China Puts Brake On Industrial Overexpansion

Joe McDonald, AP Business Writer

BEIJING (AP) — China announced sweeping curbs on surging investment in steelmaking, cement and other industries, warning that chaotic overexpansion was raising the danger of job losses and trouble for banks.

Business groups and economists have warned that Beijing's huge stimulus might fuel a dangerous boom and bust. The government said in August it would rein in investment in a range of industries but gave no details until now.

Under Wednesday's order, new aluminum production projects are banned for three years and regulators will limit spending on factories to make steel, cement, glass, polysilicon used in solar panels and wind power equipment.

Without controls, "it will be hard to prevent vicious market competition and increase economic benefits, and this could result in facility closures, layoffs and increases in banks' bad assets," the Cabinet said on its Web site.

Beijing appeared to be trying to fine-tune measures to keep China's recovery going by ensuring adequate supplies of industrial goods while preventing a glut that could set off price wars, hurting financially weak producers.

Businesses and investors have waited uneasily for details of how industries would be affected, worried the measures might squeeze profits.

Wednesday's announcement said local authorities were partly to blame for runaway spending because they ignored planning guidelines.

"Some regions act illegally, give approvals in violation of regulations or allow building before approval is granted," the statement said.

The investment boom also has been fueled by government orders to state-owned banks to support growth by sharply raising lending in the first half of this year. Economists say that is likely to lead to excessive industrial investment, especially with stimulus-financed construction boosting demand and prices for steel, cement and other materials.

Beijing's two-year, 4 trillion yuan ($586 billion) stimulus is meant to reduce reliance on slumping exports by boosting domestic consumption with massive spending on construction of highways, airports and other projects. It helped to boost economic growth to 7.9 percent in the quarter ended June 30, up from 6.1 percent the previous quarter.

New steel mills, cement factories and other projects will have to meet higher environmental and energy efficiency standards, the Cabinet statement said. It gave

no details of how each industry's production capacity might be affected.

China is the world's biggest steel producer, and Beijing is trying to make the industry more competitive by closing smaller, dirtier mills. Regulators have tried to enforce similar changes in cement and other industries but local leaders who don't want to lose jobs and tax revenue resist closing outmoded facilities.

China's annual steel production capacity of 660 million tons already exceeds its needs of 500 million tons, and another 58 million tons of capacity is under construction, "much of it illegitimate," the statement said.

"Steel production capacity could exceed 700 million tons and overcapacity could worsen if curbs are not imposed promptly," it said.

New steel mills must be approved by Beijing instead of local authorities to ensure they meet environmental standards, the statement said. Smaller blast furnaces are to be shut down by 2011, though it was unclear how many might be affected.

Coal and petrochemical projects must meet higher energy efficiency standards and regulators will "speed up the elimination of backward projects," the statement said. It said no experimental projects will be approved for three years.

Proposed cement factories will be reviewed and developers will be forced to redesign any that do not meet standards, it said. Proposed glass factories will be reviewed and must meet higher energy efficiency standards while "backward glass production" will be shut down.

New polysilicon factories must be able to capture and recycle up to 99 percent of waste gases, the government said. Facilities also will face minimum size requirements to promote efficiency and limits on how much land they can use.

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