REFORMING CHINA'S WATER INDUSTRY

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Executive Summary

1. In the past two decades, the wastewater treatment industry in China's urban areas has developed rapidly. The level of marketization of the wastewater treatment industry is also much higher than that for the water supply industry. However, wastewater treatment in China is mainly for preventing pollution rather than increasing water supply through recycling.

2. In recent years, recycled water has been popularized and used in some northern cities which suffer from serious water shortage. Yet in most cities, recycled water is not widely used or simply does not exist. The capacity and utilization of recycled water among different provinces and cities vary dramatically.

3. Desalination is also an important part of the water industry. By end-2006, there were 41 desalination facilities in China, mostly in Shandong, Liaoning, Zhejiang, Hebei and Tianjin. To date, China's total desalination capacity has improved significantly to 600,000 m^3/day. Yet to meet the target set by the government, the potential for future development is still significant.

4. There are three types of corporations competing in China's water market, namely multinational corporations, restructured state-owned enterprises (SOEs), and domestic private companies. Since the financial crisis, the expansion of multinational corporations has significantly slowed down, while large-scale SOEs have become more competitive.

5. Recycled water plants in China are limited by factors including high treatment costs, lack of supporting facilities, low treatment quality, and poor water usage habits. The utilization rate of recycled water facilities is only 10%, and most recycled water plants are loss-making ventures. Singapore's water companies, with their advanced technology and management, have clear advantages.

6. There are more than 2,000 water plants in China's 669 cities in 2010. Every city has its own water plant(s). The market shares of the two largest companies are only 3.02% (Chuang Ye Huan Bao) and 2.33% (Shou Chuang Holding), respectively. Due to the low level of concentration in China's wastewater treatment market, M&A will be the main theme in the long run.

7. The major institutional obstacle for the development of China's water industry is its pricing structure. Any change in water price could have serious economic and social implications; it is difficult for the government to implement any water price increase for domestic use, especially when inflation is a serious concern. China's water pricing reform has been postponed several times.

8. Many water treatment enterprises found it difficult to make profit given the low water price in China. While water price remains low in China, it has risen gradually over the past decade. Since the 1990s, the Chinese government has promulgated a series of laws and regulations to push forward its water pricing reform.