

China Politics Weekly

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Supply-side reforms move into implementation phase...

After two weeks off, the top leaders got back to work last week. The State Council's first executive meeting since the break focused on cutting overcapacity, identified as the number one priority within the current supply-side agenda. Local governments are currently behind on their capacity reduction targets, so the State Council is sending out inspection teams over the next few weeks to oversee implementation.

I'd put money on the government meeting its targets for steel and coal capacity reduction this year, which are 45 MT and 250 MT, respectively. The State Council said that they would set up a "reward and punishment mechanism". Central funds for worker re-training and resettlement have already been tied to meeting targets. The combination of high-level support and fiscal incentives should ensure successful implementation.

...but achieve little

That the government will finally meet its overcapacity target is encouraging, especially since the most previous efforts to tackle the problem in 2009 and 2013 were utter failures. However, the progress made this time will not be enough to fundamentally solve the problem. Even aggressive implementation of the government's plans over the next three years would barely bring utilization rates in the coal and steel sectors above 70%, meaning that overcapacity be slightly less severe, but still present.

What's more, closures are not necessarily removing the most inefficient capacity. It is the government – not markets – that is the principal arbiter of which firms stay and which firms go, meaning that political considerations are primary, and economic ones are secondary. Efficiency gains from reducing capacity will thus be muted.

Current efforts are better than nothing, but far from great.

PBSC Week in Review

Xi Jinping

Party General

Aug 21

Xi signed orders to give honorary titles to two PLA units.

<i>Secretary; PRC President; Chairman of Central Military Commission</i>	Aug 19-20	Xi attended and spoke at a national meeting on health.
	Aug 19	Xi met with Myanmar State Counsellor Aung San Suu Kyi.
	Aug 18	Xi attended the opening gala of the Minority Art Festival.
	Aug 17	Xi delivered a speech at a symposium on the Belt and Road Initiative.
Li Keqiang <i>Premier</i>	Aug 19-20	Li attended and spoke at a national meeting on health.
	Aug 18	Li held talks with Myanmar State Counsellor Aung San Suu Kyi.
		Li attended the opening gala of the Minority Art Festival.
	Aug 17	Li met with Nepali Deputy Prime Minister Krishna Bahadur Mahara.
	Aug 16	Li chaired an executive meeting of the State Council. The meeting decided to make an inspection concerning resolving overcapacity, stimulate imports and exports by further implementing related policies, and to make more efforts to alleviate poverty.
Zhang Dejiang <i>Chair of the National People's Congress</i>	Aug 19-20	Zhang attended a national meeting on health.
	Aug 19	Zhang met with Myanmar State Counsellor Aung San Suu Kyi.
	Aug 17	Zhang presided over a chairpersons' meeting of the NPC. The meeting determined that the next bimonthly session will be held August 29-Sept 3.
Yu Zhengsheng <i>Chair of the Chinese People's Political Consultative Conference</i>	Aug 19-20	Yu attended a national meeting on health.
	Aug 19	Yu met with Takeo Kawamura, chair of the Japanese House of Representatives Committee on Rules and Administration.
	Aug 18	Yu chaired a bi-weekly consultation session of the CPPCC. The session discussed international sci-tech cooperation and 'big science' programs. Yu attended the opening gala of the Minority Art Festival.
Liu Yunshan <i>Head of Party Secretariat; Head of Propaganda</i>	Aug 19-20	Liu attended a national meeting on health.
	Aug 18	Liu attended the opening gala of the Minority Art Festival.

Wang Qishan <i>Secretary of the Central Commission for Discipline Inspection</i>	Aug 19- 20	Wang attended a national meeting on health.
Zhang Gaoli <i>Executive Vice Premier</i>	Aug 19- 20	Zhang attended a national meeting on health.
	Aug 16	Zhang met with Apple CEO Tim Cook.

About CPW

China Politics Weekly aims to keep business leaders, investors, diplomats, scholars and other China hands up to date on important trends in China. It is produced by Trey McArver, a London-based consultant providing advice and intelligence to firms and investors engaged in China and the region. You can find out more about Trey and CPW in [this interview](#).

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