China Warns Local Leaders To Cut Industry Bloat

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BEIJING (AP) -- Chinese leaders have ordered local officials to stop expanding industries such as steel and cement in which supply outstrips demand, a Cabinet statement said Tuesday, in a sign previous orders to cut overcapacity were ignored.

Beijing has been trying since 2009 to cut excess production capacity, which has triggered price-cutting wars that threaten the financial health of some industries. But lower-level leaders whose promotions depend on economic development have continued to support local industries.

In a video conference on Monday, planning officials warned local leaders to stop ignoring orders to reduce overcapacity in industries including steel, cement, aluminum and glass.

"Those who still violate discipline will be heavily punished," said the deputy director of the Cabinet planning agency, the National Development and Reform Commission, Hu Zucai, according to the government newspaper China Daily.

Economists and business groups warn industrial overcapacity could hurt Chinese banks if unprofitable companies default on debts.

China's solar panel manufacturers have been especially hard-hit by excess production capacity and price-cutting.

In March, the main Chinese subsidiary of Suntech Power Holdings Ltd., once the country's biggest solar panel producer, was forced into bankruptcy court after missing a $541 million payment to bondholders. That unit was sold to a state-owned company.

In other industries, large amounts of production capacity are idle, the Cabinet statement said.

Cement manufacturers use only 71.9 percent of their capacity as of the end of 2012, according to the statement. The steel industry used 72 percent while the rate for glass manufacturers was 73.1 percent.

The scale of overcapacity is unprecedented, the China Daily said, citing Zhu Hongren, chief engineer of the Ministry of Industry and Information Technology.

Beijing has tried to prod producers in many industries into mergers to reduce output. But lower-level officials in many areas prop up unprofitable local companies with rent-free land and other aid.

The conflict is fed by a political system in which Communist Party officials are judged on their role in economic development. Building steel mills or other industrial assets shows up quickly in local economic statistics, helping leaders win promotion.

The rapid overexpansion of industrial capacity also was fueled by Beijing's multibillion-dollar stimulus in response to the 2008 global crisis, which was based on higher spending on building highways and other public works. That sent a flood of money to suppliers of steel, cement and other raw materials and helped them resist pressure to merge or reduce production.

In some places, the Cabinet statement said, local leaders go through the motions of obeying orders to tear down older steel mills, but then replace them with bigger facilities.

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