SOE MATTERS

RIGHT TRACK

Dual-circulation takes off at China Eastern

State-owned firm sets tone for other airlines to survive and thrive amid the pandemic

By **ZHU WENQIAN**
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China Eastern Airlines, a Shanghai-based State-owned carrier, said it aims to help strengthen domestic circulation in civil aviation and boost a dual-circulation development pattern in the industry.

In line with the larger national strategy, the domestic aviation market will serve as the mainstay, and the domestic and international markets will promote each other.

The airline said with international flights operating at low capacity due to COVID-19-related travel restrictions, Chinese carriers should increase their capacities in the domestic market in the near term.

The airline's refreshed strategy is in response to the nation's newly proposed dual-circulation development pattern. The strategy says China will mainly rely on "internal circulation" or the domestic cycle of production, distribution, and consumption for its long-term development, and place equal emphasis on both the domestic and external markets as engines of economic growth.

"Better domestic circulation of flights serves as the foundation of both the dual circulation pattern and the growth of China's civil aviation market," said Shao Fengru, deputy director of the deepening reform office at China Eastern Airlines.

"China has a great potential to expand domestic demand in its city clusters and metropolitan areas, as a growing number of middle-income consumers will further stimulate demand by taking more flights. Besides, the urbanization rate is still low and development in different areas is uneven, and there exists untapped demand," she said.

As the contagion increasingly comes under better control in China, the country has been leading the global recovery in the air travel market, with the number of scheduled flights in the domestic market till mid-November reaching about 80 percent of the level recorded last year, according to the Civil Aviation Administration of China.

Globally, Asia is still in recovery mode. Europe and North America, where confirmed infection cases are still rising, have been struggling with new travel restrictions. Overall, the overseas air travel market has recovered to only 40 percent to 50 percent of the pre-pandemic level, according to the International Air Transport Association.

With a sharp decline in the demand of international air travel market, the domestic market has excess capacity and oversupply of aircraft, especially wide-body planes that used to serve long-haul international flights. Domestic carriers should seek new demand to boost growth, industry experts observed.

On June 18, China Eastern became the first domestic carrier to launch its weekend-unlimited flight pass in China. Passengers with the pass, which costs 3,322 yuan ($506), can take flights to a Chinese mainland city with no limited times on weekends before the end of this year. More than 100,000 such passes were sold.

"The move has helped drive domestic economic circulation significantly. The deepening reform and innovative measures of State-owned enterprises have helped smooth circulation and stabilize growth," Shao said.

To build China into an aviation powerhouse, major domestic commercial airlines and cargo companies should further increase their competitiveness, innovation and ability to minimize risk, China Eastern said.

Subsequently, several Chinese carriers, including China Southern Airlines, Hainan Airlines, Shandong Airlines, Xiamen Airlines and Spring Airlines, introduced various unlimited flight passes on domestic routes, and saw brisk sales of their travel products.

For instance, Shandong Airlines has attracted more than 100,000 new customers to its unlimited passes. Without flights, airlines would be unable to generate any marginal revenues, and certain grounding and maintenance costs would make the financial situation acute, the carrier said.

Qi Qi, an associate professor at Guangzhou Civil Aviation College, said domestic carriers should actively respond to the country's dual-circulation strategy to achieve further growth and steer clear of risks.

"Domestic carriers should speed up the formation of a new development pattern in the air travel market, where the domestic major cycle serves as the main body, and airlines should further revitalize resources of small and medium-sized airports," Qi said.

"For the Guangdong-Hong Kong-Macao Greater Bay Area, it is one of the areas that has the biggest advantages to achieve better domestic circulation, as the area boasts certain advantages to introduce more innovative and digitalized products, launch more flights, and establish world-class civil aviation infrastructure," he said.

Above: Dancers wearing Tang Dynasty (618-907) costumes stage a traditional performance near a China Eastern Airlines' aircraft during a celebration at Xi'an Xianyang International Airport in Shaanxi province in October. WANG JIAN / FOR CHINA DAILY

Left: China Eastern Airlines' planes are on the tarmac at Yantai Penglai International Airport in Shandong province in January. TANG KE / FOR CHINA DAILY

Energy SOE taps into Mexico, Russia

By **ZHENG XIN**
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State-owned China Energy Engineering Group Co Ltd, or Energy China, signed a contract with Mexican energy company Aora Generacion Durango for a 154-megawatt wind project in Durango, Mexico, this month.

The project will help Energy China to further ramp up efforts to develop its overseas markets and exploit business opportunities offered by the Belt and Road Initiative.

The wind power project will be based on an EPC — engineering, procurement and construction — contract. It is Energy China's first wind project in Mexico as well as the central and northern American market.

According to the company, the Durango region has abundant wind resources and is capable of producing 400 million kilowatt-hours of power each year.

It will help reduce emissions of carbon dioxide by up to 300,000 metric tons each year while substantially improving local ecology, the environment and the overall energy structure.

Besides, the project will help Mexico to increase its new energy installed capacity, reaching 25 percent of the total by 2025.

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> **Wang Ziyue,** an analyst at research firm BloombergNEF

Wang Ziyue, an analyst at research firm BloombergNEF, said Mexico is the second-largest wind power market in Latin America and enjoys abundant wind resources.

"In addition to constructing renewable energy projects overseas, domestic energy companies have been directly purchasing renewable energy assets in recent years," he said.

Guided by the State-owned Assets Supervision and Administration Commission of the State Council, Energy China functions as an energy engineering conglomerate with a presence spanning projects in fossil fuel power, hydropower, nuclear power, new energy and power transmission.

This month, Energy China has also signed an EPC contract with British energy company Green Oil Resources Ltd for the Bashkortostan oil sludge remediation plant project in Russia.

The project, located in Bashkortostan, enjoys a convenient geographical location, rich natural resources and abundant labor resources. The project will adopt domestically made equipment to recycle the polluted oil and silt to abstract the residual oil and have it refined into crude for sale.

The project, upon completion, is expected to improve the local ecology, environment and the energy structure, and will mark fresh inroads of Energy China into the Russian market, said the company.

Shanxi Electric Power Engineering, a subsidiary of Energy China, has also recently helped Thailand build a solar-powered parking lot to meet part of the electricity demand during peak times and provide power for the charging piles of new energy vehicles, it said.

Tie-ups with private, foreign businesses to lift FDI inflows

By **ZHONG NAN** in Beijing and **LIU MINGTAI** in Changchun

More foreign direct investment will flow into China following the country's call to State-owned enterprises to work with both private and foreign companies in order to deepen the reform and opening-up policy, global business leaders and experts said.

They attributed their prediction to the country's complete industrial chain and global market presence.

China has accelerated a new strategy — the dual-circulation development pattern — in which the domestic and international-focused economic engines complement each other.

This is expected to create more opportunities and space for foreign companies to develop in China, and cooperate with Chinese counterparts, especially SOEs, said Joseph Han, managing director and board member of Knorr-Bremse Rail Vehicle Systems (China).

To put the country's economic growth on a firmer footing, the State Council, China's Cabinet, released a guideline in August to roll out more measures to better protect foreign trade entities, support the local growth of foreign companies, and keep supply chains stable.

The guideline urged more support for high-tech industries and stressed the need to encourage foreign investors to invest in China.

Welcoming China's new thinking, Knorr-Bremse said it is eager to stay closer to its clients such as China Railway Rolling Stock Corp.

The German brake specialist and supplier of rail and commercial vehicle systems said it will set up a research and development center in Beijing in 2021, and continue to showcase its latest solutions and products in China's major trade events such as the China International Import Expo.

The majority of China's 98 centrally-administered SOEs, including China National Petroleum Corp, COFCO Corp and China National Pharmaceutical Group Co, had all signed purchase and cooperation deals with foreign companies such as Saudi Arabian Oil Co, Mitsubishi Electric, Cargill Inc, SAP AG and Microsoft Corp during the third CIIE held in Shanghai early this month, said the State-owned Assets Supervision and Administration Commission of the State Council.

Han of Knorr-Bremse said opportunities abound in China thanks to well-developed high-speed railway networks, and a fast-growing metro market, so the company will enhance its partnership with CRRC and China State Railway Group Co, the country's largest rolling stock manufacturer and railroad operator, during the 14th Five-Year Plan period (2021-25).

"With the new innovation facility in Beijing, we will focus on connected systems, next-generation eco-friendly products and life-cycle cost reduction solutions in the Chinese market over the long run," he said.

Knorr-Bremse currently runs manufacturing, testing and innovation facilities in 13 Chinese cities, including Wuxi, Jiangsu province, and Qingdao, Shandong province, employing around 4,600 employees.

It will promote vocational education in China's railway service and manufacturing sectors by working with these two Chinese companies and also universities across the country in the coming years.

Supported by global partners and its mature technologies for building high-speed trains, Wang Feng, vice-president of CRRC Changchun Railway Vehicles Co, a subsidiary of CRRC, said his company is ready to take orders for customized high-speed trains, in line with the technical standards and operational requirements of different parts of the world.

In addition to CRRC Changchun's export-oriented efforts to build a new type of train with a top speed of 400 kilometers per hour, with Russia as the target market, the group's other operations in Qingdao, Shandong province, and Tangshan, Hebei province, have been carrying out research and development of the new train, targeting the needs of European and Southeast Asian markets, Wang said.

Apart from signing a number of business contracts with China's SOEs such as China National Chemical Corp and China Eastern Airlines during the third CIIE, Honeywell International Inc, a US-based industrial conglomerate, is planning to either expand production lines or better optimize resources of its 21 plants in China, in order to enhance productivity and serve customers in a more efficient manner, said Scott Zhang, president of Honeywell China.

As China sealed a big-ticket free trade deal with partner countries this year, Liang Jun, president of the Guangdong Association of State-owned Capital which is based in Guangzhou, said Chinese companies must not only be aligned with the country's goals for the development of the domestic economy, but also pay close attention to global commercial trends.

To better adapt themselves to the new environment, it is necessary for SOEs to strategically develop entire value chains surrounding their products and services, while promoting lean management, innovation and reform, as well as building partnerships with more private and overseas companies to remain competitive and gain more sales access at both home and overseas markets, said Chen Bin, executive vice-president of the Beijing-based China Machinery Industry Federation.

"We expect SOEs to build more scientific and assessable cost and performance management systems centered on institutional innovation, management transformation and cost optimization," he said.

"It will be fairly practical for SOEs to improve cost and performance management, enhance the comprehensive effect of reforms and boost technological innovation."

CRRC employees work on an assembly line in Yibin, Sichuan province, in May.
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