

# SOE MATTERS

PLANNING FOR GROWTH

## Central companies stoke BRI cooperation

Firms ensure trade and investment flows, infrastructure connectivity and job creation

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China's centrally-administered State-owned enterprises have become a major force in deepening cooperation among economies participating in the Belt and Road Initiative, said government officials and business leaders.

In doing so, SOEs are supporting China's innovation activities during the 13th Five-Year Plan (2016-20) period, they said.

Central SOEs have participated actively in the BRI over the last seven years. This has helped ensure trade and investment flows, infrastructure connectivity, people's well-being, power supply and job creation, said Peng Huagang, secretary-general of the State-owned Assets Supervision and Administration Commission of the State Council.

Central SOEs are very big companies or groups within the jurisdiction of the central authorities. Other SOEs are enterprises owned by governments at different levels like province and city.

To date, central SOEs have invested in and developed more than 4,700 projects in 138 countries and regions participating in the BRI.

Many of them were undertaken during the 13th Five-Year Plan (2016-20) period, accounting for more than 70 percent of their projects in global markets.

They have been promoting a number of key projects related to the initiative, such as Greece's Piraeus port, the China-Belarus Industrial Park, the Mombasa-Nairobi Railway and the China-Laos Railway.

"For further development, we will continue to focus on better outcomes under the BRI, by providing high-quality services during the construction of projects," said Peng.

China National Aviation Fuel Group Ltd, the country's largest aviation fuel supplier by sales revenue, plans to invest in equipment manufacturing and innovation in BRI economies over



Employees of China Railway First Group carry out construction work in Tianjin in September. YANG SHIYAO / XINHUA

the next several years to expand its global presence.

The Beijing-headquartered central SOE will further diversify its sales channels and enhance its production and service networks to develop both home and overseas markets, said Zhou Qiang, its chairman.

The group will accelerate reform of its overseas business management system and related mechanisms, adjust its business structure and optimize its operational model to reinforce this strategy.

Company executives said they believe the strategy is a practical way to enlarge National Aviation Fuel's sales network to better serve airlines across the world.

Zheng Donghua, deputy director of the research center at the SASAC, said the BRI's new move to encourage third-party, or trilateral, cooperation among market players will further support the world's economic recovery during the post-pandemic era.

The trilateral cooperation initiative will likely drive the "sustainable industrialization and investment" program. Such cooperation will actively work with buyers as well as factories to improve global supply chains and attract more investors, he said.

This will help connect China's competitive production capacity with developed countries' advanced technology via the third-parties' vast growth demand, he said.

For instance, the cooperation model between China and Japan set an example for the cooperation and development of third-party markets.

The model can combine advantages of the two countries: China has a strong government, financing support, and large and efficient production capacity; Japan has rich overseas experience, developed technology and advanced risk management mechanism, according to a 2019 study by EY (formerly Ernst & Young, a global business services firm).

A growing number of central SOEs, such as China Energy Engineering Group Co and China Railway Rolling Stock Corp, have ramped up their efforts to develop overseas markets under the framework of third-party market cooperation, actively embracing the business opportunities offered by the BRI in recent years.

For instance, the Gibe-III hydropower project in southern Ethiopia has been contracted out to two foreign companies — Salini Impregilo Group, an Italian construction company, and Dongfang Electric Corp, a Chengdu-based central SOE specializing in power generating equipment manufacturing.

With a total installed power of 1,870 megawatt and an energy output of 6,500 gigawatt-hour per year, the project has boosted the national energy output of Ethiopia by 85 percent, meeting the rising demand for power grid construction and upgrading in the African country.

Between 2016 and 2019, central SOEs invested 1.97 trillion yuan (\$288.35 billion) in research and development, accounting for 26.5 percent of national spending in this area, according to the latest data released by the SASAC.

Supported by 91 national key laboratories and 733 national-level R&D platforms, central SOEs have gained a number of breakthroughs in fields like aerospace, telecommunication, and high-end manufacturing during the three-year period.

Many central SOEs have raised their investments in sectors like new materials, cloud computing, big data, artificial intelligence, the internet of things, smart cities, mobile applications, and integrated circuits to stay competitive, as sustainable growth and digitalization have become key drivers of future growth, said Zhou Yuxian, chairman of China National Building Material Group Co Ltd in Beijing.

## New growth drivers to underpin 14th Five-Year Plan

By ZHONG NAN

China will foster new growth drivers in areas of development for regional integration, 5G and digital technologies in its State-owned enterprises during the 14th Five-Year Plan (2021-25) to create a new pattern of high-quality development, said government and SOE officials.

They made the comments after the State-owned Assets Supervision and Administration Commission of the State Council announced on Monday that both centrally-administered SOEs and State-controlled firms will focus on regional coordinated development strategies — such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Beijing-Tianjin-Hebei region and the Yangtze River Delta region — to realize more potential from these regions' comparative advantages and resource endowments to seek new growth drivers.

The government will promote the adjustment of the industrial structure and enhance the stability and competitiveness of the industrial and supply chains. This is primarily to promote the deployment of SOEs in key links of the industrial and supply chains, as well as the high-end manufacturing sector, said Weng Jieming, vice-chairman of the SASAC.

In addition to supporting selected companies to carry out mergers, acquisitions and other types of professional integration, the SASAC said SOEs will be encouraged to form more partnerships with private companies — in particular small and medium-sized enterprises — to further boost compatible innovation among them.

"Guided by mutually beneficial market operations, SOEs will active-



Employees of China Southern Power Grid inspect a facility in Zhuhai, Guangdong province. ZHU DIAN / XINHUA

ly enhance all-round cooperation with them, serving as a national team in stabilizing the industrial chain over the long run," Weng said.

Through industrial funds, equity purchases and other methods, central SOEs have invested more than 400 billion yuan (\$59.76 billion) in over 6,000 private companies since 2013. Meanwhile, the SASAC guided central SOEs to reinforce management and become active shareholders after investment, strictly regulate transactions and promote information disclosure.

To better respond to the government's call to participate in the country's coordinated regional development, China Southern Power Grid Co Ltd, which supplies electricity to the Guangxi Zhuang

autonomous region and the provinces of Guangdong, Yunnan, Guizhou and Hainan, plans to invest more than 170 billion yuan in power grid construction in the Pearl River Delta region between 2018 and 2022.

Based on the power grid, the Guangzhou-based central SOE intends to build an international standard smart power grid in the Guangdong-Hong Kong-Macao Greater Bay Area, or GBA, by 2030 and aims to help build the area into a vigorous international urban agglomeration, a main hub of the Belt and Road Initiative, a cooperation demonstration zone between the Chinese mainland, Macao and Hong Kong, as well as an area ideal for living, traveling and working.

"Our power supply unit in Heng-

qin in Zhuhai, Guangdong province, is now improving the power grid in Hengqin in order to realize a quick power recovery within 300 milliseconds so that only two households at most would be impacted by a blackout," said Meng Zhenping, the company's chairman.

Meng said the company will continue to improve the urban and rural power transmission and distribution network in the entire province, and is aiming to build a highly reliable power supply demonstration zone in three locations: Sino-Singapore Guangzhou Knowledge City, Qianhai of Shenzhen and the Hengqin New Area in Zhuhai — all of which are in Guangdong province.

The power grid constructor and operator sold 1,051.8 Terawatt-hours of electricity, generating revenue of \$81.2 billion in 2019, with total assets reaching \$133.2 billion.

As China's new economic development pattern of "dual circulation" — first put forward in May — relies on domestic circulation to drive its international circulation and promotes deeper and wider opening-up, China Post Group Corp, another central SOE with nearly 1 million employees, launched a nationwide e-commerce festival to build an e-commerce ecosystem in the country's rural areas last month.

Domestic circulation, or the internal cycle of production, distribution and consumption, will be the mainstay of economic development while the domestic market is integrated with international circulation to promote the smooth two-way flow of goods and capital, said the Ministry of Commerce.

Unlike other major online shopping festivals such as the Double 11 shopping carnival (Nov 11) and the 618 Midyear Shopping Festival, China Post will take advantage of its direct access to rural areas and provide services — including agricultural materials and technologies, warehousing and logistics — to farmers' cooperatives across the country to further help them sell their products and conduct poverty alleviation activities, said Liu Aili, chairman of China Post.

The company has already made a plan to help farmers earn more through e-commerce business during the 14th Five-Year Plan, including building online pavilions in national level poverty-stricken areas, advising and helping farmers to grow marketable products, and train more people with new skills.

RIGHT TRACK

## Sinopec, BASF JV put on fast track

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China Petroleum and Chemical Corp (Sinopec), Asia's biggest refiner, is speeding up the development of its neopentyl glycol (NPG) capacity in Nanjing, Jiangsu province, through a joint venture with Germany-based BASF.

The refiner recently set up a 50-50 JV with BASF to expand the production capacity of NPG at the state-of-the-art Verbund site in Nanjing, with an annual capacity of 40,000 metric tons.

With the completion of the expansion in August 2020, the annual capacity will reach 80,000 tons per year, said BASF.

"Sinopec and BASF have been working closely together for many years," said Hong Jiangqiao, chairman of Sinopec Yangzi Petrochemical Co Ltd and JV BASF-YPCC Co Ltd.

"The NPG expansion plant reflects a better cooperative relationship between the two parties and is also in line with the Chinese government's guidance toward improving industrial restructuring and transformation to fulfill market demand with high-quality products."

NPG is a unique chemical offering superior performance in many end-use applications, especially in the production of polyester and resins for various coatings and plastics due to its chemical and thermal stability.

Li Li, research director at ICIS China — a firm that tracks China's petrochemicals market, said the stepped-up capacity marks further cooperation between the two chemical companies.

Many of Sinopec's integration sites have been boosting cooperation with foreign enterprises, she said.

Founded in 2000 with a total investment of \$5.5 billion, Sinopec Yangzi Petrochemical Co Ltd is one of Sinopec's largest integrated sites of refinery and petrochemical operation with sales of 77.7 billion yuan (\$11.55 billion) in 2019. The integrated petrochemical site produces about 3 million tons of high-quality chemicals and polymers for the Chinese market annually and serves rapidly growing demand in multiple industries, including agriculture, construction, electronics, pharmaceuticals, hygiene, automotive and chemicals.

"The new expansion marks another milestone in the long-standing partnership between Sinopec and BASF. It reinforces our commitment to enhance local production and respond to the growing needs of Chinese customers for environmentally friendly powder coatings," said Stephan Kothrade, president and chairman of BASF Greater China.

Sinopec is one of the largest integrated energy and chemical companies with upstream, midstream and downstream operations in China.

It has recently stepped up efforts to enhance its overseas refining capacity through international refining and chemical JVs. The integrated polyethylene and polypropylene production facility jointly developed by Sinopec and Russian petrochemical company Sibur — the Amur Gas Chemical Complex — began construction in August, and is expected to begin operations in 2025, with most of its products to be sold in the Chinese market.

As the largest chemical cooperation project between China and Russia with a designed capacity of 2.3 million tons each year of polyethylene and 400,000 tons each year of polypropylene, it is one of the company's six overseas refining and chemical, storage and logistics investment projects as of 2019, including Yasref in Saudi Arabia, a nitrile rubber JV project in Russia, a lubricant plant and supporting jetty project in Singapore, a storage project in the United Arab Emirates and a storage project in the Netherlands.