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BUSINESS

China Ends Ban on Foreign Majority Control in Steel Sector

Analysts see long-touted overhaul as coming too late for a struggling industry

Beijing will end a ban on foreign control of Chinese steel companies, which are grappling with overcapacity and slumping prices. *PHOTO: REUTERS*

By CHUIN-WEI YAP

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BEIJING—China on Friday moved toward ending a ban on foreign majority control of its steel companies, a potential shot in the arm widely seen by analysts as coming too late for the nation's beleaguered industry.

The country's top economic planning agency, the National Development & Reform Commission, said that steel would be among 349 industries designated under a policy category it called "foreign investment encouraged," which opens the sector to foreign control.

The change would be effective April 10, the agency said.

State industry officials told reporters a year ago that the nine-year-old ban was under review. Beijing had viewed steel as a strategic sector, supplying some of its most crucial industries, and was reluctant to allow outside control—though it allowed minority stakes under certain conditions.

The Chinese government in July 2005 blocked foreign investors from taking controlling stakes in domestic steel companies, thwarting a bid by Mittal Steel Co. to acquire control of Shenzhen-listed Hunan Valin Iron & Steel Co. Mittal was one of the companies that merged to become the world's largest steelmaker, ArcelorMittal SA, the following year.

Since then, proposals to lift the ban have periodically come from Chinese steelmakers hopeful for injections of foreign capital. Last year, the commission deregulated foreign participation in previously closed infrastructure projects including railways, gas pipelines, telecommunications and clean energy, setting the stage for a wider liberalization.

The latest move comes at a time when China's economic slowdown has taken a heavy toll on steelmakers. Slowing demand from big-ticket construction, as well as pressure to cut environmental pollution, has sent Shanghai steel prices plummeting 41% over the past two years to 2,146 yuan ($343) a metric ton.

The latest move isn't likely to spark a flurry of bids from foreign companies, analysts say.

"You're looking at an industry that has huge overcapacity and declining demand," said Oliver Barron, head of Beijing research for investment bank North Square Blue Oak. "By and large, it's not the most attractive sector."

The Chinese government has focused too much on opening up unprofitable sectors, such as oil exploration and coal-to-chemical businesses, rather than more-attractive mainstream industries such as telecommunications, Mr. Barron said.

The state-backed China Iron & Steel Association has publicly supported opening up the steel sector for more than a year. Part of the pressure to do so, its officials say, stems from allegations from trading partners that Chinese mills are dumping steel products overseas amid slack domestic demand.

China's steel-product exports last year rose by more than half to a record 94 million tons, customs data showed.

"One reason why trade friction has been rising is that foreign investment isn't allowed," Zhang Changfu, the association's secretary-general, said last year. "This has to change. If you don't let people in, how do you go out?"

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