Supply-side reform is key

Restructuring across the industrial sector seeks to boost high-tech production and innovation

By **ZHONG NAN, REN XIAOJIN** and **JING SHUIYU**

When the 23-kilometer main section of the Hong Kong-Zhuhai-Macao Bridge was completed in July, the new form of steel used in its construction was hailed as a prime example of China's continuing development in the field of materials science and manufacturing.

The bridge, which has a full span of 55 km and is the longest of its kind in the world, is a great advertisement for the duplex stainless steel developed by Taiyuan Iron and Steel, which was being used for the first time.

Meanwhile, in March, the company, which specializes in developing high-tech materials, began supplying stainless steel for Hualong One, a domestically developed third-generation nuclear power station in East China's Fujian province, one of 10 either completed or being constructed with stainless steel made by the company.

Many new growth points such as these are the result of the nation's ongoing supply-side structural reform, which focuses on increasing high-tech production while reducing low-end capacity. The reform runs alongside the Made in China 2025 strategy to support innovative and sustainable development and the Belt and Road Initiative to revive historic trading routes.

"Our products will shine on the global stage through integration with markets related to the Belt and Road Initiative and huge advances in infrastructure and trade," said Li Xiaobo, Tiaiyuan Iron and Steel's chairman.

Liu Peilin, deputy director and a research fellow at the Department of Development Strategy and Regional Economy at the State Council's (China's cabinet) Development Research Center, explained the strategy.

"Supply-side reform aims to raise the labor force participation rate, optimize the allocation of labor and capital, and accelerate technological development," he said.

"If we only stimulate the demand side, it will just lead to inflation. The current challenge we face, from my point of view, is to satisfy the higher demand by providing a higher level of supply to jump over the middle-income trap."

Li Guanghui, vice-president of the Chinese Academy of International Trade and Economic Cooperation in Beijing, noted that other countries are adopting similar measures: "Under the current global business conditions, the world's major economies are actively seeking to rejuvenate their manufacturing sectors for future growth."

To that end, the United States has proposed a manufacturing industry renaissance program, Germany has the Industry 4.0 strategy, and Japan, France and the United Kingdom have their own programs to revitalize manufacturing and stimulate exports.

To improve the manufacturing sector's earnings potential, China aims to make breakthroughs in high value-added products, such as next-generation computer numerical control machines, large passenger jets, complex ships, offshore engineering products, sensors and industrial software.

Progress has already been made in shipbuilding. Chinese shipyards are outperforming their South Korean rivals in the construction of high-end mega container ships, cruise liners and other special-purpose vessels, having already sharpened their manufacturing edge and grabbed a larger share of the global market, said Jin Peng, secretary-general of the China Association of the National Shipbuilding Industry.

Between January and August, China's shipbuilders received new orders amounting to 13.34 million deadweight tons, accounting for more than 32.9 percent of new orders worldwide and surpassing the 27 percent held by South Korean companies during the same period, according to the association's data.

For example, COSCO Shipping Heavy Industry is building four of the world's biggest subsea support vessels for Maersk Supply Service. The first of the four, Maersk Installer, was delivered in October.

Lin Zhongqin, an industry expert and president of Shanghai Jiao Tong University, said it is the first time a Chinese shipyard has built a vessel for Maersk, which usually buys ships from South Korea and Europe.

Dong Liwan, a shipping industry professor at Shanghai Maritime University, said capable Chinese shipyards now focus on higher-value vessels.

These achievements are a result of the campaign to transform the nation's State-owned enterprises (SOEs), whose combined assets surpass 150 trillion yuan ($22.6 trillion) — double China's annual GDP.

The central government has actively restructured SOEs in a bid to improve their efficiency and competitiveness. The move has seen the number fall to 98 from 117 five years ago.

Li Jin, chief researcher at the China Enterprise Research Institute in Beijing, said the reform will cut unprofitable "zombie" companies, reduce excessive capacity and improve administration.

Zombies are economically unviable businesses, usually in sectors with severe overcapacity, kept alive via aid from the government and banks.

"A modern corporate system, which separates government administration from business operations, will allow SOEs to function as efficiently as other businesses," Li said.

Sinochem, a State-owned conglomerate involved in energy, agriculture, chemicals, real estate and financial services, is an example of how unprofitable companies are being slashed to boost efficiency.

"The group has closed 56 departments and lowered the head count at its headquarters by 32 percent since the reform started," said Ning Gaoning, the company's chairman.

Between January and August, Sinochem generated net income of more than 10 billion yuan, a company record, from its fast-growing businesses in fertilizers, seeds, pesticides and new materials, both at home and overseas.

China Eastern Airlines has also joined the first batch of SOE pilot reforms, and is experimenting in mixed ownership by making 2.25 billion shares in a subsidiary, Eastern Airlines Logistics, available to institutional investors.

According to the 36th meeting of the Central Leading Group for Deepening Overall Reform in June, the government will completely restructure the country's SOEs by the end of the year to further reduce operating costs.

Concerted efforts have also been made to reduce overcapacity in sectors such as coal, cement and glass.

From January to August, centrally administered SOEs in the three sectors beat government targets, especially in the coal industry where capacity was reduced by more than 55 million metric tons, said Xiao Yaqing, minister of the State-owned Assets Supervision and Administration Commission.

The National Energy Administration plans to cut coal production by 150 million tons this year. Last year's target saw output fall to 2.3 billion tons, more than 11 percent lower than in 2015, according to data from the China National Coal Association.

Li Wei, general manager of Yankuang Group, the largest State-owned coal company in the eastern Shandong province, said the company has closed an outdated coal mine and an old aluminum plant.

"Thanks to the measures, the combined losses shrank by 1.6 billion yuan in the first nine months of the year," he said.

"We aim to build the company into a first-rate high-efficiency supplier of clean energy. Clean technologies will help the industry to achieve green and sustainable development."

However, Shi Yong, vice-president of the China Machinery Industry Information Research Institute in Beijing, warned that a number of core links in the country's industrial chain are missing, such as integrated circuits and industrial system solutions, which is preventing the manufacturing sector from achieving high-end production.

Shi said it is essential for the country to ensure that it has complete and functional industrial, innovation and financial chains, supported by big data analysis, cloud computing, online platforms and business-friendly innovations.

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The Hong Kong-Zhuhai-Macao Bridge is the longest of its kind in the world. LIANG XU / XINHUA

An employee works in a facility for the manufacture of lasers in Tangshan, in North China's Hebei province. YANG SHIRAO / XINHUA