

Xi Jinping's Institutional Reforms

Environment over Energy?

Thibaud VOÏTA

During its two sessions (lianghui) in March 2018, the National People's Congress (NPC) announced China's most important institutional reforms in the last 30 years.¹ These changes occurred right after Xi Jinping consolidated his power and at a time when stakeholders working in the energy field were expecting more clarity on policy orientations. Though the reforms are in line with those initiated since the 2000s, the energy sector is likely to be deeply affected by the new institutional setting, which reflects China's energy policy path with a strong emphasis towards low-carbon technologies and a rise in importance of environmental issues, alongside Xi's institutional modernization through greater centralization and control. Nevertheless, it is too early though to judge whether this will effectively impact the balance of power with the fossil fuel related institutions and policies.

The day Environment became more important than energy

Rise of a super Ministry of Environment

The environment sector is at the core of the reforms, which probably reflects the will to put environmental protection ahead of energy issues. The latest reforms established a Ministry of Ecology and Environment (MEE) which gathers climate and environment responsibilities, that used to be spread between a number of bodies. Unveiled in April, the MEE is now in charge of managing most environmental issues, and theoretically able to draft and empower regulations. In addition, it now represents China in international climate negotiations. In order to manage these new duties, MEE staff increased from 300 to 500.²

The Ministry of Natural Resources (MNR, succeeding to the Ministry of Land and Resources)³ is another major beneficiary of the reform, as shown in the following figure.

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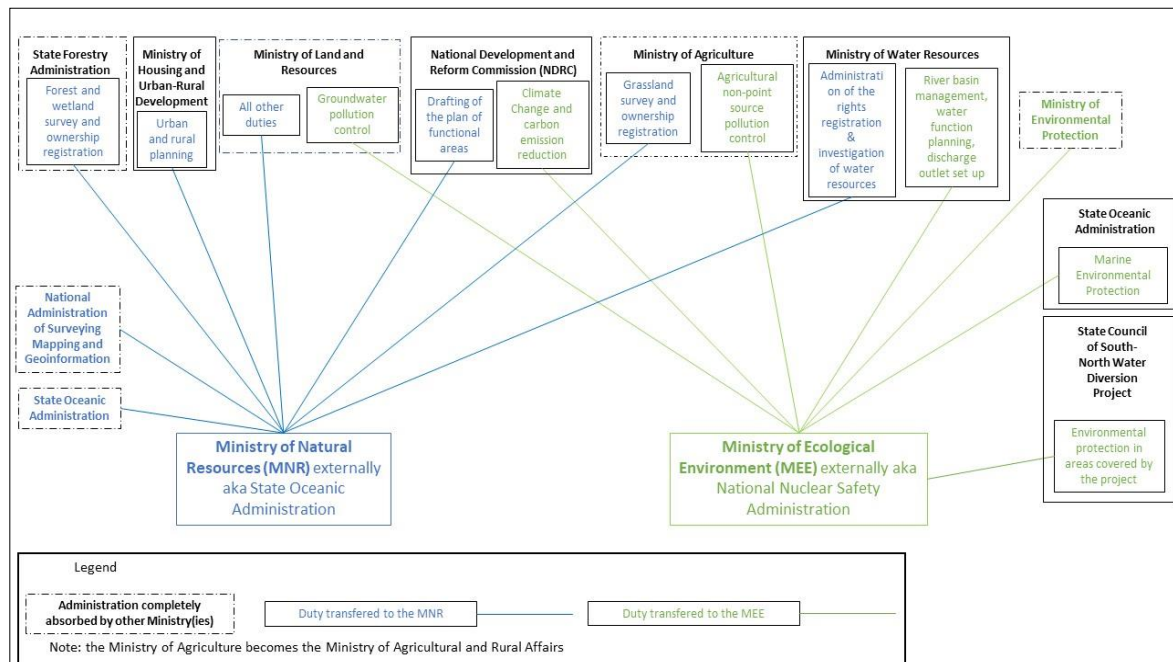
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The establishment of the Ministries of Ecology and Environment and Natural Resources



Source: Analysis and compilation by the author.

Other beneficiaries of the reform include the Ministry of Science and Technology (MoST), which absorbs the State Administration of Foreign Experts Affairs and becomes the host of the National Natural Science Foundation of China (NSFC). The NSFC used to seat under the State Council and had a 26.8 billion-yuan (USD 3.9 billion) budget in 2016, accounting for almost a third of China's basic-research funding, supporting 44,000 projects. NSFC works on syngas, biogas, low-carbon technologies, nuclear fission energy, photoelectricity, carbon energy conversion and utilization, and others. This agency will allow the MoST to gain new responsibilities in terms of research grants and recruiting foreign scientists.⁴ This reform is another sign of China's high-tech ambition.

Where is the energy?

The National Development and Reform Commission (NDRC), originally in charge of most energy issues, loses a number of its duties. As shown in the figure, it is being stripped of its main climate change activities to the benefit of the MEE. In non-energy-related

fields, the NDRC also loses a number of other non-energy duties, transferred to five other ministry-level bodies. It does not gain any new department but retains the National Energy Administration.

Uncertainties remain about who would lead the major energy reforms. As the MEE is in charge of improving air, water and soil quality, it could impulse and lead new policies in the energy field, such as fuel standards, phasing-out of inefficient boilers, closure of small factories. This would probably be done in cooperation with other administrations, such as the NDRC and the MIIT.

New international aid channels

Finally, China launched the China International Development Cooperation Agency (CIDCA). It is overseen by the State Council and obtains duties related to foreign aid (transferred from the Ministries of Commerce and of Foreign Affairs). Most of China's aid is channeled through the Belt and Road Initiative (BRI).⁵ These projects often touched upon the energy and climate sectors. CIDCA is also expected to work on the "10-100-1000" plan, a funding program that aims at financing 10 low-carbon demonstration projects, 100 climate change projects and 1,000 training venues in developing countries.⁶

Consistency with the Previous Reforms

These changes represent a continuity as compared to previous institutional reforms and have been discussed for a few years.⁷ Several important trends can be identified:

- ▀ Streamlining of the decision-making process. Recent reforms have been focusing on enhanced supervision by the Party, with a reduction of government interventions, the abolition of some administrative approvals and more supervision from lower-level government bodies.
- ▀ Slow but steady empowerment of the environment and natural resources administrations. The administration in charge of environment was promoted at a Ministry level supervised by the State Council in 2008. The MEP was further strengthened in 2012–2013 with additional financial resources in order to tackle air pollution issues. By late 2017, some were expecting for the MEP to take over the MLNR during the 2018 NPC, and for the local environment administration to report directly to Beijing – similar plans existed in 2008 but were blocked by some of the

State-Owned Enterprises (SOEs). The reforms did not further elevate the ministry, but provided it with considerable new duties, making it a key-organization.⁸

- ▀ Repeated failures to establish a Ministry of Energy and strong influence of the SOEs. Early in March 2018, the leadership had announced the establishment of a Ministry of Energy (MoE) that would oversee the oil and gas, coal and power sectors.⁹ However, the MoE was left out of the final announcements. There has been number of attempts to establish a powerful MoE during the past years: in 2003, 2008 and now 2018. These attempts met strong resistance from SOEs, especially the NOCs. Their administrative ranking, profits and human resources give them an important influence.¹⁰ This new failure probably reflects the might of the SOEs, despite the fact that they are said to have been weakened by the recent anti-corruption campaigns.
- ▀ Weakened NDRC... or maybe not. Despite the transfer of climate change issues to the MEE, the NDRC remains, at least on paper, a key body when it comes to energy supervision. A weak NDRC with little oversight power probably also serves the SOEs. Insiders say that the 2018 reforms do not mean a weakening of the NDRC, on the contrary: the Commission would see its duties further defined, which would allow it to play a more strategic role in macroeconomic decision making and policy orientations. This could for instance mean a stronger role in the definition of the Five-Year Plans.¹¹ However, this could be seen as an official excuse to explain the stripping of its duties.

Will the new institutions achieve Xi's vision?

Old habits die hard

These changes raise obvious policy coordination and leadership issues. The NDRC used to concentrate decision making in the energy and climate fields, and it managed to impose a certain level of momentum on the climate agenda. The MEE will have to take over the leadership and to impose its authority over potentially reluctant actors (local governments and SOEs) and to continue to push for a more ambitious climate agenda both in the country and globally. Tensions may arise between the two bodies and local administrations

could also choose to ignore responsibility transfers, as they already did in the past, keeping the MEE out of the loop. Other bodies, such as the MIIT and the SOEs could also use the transition to weaken the MEE by ignoring its policies.

Uncertainties also remain, for instance about the very influential think tank National Center for Climate Change Strategy and International Cooperation (NCSC) which originally depends on the NDRC. It recently published a call for China to set more ambitious climate targets.¹² Some experts think it could also be about to establish a unit to oversee progress made in the implementation of the climate plan (called nationally determined contribution in the UN language) submitted by China in preparation of the 2015 Paris climate change conference. If the NCSC is to remain under the NDRC, this would mean that it would be stepping in MEE's area.¹³

Finally, there are also uncertainties about the energy leadership, especially as Nur Bekri, in charge of energy in the NDRC, was put under investigation for “serious violation of discipline and law” in September 2018.¹⁴

Human capacity issues

The effective transition of the move from the NDRC to the MEE is also a challenge as it creates logistical and human resource issues. Some concrete concerns have already appeared: the MEE inherited the oversight of China's emission trading schemes (ETS) and will be in charge of the implementation of the national ETS. However, fears are growing that the MEE does not have the capacity, especially in terms of human resources, to implement such an ambitious policy and that the whole launching process is likely to experience new delays. A knowledge gap is very likely to appear among local officials who have been trained under the NDRC for the past few years. New training will have to be organized for local environmental officials.¹⁵

Conclusion: enhanced control from Beijing?

The March 2018 reforms show that China is progressing toward its objective of enhanced control of all sectors. According to a note published by a consultancy, the goals of the reform are to “strengthen central regulation authorities, enhance coordination, clarify responsibilities, breakdown siloes, improve administrative efficiency”. The same expert expects some further changes to come,

such as a tighter supervision of the public sector and shorter chains of command from local governments to Beijing.¹⁶

Beyond this institutional modernization, President Xi seems determined to strengthen the environmental institutions as part of his firm will to improve air quality and develop more sustainable policies and technologies. The question is whether SOEs will not be able to muster a credible form of resistance to the broad changes underway.

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