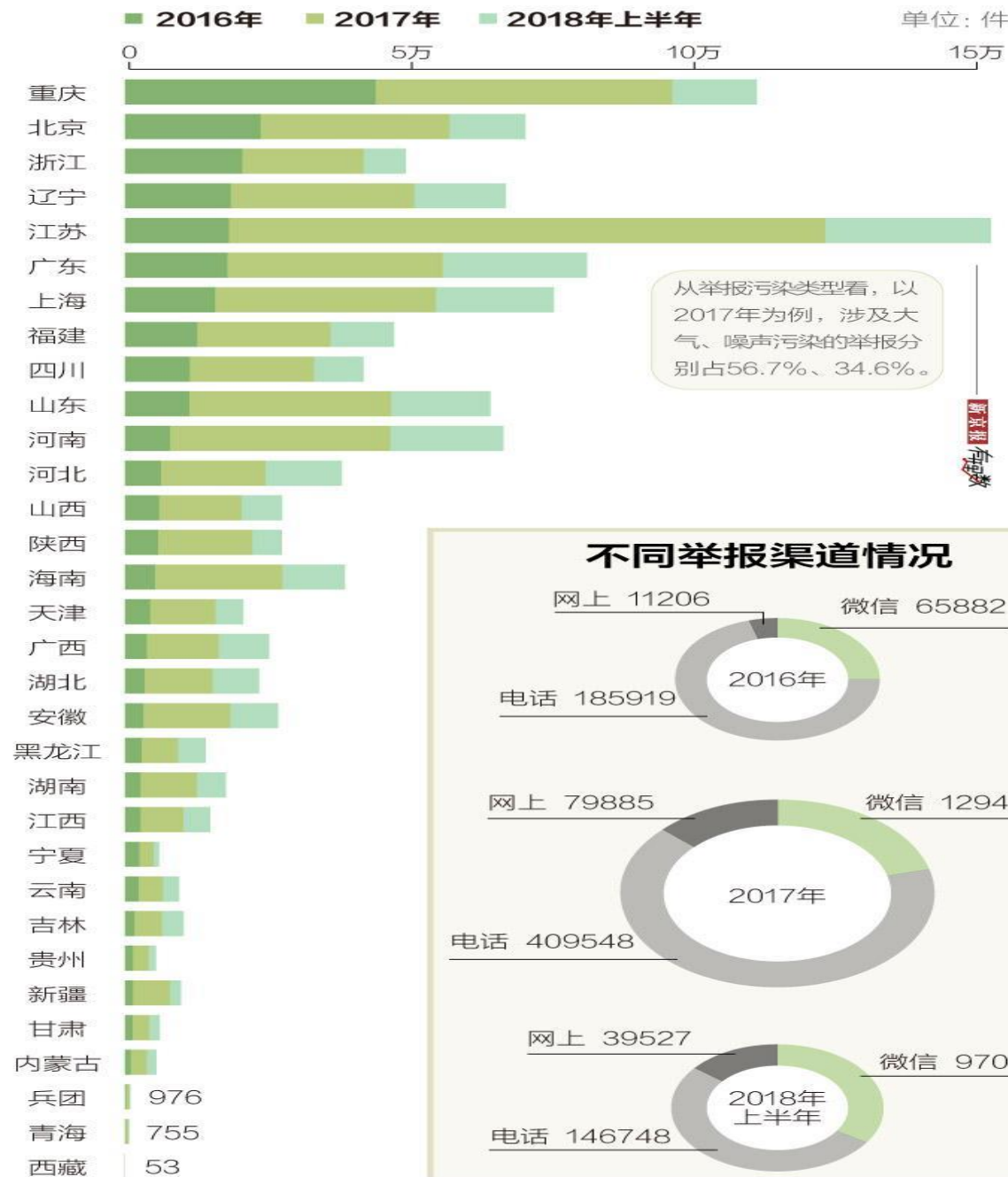
Round	Inspection time	Provinces inspected	Follow-ups
0th (pilot)	January 4 to February 4, 2016	Hebei	In May, the inspection team provided feedback; In July, the province provided its rectification plan
1st	July 12 to August 19, 2016	Inner Mongolia, Heilongjiang, Jiangsu, Jiangxi, Henan, Guangxi, Yunnan, Ningxia	In November, the inspection teams provided feedback; In April 2017, the eight provinces disclosed their rectification plans
2nd	November 24 to December 30, 2016	Beijing, Shanghai, Hubei, Guangdong, Chongqing, Shaanxi, Gansu	In April 2017, the inspection teams provided feedback; In July 2017, the seven provinces disclosed their rectification plans
3rd	April 24 to May 28, 2017	Tianjin, Shanxi, Liaoning, Anhui, Fujian, Hunan, Guizhou	In August, the inspection teams provided feedback. In December 2017, the seven provinces disclosed their rectification plans
4th	August 7 to September 4, 2017	Jilin, Zhejiang, Shandong, Hainan, Sichuan, Tibet, Qinghai, Xinjiang	In December 2017, the inspection teams provided feedback; In May 2018, the eight provinces disclosed their rectification plans

Penalties imposed from the first inspection round

Round	Inspection time	Provinces inspected	Outcomes
0 th (pilot)	January 4 to February 4, 2016	Hebei	In total, 487 people were held accountable: 117 were admonished (诫勉), 194 were sanctioned for violations of Party discipline (党纪处分), laws and/or regulations (政务处分); and five were transferred to criminal justice.
1 st	July 12 to August 19, 2016	Inner Mongolia, Heilongjiang, Jiangsu, Jiangxi, Henan, Guangxi, Yunnan, Ningxia	In total, 1,140 people were held accountable: 320 were admonished, 762 were sanctioned for violations of Party discipline, laws and/or regulations; and 12 were transferred to criminal justice.
2 nd	Nov 24 to Dec 30, 2016	Beijing, Shanghai, Hubei, Guangdong, Chongqing, Shaanxi, Gansu	In total, 1,048 people were held accountable: 211 were admonished, 777 were sanctioned for violations of Party discipline, laws and/or regulations; and 10 were transferred to criminal justice.
3 rd	April 24 to May 28, 2017	Tianjin, Shanxi, Liaoning, Anhui, Fujian, Hunan, Guizhou	In total, 917 people were held accountable: 189 were admonished, 698 were sanctioned for violations of Party discipline, laws and/or regulations; and 22 were transferred to criminal justice.
4 th	August 7 to Sept 4, 2017	Jilin, Zhejiang, Shandong, Hainan, Sichuan, Tibet, Qinghai, Xinjiang	In total, 1,035 people were held accountable: 296 were admonished, 773 were sanctioned for violations of Party discipline, laws and/or regulations; and two were transferred to criminal justice.

- Citizens are increasingly involved in reporting violations
- In 2013, 48,700 reports logged by the MEP platform
- In 2017, 619,000 reports logged, 57% involving air pollution

http://finance.ifeng.com/a/20180817/16456355_0.shtml



A second round of follow-up inspections began in May 2018 to revisit 20 provinces

Round	Inspection time	Provinces inspected	Follow-ups
1 st	May 30 to July 7 2018	Hebei, Inner Mongolia, Heilongjiang, Jiangsu, Jiangxi, Henan, Guangdong, Guizhou, Yunnan, Ningxia	In October 2018, the inspection teams provided feedback; In April 2019, the ten provinces disclosed their rectification plans
2 nd	October 30 to Dec 6 2018	Liaoning, Jilin, Shanxi, Shaanxi, Anhui, Shandong, Hubei, Hunan, Sichuan, Guizhou	In May 2019, the inspection teams provided feedback

- Inspection focused on whether:
 1. rectification targets achieved
 2. rectification tasks completed
 3. environmental protection work mechanisms set up
- More in-depth, special inspections assigned in some cases, e.g. for air pollution in Hebei and Henan
- Common problems found:
 - Some “still fail to recognize the importance of environmental protection”
 - Rectification plans often fail to be fully implemented
 - Some rectify simple problems while leaving more serious issues untouched
 - Fake rectification

Turning now to the financing of environmental policies

- Rapid growth in budgetary expenditures on environmental protection

Since category of “Environmental protection” first created in 2007:

	Environmental Expenditures (RMB bn)	share of budget	share of GDP
2007	99.6	2.0%	0.4%
2010	244.2	2.7%	0.6%
2013	343.5	2.4%	0.6%
2017	561.7	2.8%	0.7%

Average annual growth	
2000-2017	19.7%
2007-2017	21.2%

Under China's decentralized fiscal system, the bulk of financing is by local governments

	2013			2017		
	Total expend (billion Y)	Central gov't share	Central share including transfers	Total expend (billion Y)	Central gov't share	Central share including transfers
Budgetary expenditure on energy saving and environmental protection	343.5	2.9%	52.5%	561.7	6.2%	44.4%
Pollution Prevention	90.5	0.6%	35.4%	188.3	0.2%	
Air	6.9	0.1%		58.0	0.1%	27.7%
Water	42.1	0.9%		82.7	0.1%	14.0%
Solid Waste and Chemicals	7.6	1.6%		6.4	0.5%	
Expenditure of sewage fee receipts	19.8	0.1%				
Other pollution control expenditures	14.1	0.1%		41.1	0.5%	
Energy conservation and utilization*	68.2	2.6%	68.1%	66.8	5.3%	40.0%
Pollution reduction*	32.7	2.2%	54.1%	30.7	5.1%	40.0%
Environmental Monitoring and Information	3.6	9.9%		6.5	20.5%	
Environmental law enforcement supervision	1.5	4.2%		1.9	5.9%	
Earmarked expenditure for pollution reduction	23.8	1.0%		13.2	0.7%	
Other pollution control expenditures				0.9	1.2%	
Renewable energy sources	19.7	3.6%	71.5%	8.3	0.2%	103.8%
Comprehensive utilization of resources	8.8	0.5%	94.2%	5.3	16.4%	

Earmarked Transfers for Environmental Expenditures (2017, RMB bn)		Share of transfers
Special fund for renewable energy development	4.6	2.2%
Air pollution control fund	16.0	7.5%
Water pollution prevention and control fund	11.5	5.4%
Energy conservation and emission reduction subsidy	33.9	15.8%
Urban pipeline network funds	16.7	7.8%
Special fund for soil pollution prevention and control	6.5	3.1%
Industrial enterprise restructuring fund	29.9	14.0%
Rural environmental improvement fund	6.0	2.8%
Forestry Ecological Protection and Recovery Fund	41.0	19.2%
Agricultural resources and ecological protection subsidy	22.6	10.6%
Island and sea area protection fund	2.1	1.0%
Key ecological protection and restoration fund	7.4	3.5%
Extraordinary geological disaster prevention and control fund	3.5	1.6%
Special fund for land remediation work	12.3	5.8%
Total	214.1	
As share of total transfers	3.8%	
(total transfers in 2017)	5702.9	

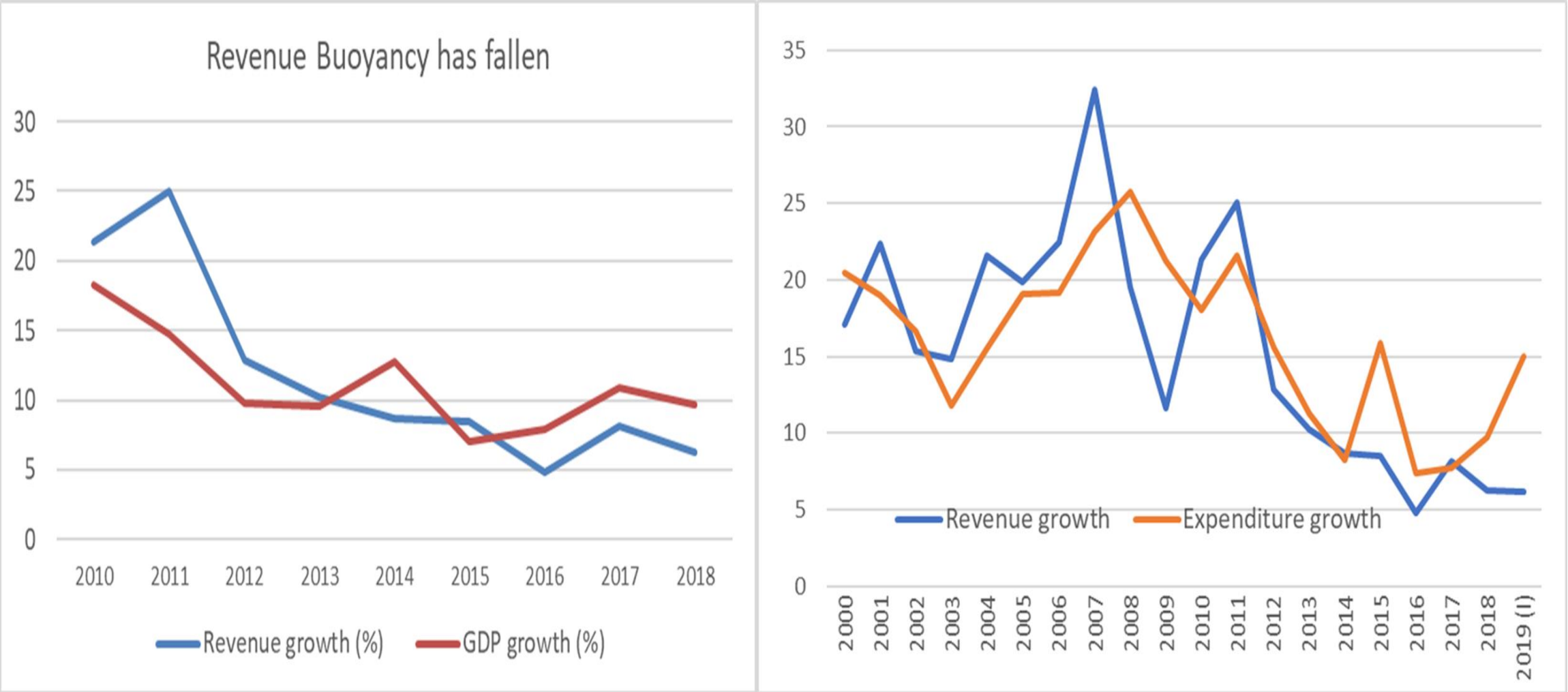
2018 central government support for environmental expenditures were **RMB 255.5 bn.**

-Minister Liu Kun report on central government final accounts for 2018 (6/26/2019)

Transfers are not enough in another key respect: they help to pay for pollution abatement/clean-up costs, but

- .. do not pay for loss of economic output and associated loss of tax base and jobs
 - For example, the Air Pollution Action Plan in Hebei required cutting steel and plate glass output by a quarter, and cement output by nearly half. For the cuts in steel alone, the city of Tangshan was facing a loss of nearly a fifth of its tax revenues and 7% of jobs in the nonfarm sector
 - In a district in Chongqing municipality, the loss of a steel mill caused GDP to fall by one-third
- Local governments have been allowed to make investments in new sectors to make up for the losses, but these investments require borrowing. This channel is now being restricted under the current campaign to reduce local government debt and clean up shadow banking practices

A slowing economy will reduce the government's capacity to provide growing fiscal support to climate change policy



Local government fiscal status deteriorating

- Multiple hits on revenues:
 - Slowing growth – VAT, corporate income tax, .. Other taxes
 - Uncompensated/partially compensated tax- and fee cuts
 - Land sales
 - Housing sector
 - Social security contributions

Summing up: in climate change policy, local governments are caught between two currents

- On the one side, a great effort to build the much needed infrastructure for environmental policy implementation:
 - A legal framework with clearly defines standards and assignment of responsibilities
 - Powerful monitors with the authority to impose heavy penalties
 - Punishments were mostly light in first round, but may be getting tougher in subsequent years
 - In first half of 2018, 72,192 cases were brought, resulting in 16,000 people prosecuted, and 5.85 billion yuan in fines levied
 - Mobilization of the public as watch dogs
- Added special Chinese characteristics:*
- Compliance now tightly linked to the personnel management system, control of which is increasingly turned over to Party organs
- On the other side an intergovernmental fiscal system that leaves local governments with a large structural deficit and dependent on transfers
- A tightening macrofinancial environment that leaves few options for making up for lost output and revenues



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