Central-local Relations and Pricing Policies for Wind Energy in China*

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Abstract

Renewable energy, although capable of making a significant contribution to the achievement of sustainable development, has, however, failed to reach its full potential in most countries. A major challenge of the sustainability transition is how to translate sustainable development from a concept to effective implementation. However, the mechanisms through which the concept of sustainable development can be put into operation remain an area largely unexplored in the energy

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sector, and particularly so in the Chinese context. In an attempt to bridge this knowledge gap, our article draws on the linkages between theories of central-local relations and governance. It applies these theories in an examination of two pricing policies for wind energy in China, namely the tendering policy (a policy of price liberalization) and the fixed-price policy (a policy of price regulation). This paper argues that although either liberalizing the market or regulating the price of wind energy has brought some positive effects to the diffusion of this renewable energy source, the interactions between the interdependent actors within the established fabric of central-local relations have created new tensions and problems. These help explain why both market coordination and administrative coordination have failed to steer society towards the collective goal of facilitating the diffusion of wind energy. A possible alternative pricing policy — a national fixed-price policy with provincial variations in premiums — would, in our view, be more likely to facilitate the development of wind energy in China. The alternative pricing policy underscores the importance of a more sophisticated strategy which would require a reconfiguration of central-provincial relations through renewed state price regulation coupled with delegation.

Introduction

This paper focuses on governance for sustainable development. It examines the interaction of actors in China’s established central and local relations in the use of two fundamentally divergent pricing policies: namely a tendering policy whose distinctive feature is price liberalization and a fixed-price policy which features price regulation elements, and the outcomes and impacts of these policies on the diffusion of grid-connected wind energy into China’s current fossil fuel-based energy system.

The political economy of China’s power sector in the nation’s transition towards a socialist market economy has been largely re-shaped by two dynamic forces: gradual market liberalization, which has been introduced since 1980s in a series of power sector reforms, and decentralization of state power from central to sub-national governments. China’s electricity sector has undergone profound changes in terms of its structure, ownership and regulation as a result of major power market reforms launched in 2002. These changes involve the separation of grid and electricity generation entities, the introduction of more competition