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ASIA

China to Weld Its Biggest Shipbuilders Into Single State-Run Giant

Beijing's consolidation drive aims to make state companies more competitive in global markets

China Shipbuilding Industry Corp. taking its pitch to a U.S. trade show in 2017. **PHOTO:** ZHANG YONGXING/ZUMA PRESS

By Trefor Moss

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SHANGHAI—China plans to combine its two largest shipbuilders, Beijing's latest attempt to supersize state-run businesses for global competition.

If approved, the merger of China Shipbuilding Industry Corp. (CSIC) and China State Shipbuilding Corp. (CSSC), announced in stock filings late Monday, would create the world's second-largest shipbuilder. Last year their combined orders by tonnage accounted for roughly 13% of the global total, according to their annual reports.

CSIC was split off from CSSC two decades ago, when Beijing was looking to spur domestic competition by breaking up some huge state conglomerates. Several of these demergers have since been reversed, as Beijing looks to give state-run companies heft to compete around the world.

“The consolidation drive is about improving the competitiveness of these industries and to compete in global markets,” said Tommy Wu, a senior economist at analysis firm Oxford Economics. Though such mergers have the potential to boost efficiency, other analysts and industry executives caution that China’s state-run companies are often weighed down by leaden bureaucracy and slowed by internal politics.

Consolidation over the past 15 years—accelerating since President Xi Jinping assumed power in 2012—has halved the number of big state-run companies under central-government control to under 100 and created massive state players in agriculture, railways, shipping and power generation. Last year, Beijing signaled the likely merger of the country’s two biggest chemical companies—Sinochem Group and China National Chemical Corp.—by appointing a single chairman to head both.

The shipbuilders’ merger has been expected, given Beijing’s policy preferences and consolidation within the sector world-wide. Last year, CSIC and CSSC together produced $74.4 billion in revenue and $1.1 billion in profit.

China had a 43% share of the global shipbuilding market last year, according to BRS Group, a brokerage firm, ahead of South Korea’s 28% and Japan’s 24%, though China lags behind in high-value vessels using the newest technology. In January the two biggest Korean shipbuilders, Hyundai Heavy Industries and Daewoo Shipbuilding and Marine Engineering Co., said they would merge to create a colossus commanding a fifth of the global order book.

Behind the CSSC-CSIC merger is Beijing’s desire to improve capabilities in a strategic industry: Shipping technology, one of 10 high-tech sectors covered by the government’s Made in China 2025 industrial-upgrade blueprint. Though Chinese officials stopped publicly referring to the plan after it provoked a political backlash in the U.S. and Europe, the ambition to dominate key industries hasn’t gone away.

The merger caps a period of brutal consolidation in Chinese shipbuilding. After a boom drew hundreds of new players into the sector, a collapse in global demand for new vessels—which hit bottom in 2016—swept China’s private-sector shipbuilders from the map. State-run yards survived, since they could rely on orders from state-controlled shipping lines as well as the Chinese military.

In a sign that further consolidation is likely, the 10 largest of China’s remaining 117 shipyards built roughly three quarters of the country’s ships last year, according to BRS. The planned merger is expected to trim the number of Chinese shipyards still further as the partners streamline their operations and as others lose share to the bigger competitors.

—Bingyan Wang in Beijing contributed to this article.

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