CHINA'S INDUSTRIAL DE-CAPACITY CAMPAIGN (I): REVIVING THE STEEL AND COAL INDUSTRIES

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EAI Background Brief No. 1215

Date of Publication: 1 February 2017

Executive Summary

1. Industrial production overcapacity has long been a challenge to China’s economic development since the late 1990s. Xi Jinping has given the issue top priority in his new blueprint for China’s “supply-side structural reforms”.

2. Local governments had previously resisted the central government’s promotion of production capacity reduction because it would not only reduce local Gross Domestic Product growth and tax revenue, but also bring about local social instability and financial insolvency issues.

3. Overcapacity prevails chiefly in China’s steel and coal industries. In particular, China’s steel industry has registered industry-wide loss since 2011.

4. In 2015, 50.5% of China’s steel enterprises were making unprecedentedly huge losses of over RMB100 billion. In 2015 China’s coal supply exceeded demand by 420 million tons and over 80% of the coal enterprises were in the red.

5. While the central government requires the local governments to attain national de-capacity goals by end 2016, local governments had only completed 47% and 38% of the goals for steel and coal by end July, respectively.

6. Ten investigation teams were sent to some “key de-capacity provinces” to promote the de-capacity campaign, pushing the local governments to speed up their de-capacity process.

7. Under the central government’s “carrot and stick” approach, local governments have achieved their 2016 de-capacity goals before the year-end deadline; however, problems such as the questionable quality of de-capacity achievements and the possible re-emergence of new overcapacity are real challenges that the central and local governments are likely to face in its 2017 de-capacity campaign.