ENERGY EFFICIENCY

The Chinese connection

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The role of the Chinese state in the growth of the renewable energy industry through legislation such as the Renewable Energy Law of 2005 has been well documented. On top of this, informal state influence has been speculated to have supported the growth of particular renewable energy companies, though such influence remains largely unquantified. Now, Xiaohua Sun and colleagues at the Dalian University of Technology develop a metric to measure this influence and show that it negatively affects the energy efficiency of supported companies.

Those firms whose leadership has held military, government or party positions at some point from 2010 to 2016 are identified by the researchers as politically connected. Through manually scouring the biographies of leadership of 518 renewable energy firms, they identify 228 politically connected firms. Net return on capital is taken as the metric to measure energy efficiency. Available government subsidies and financing facilities are included in the model to signify government resource availability to the firms, which are split into state and non-state enterprises. Through regression analysis the researchers find that resource availability is positively affected by political connection, and that politically connected non-state firms spend less on research and development and that their efficiency declines. Pursuit of government resources such as long-term loans through political connection becomes a form of rent seeking that negatively affects productivity and governance. The researchers recommend new supervision tools such as innovation vouchers to manage the negative effects of state influence on the market.

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