

Beijing moves to halt growth as supply starts to outstrip demand



The Government of China has launched an attack on overcapacity in its heavy industries with a series of stinging curbs on new factories, smelting plants and port-building projects. The government crackdown, unleashed a day before the country enters a ten-day holiday to celebrate the communist revolution, comes amid rising fears that China's economy may be blundering into a destructive boom-bust cycle.

For political reasons, Beijing is eager to keep GDP growth above the level of 8 per cent supposedly required to maintain social stability and job creation. But there are fears that huge imbalances between production capacity and actual demand could lead to price wars, corporate failures and severe setbacks for the country's stellar expansion trajectory.

The government statement included a direct swipe at provincial authorities and what it identified as slack controls on spending and deliberate flouting of planning guidelines. "Some regions act illegally, give approvals

in violation of regulations or allow building before approval is granted," said a message on the Chinese Cabinet's website.

Under the terms of Wednesday's onslaught against industry, the building of new steel plants and the expansion of existing facilities were slapped with indefinite bans. Similar restrictions were placed on any impending plans for cement, glass and coke factories. China will not allow any new aluminium smelting plants to be built before 2012, said the official statement, and no new docks are to be built anywhere in the country over the same period.

China's State Council calculates that the impact of this year's 140 billion yuan (£13 billion) investment spree in steel mills will be to lift overall national production capacity some 40 per cent above the country's entire annual demand. The same dynamics reportedly apply to cement.

In the absence of such controls, said the statement from the Chinese Cabinet, "it will be hard to prevent vicious market competition and to increase economic benefits, and this could result in facility closures, layoffs and increases in banks' bad assets."

Source: Times