

Deregulation in energy prices in China: A CGE Analysis

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The central government in China has implemented ambitious energy policy reforms since 1978. Price deregulation is an integral component of the recent energy market reforms and plays an important role due to the impact of price signaling in the energy markets on the level of consumption. The existing literature does little more than describing the price deregulation. In this paper, we examine the macroeconomic impact of price deregulation in China using an applied CGE model and some policy simulations. We contribute to the literature by providing empirical results from an applied CGE model. An important feature of the model is treatment of the energy sectors with increasing returns to scale. In addition, the model allows producers to substitute among energy sources, which may have important policy implications. For instance, energy-saving policies and environmental policies especially address substitution of fossil fuels by other sources of energy. The paper examines in detail the possible effects of the deregulation of prices in the Chinese energy sector.