

Xi Jinping wants more coordinated action on climate policy

January's Politburo study session showed that Xi Jinping is putting decarbonization at the heart of his economic policy.

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Key takeaways

- With China's decarbonization strategy formulated at the end of 2021, Xi now wants officials to focus on implementation.
- Achieving China's climate goals will not be easy, as officials seek to balance making progress while causing minimal economic disruption.
- For businesses and investors, one thing is crystal clear – carbon in China will become more expensive.

Xi Jinping is serious about decarbonizing China's economy – and he wants other officials to get serious too. This was the message from a Politburo study session held on January 24, which focused on how to achieve the “dual carbon” goals articulated by Xi Jinping in September 2020, namely:

- To achieve peak carbon emissions before 2030
- To achieve carbon neutrality before 2060

Politburo study sessions are held roughly once a month; because Xi Jinping sets the agenda for these meetings, they are important windows into his policy priorities and thinking.

At the January meeting, Xi was emphatic about the importance of decarbonization, stating that it was a fundamental component of his economic policy:

“Achieving peak carbon [before 2030] and carbon neutrality [before 2060] are inherent requirements of implementing the New Development Concept [Xi’s overarching economic philosophy], constructing a new development pattern, and promoting high-quality development.”

Since announcing them 17 months ago, Xi has repeatedly highlighted the importance of the dual carbon goals. But he appears far from satisfied with efforts thus far to achieve the goals, as reflected in his decision to make decarbonization the focus of January’s study session. At the meeting, Xi told his colleagues:

“It is necessary... that we fully recognize the urgency and difficulty of achieving the ‘dual carbon’ goals.”

Xi’s main frustration is that efforts to make progress on the dual carbon goals have thus far been haphazard and uncoordinated. This was most evident last summer and fall when some officials, eager to show that they supported Xi’s climate goals, shut down key power producers in an overzealous effort to reduce emissions; this, in turn, exacerbated power shortages and caused severe economic disruptions. For Xi, a man who likes order, such disorderly policy implementation was unwelcome. Hence, at January’s study session, he sought to bring everybody onto the same page, saying:

“[We must be] unified in our thinking and understanding, and implement the decisions and arrangements of the CPC Central Committee in a firm and steady manner.”

Enough talk, let’s get down to business

One reason that policy implementation was haphazard last year was the fact that the policy itself was unclear. The high-level goals had been set, but the methods for achieving them had not. This lack of specific policy guidance led to inconsistent and uncoordinated decarbonization efforts.

Ever since Xi announced the dual carbon goals, policymakers have been scrambling to figure out – and squabbling over – how best to achieve them. In the wake of Xi’s announcement, the environment ministry (MEE)

and macro planner (NDRC) engaged in a turf war to claim control of climate policy. This was, in fact, simply the latest iteration of a years-long struggle between the two agencies.

The environment ministry looked to have won a decisive battle in March 2018, when the NDRC's Climate Department was moved over to the MEE. But in late 2020, with Xi signaling that climate policy would be a top priority going forward, the NDRC went all out to regain control of the portfolio. In the end, the NDRC succeeded, and in early 2021 was given the lead role in drafting a roadmap for achieving the first of the dual carbon goals, i.e., achieving peak carbon emission before 2030.

Throughout most of 2021, policymakers argued over the best means to achieve peak carbon emissions. As the debate raged on, there was no clear guidance from Beijing on how officials were supposed to pursue Xi's dual carbon goals. This was because Beijing itself had not yet settled on a course of action.

Finally, at the end of October 2021, the NDRC released "working guidance" for the dual carbon goals, as well as an action plan for achieving peak carbon emissions before 2030.

January's Politburo study session served to emphasize that, with these core documents now released, climate policy has moved from a stage of formulation to one of implementation. This transition was underscored by Xi's choice of speakers, namely:

- Vice Premier Liu He
- Vice Premier Hu Chunhua
- Shanghai Party Secretary Li Qiang
- Tianjin Party Secretary Li Hongzhong

All are Politburo members – as opposed to the outside experts and researchers that are usually asked to speak at such study sessions. All four oversee broad economic portfolios, but are not (with the exception Liu He) known to be particularly expert in climate policy. This indicates that the discussion at the meeting was not about what China's climate policy should be, but rather on how to coordinate implementation of the policy already formulated by the NDRC.

All in all, the debate over the proper shape of China's decarbonization pathway is all but over. Now, Beijing is consumed with ensuring the vast bureaucracy proceeds down the chosen path in lockstep. Step one, as the January meeting also foretold, has been to ensure climate policy is inextricably integrated into economic policy – i.e., that climate is made part and parcel of the one policy area no official will dare countermand.

With the long-term trajectory now set in stone, it's time for Beijing's next great debate to rage – namely, how to balance climate, energy security, and economic interests through practical implementation of Beijing's chosen decarbonization path.

Easier said than done

Xi knows climate policy is not easy to implement. As Xi said at the study session:

“Achieving the ‘dual carbon’ goals [will necessitate] broad and profound changes, and will not be achieved easily.”

Xi identified four broad challenges that officials will have to deal with as they seek to implement climate policy:

1. Decarbonizing without causing major economic disruptions
2. Ensuring that policies designed in Beijing are implemented in a way that is suitable to local realities
3. Ensuring that officials are focused on the long term, and not incentivized only to seek unsustainable short-term “wins”
4. Designing policy in such a way that market incentives push economic actors to reduce emissions

Understandably, neither Xi nor other policymakers have immediate cure-alls for these problems. But the first step to tackling a problem is admitting that you have a problem – and the January meeting served to do just that. The second step is to proactively search for solutions. Xi emphasized that, going forward, policymakers need to always keep climate policy top of mind, no matter what they are doing. His message was clear: Mere compliance is not enough. The Party requires active problem-solving across the bureaucracy to get the job done.

Xi speaks and things happen

Officials throughout the system have clearly gotten the message that climate policy is a top priority for Xi. In the weeks following the study session, there has been a flurry of measures released by various government agencies to show how they will implement climate policy. Most notable among these are:

- January 30 guidelines by the NDRC and National Energy Agency (NEA) on energy sector decarbonization
- February 10 follow-up guidelines by the NDRC and NEA on energy sector decarbonization
- February 11 guidelines by the NDRC, Ministry for Industry and Information Technology (MIIT), MEE, and NEA for promoting energy-saving and carbon reduction in 17 specific industries
- A February 11 implementation plan by the MIIT and six other agencies on reducing industrial waste and increasing scrap recycling

With Xi clearly marking 2022 as a year to get things done on climate, the above measures are only the beginning – ministries and local government are now drafting a raft of implementation guidelines, poised for release in the months to come.

Change is coming

For businesses and investors, the 2022 Politburo study session should make clear that big changes are coming to China’s economy. Achieving Xi’s dual carbon goals are non-negotiable, and Xi is demanding progress from officials in 2022.

The good news is that Xi is also demanding that decarbonization be “orderly,” meaning that we are unlikely to see economically destabilizing actions or the disorder that exacerbated last year’s power shortages.

Of particular note should be the fact that Xi has exhorted officials to actively use policy to create market incentives for decarbonization. This is a clear sign that carbon will become more expensive. If companies and investors have not already started to game out how this will affect their operations and/or investments, now is the time to do so.