Subsidy Issue or Size Matter?

The Case of China’s Green Energy Sectors

Navigating Challenges: Industrial Policy, Competitiveness, and Development

January 8-10, 2025 · Singapore

Everything became national security

- “Security……measures the absence of threats to acquired values, in a subjective sense, the absence of fear that such values will be attacked.” (Wolfers, 1962)
- Jake Sullivan’s New Washington Consensus (Sullivan 2023)
- “We do not balance trade with national security.” (Estevez 2022)

Arnold Wolfers. *Discord and Collaboration: Essays on International Politics*. The Johns Hopkins Press, 1962.

“Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution,” April 27, 2023.

Daniel W. Drezner, “How Everything Became National Security and National Security Became Everything”, *Foreign Affairs*, Sept/Oct 2024 Issue.

“A Conversation with Under Secretary of Commerce Alan F. Estevez”, by Martijn Rasser, October 22, 2022.

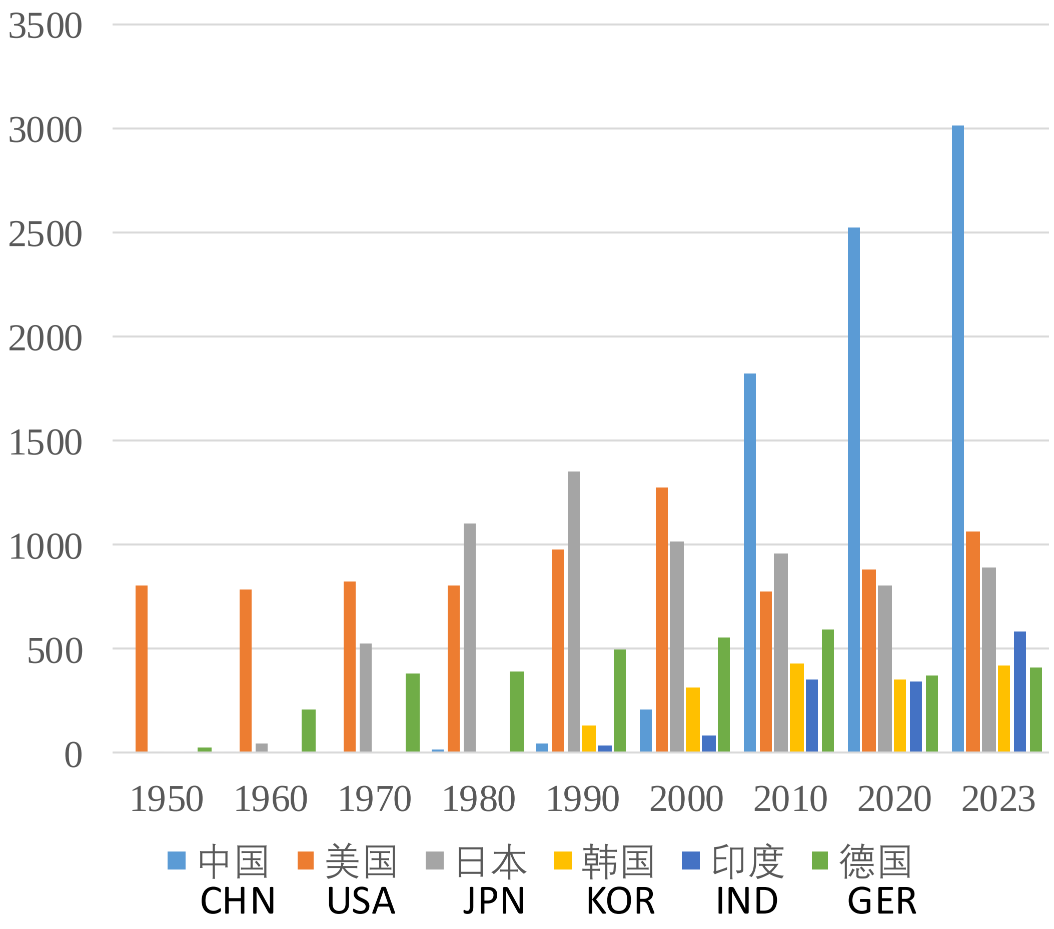
Is overcapacity a security concern?

- U.S. complaints about overcapacity: state subsidy and state direction

Janet Yellen dialogue with professors of the National School of Development, Peking University on April 7, 2024

Chinese industrial policy

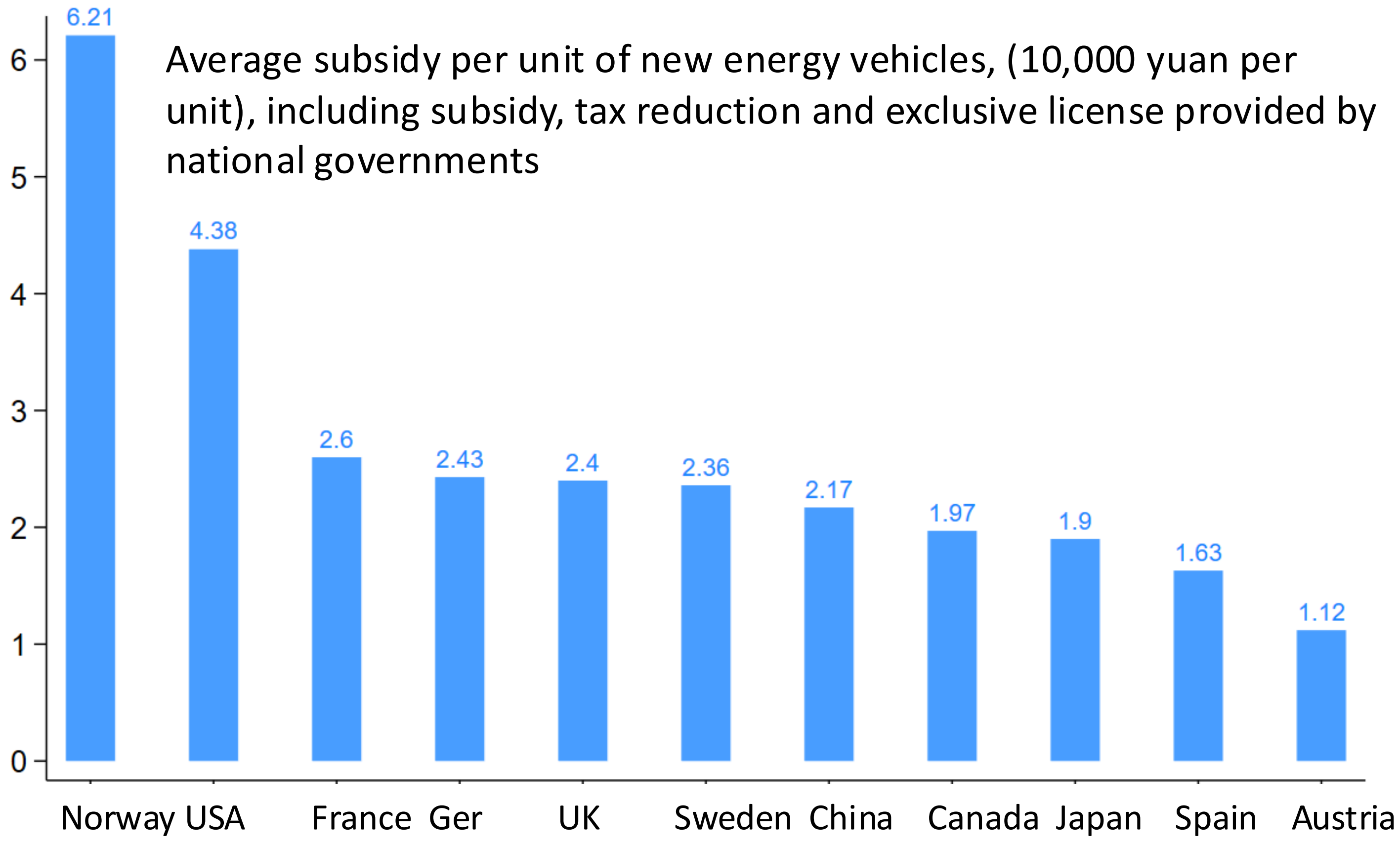
- 1991, encouraging R&D and production of EVs
- 1994, devising plan for promoting Evs
- 2008, announcing goals and measures to accelerate EV development
- 2009, “10 city-1000 EVs Project”
- ……



Automobile output, 1950-2023 (10,000 units)

State subsidy

- In the US: at the federal level, accelerated subsidy for EVs in 2005; introduced personal income tax reduction and exemption in 2007



Li, Shanjun, Binglin Wang, Muxi Yang, Fan Zhang, "Charging Infrastructure and Consumer Incentives Drive Cross-Country Disparities in Electric Vehicle Adoption." 2022, manuscript, Dyson School of Applied Economics and Management, Cornell University.

Factor cost distortion

- "The Center for Strategic and International Studies concludes that China spends roughly 5 percent of GDP on industrial subsidies, 10 times as much as the United States, Brazil, Germany, and Japan." (Jay Shambough 2024)
- ***But***, they are mostly due to the dual-track liberalization (for SOEs) as transition policy, not as industrial policy (for private companies)

Producer subsidy equivalent (PSE) due to factor market distortions (% GDP)

	Capital	Land	Energy	Total
2000	4.1	0.5	0.0	4.6
2001	3.9	0.5	0.0	4.4
2002	3.9	0.4	0.0	4.3
2003	3.8	1.1	0.0	4.9
2004	3.1	0.9	0.6	4.6
2005	3.0	1.3	1.7	6.0
2006	3.1	2.0	1.6	6.7
2007	3.6	1.2	1.6	6.4
2008	3.4	1.0	0.7	5.1
2009	3.5	0.9	0.7	5.1

Huang, Yiping, "Dissecting the China puzzle: Asymmetric liberalization and cost distortion", *Asian Economic Policy Review*, 2010, 5(2): 281-295.

Investment promotion programs

- Local governments implemented “investment promotion” policies to attract investors, including implicit subsidies on land

Local governments’ investment promotion programs

Room for improvement

- Green energy products do not necessarily pose national security threat
- But industry size is an important factor
- China needs to regulate the local governments' industrial policies
- How about a Chinese Green Marshall Plan?


SCMP PLUS

Open Questions | China's 'overcapacity' could help Global South in green transition

Frank Chen in Shanghai

Published: 2:00pm, 7 Nov 2024

Chinese economist Huang Yiping says a 'China Marshall Plan' would match excess new energy capacity with the unmet green transformation needs of emerging markets

China economy

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Why you can trust SCMP

This latest interview in the Open Questions series features Huang Yiping, dean of Peking University's National School of Development and director of the university's Institute of Digital Finance. Huang says the jury is out on whether China's economy can engineer a comeback in the last quarter of 2024 and advocates for market forces to be used to steer local Chinese economies back on track.

"Open Questions: China's overcapacity could help global south in green transition", *South China Morning Post*, November 11, 2024.