

China electricity shortage and power cut in 2021

This posts is not only related to China industry,but also related to every exporter and importer.

The power cuts policy in China

This situation has recently appeared in some provinces and cities in China.

Central air-conditioning in large shopping malls began to open for a limited time...

In some places, residents' homes have also started occasional power cuts.....

Some factories are unable to start work due to electricity shortage, and workers are on holiday...

In particular, the coastal areas imposed power cuts on factories. The factories could only give a large number of workers a holiday, and the newly purchased production lines could not be used, which caused considerable losses to export companies.

According to incomplete statistics, 16 provinces across the country have introduced electricity cut measures .Ningxia, which is more aggressive, directly forced high-energy-consuming companies to suspend production for one month.

The two major manufacturing provinces, Guangdong and Jiangsu, have also imposed power cuts on a considerable number of manufacturing companies and forced a reduction in production.



It is a common situation encountered by production enterprises in Jiangsu Province, which is equivalent to the forcible reduction of production capacity by half.

Analysis of the power cut policies

Someone once ridiculed that the United States has a nuclear-powered money printing machine. Whenever they need money, they have to print a batch to harvest the world.

Although it is a joke, the Americans really have a super money printing machine.



In order to alleviate the economic difficulties caused by the epidemic, Trump first printed a wave of money. Biden was in power for half a year, from the economic stimulus package, as well as the unemployment compensation plan and the "super infrastructure" plan. Adding the execution cost, it has been close to 10 trillion U.S. dollars, which is equivalent to the combined annual GDP of Germany, France, and Italy.

The Americans print money to export inflation to the world. The money printed on paper by the Americans can be exchanged for goods and products from the world.

However, the United States did not expect that India and Vietnam, the two major processing countries, were crippled by the Delta strain, and the factories were shut down and the society was shut down, let alone meeting American demand for goods.

Only China in the world has been less affected by the Covid-19 and is able to produce goods in large quantities.

As a result, massive orders flooded into China.

According to statistics, in the first half of 2021, the total value of China imports and exports was 18.07 trillion yuan, an increase of 271% over the same period 2020.

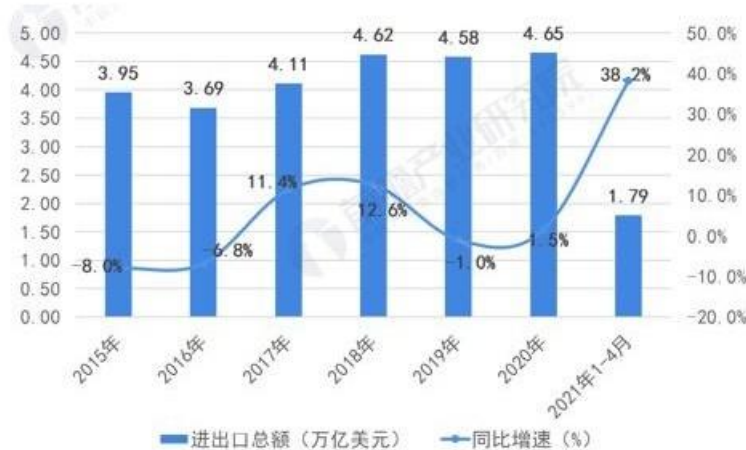


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After receiving orders and receiving soft hands, China's foreign trade industry is supposed to have great profit? It's really not the case. But the embarrassing situation facing China's foreign trade industry is commodity prices are skyrocketing.

图表1: 2015-2021年中国进出口总额情况(单位: 万亿美元, %)



Bulk commodities generally refer to commodities that are homogeneous, tradable, and widely used as basic industrial raw materials, such as crude oil, non-ferrous metals, steel, agricultural products, iron ore, coal, etc. We can simply understand it as raw materials for production.

For an industrialized country like China, the price increase of bulk commodities is uncomfortable, especially when the pricing power is not in their hands. Yao Jian, a former spokesperson of the Ministry of Commerce, reluctantly ridiculed: **“China’s pricing power in the international trading system has almost completely collapsed. Whatever China buys will increase prices, and what China sells will decrease prices.”**

How severe is China's dependence on bulk commodities in the international market?

Iron ore is totally dependent on imports, and Australia almost monopolizes the global iron ore resources; copper is also seriously insufficient. As the world's largest copper importer, its consumption accounts for 40% of the world. However, 70% of copper is controlled by international giants such as BHP Billiton. Although China has made great efforts in oil security, it is nothing more than diversification of channels. The pricing power is still in the hands of the United States. If United States says that prices will increase, and almost all chemical products will increase.

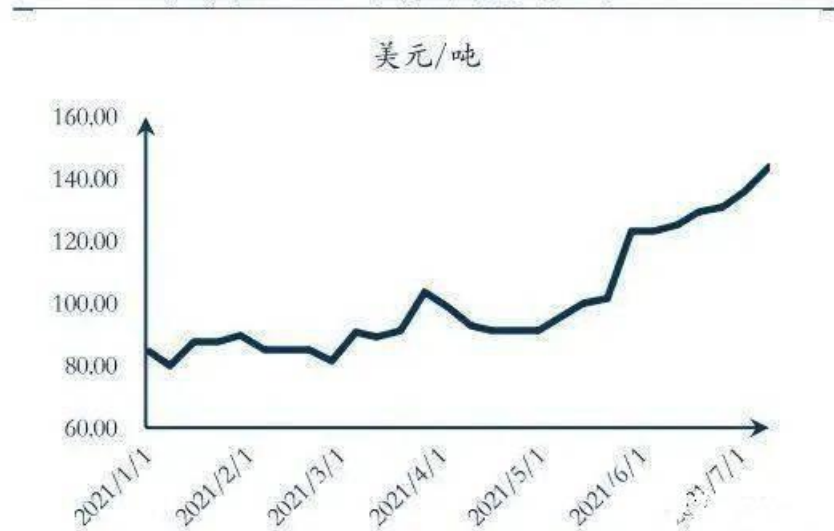
The worst is coal. Although the economic prosperity cannot be separated from oil, China's economic growth is mainly driven by coal rather than oil, because 70% of China's total energy consumption is coal. In January 2021, 5500 kcal coal was 500 yuan/ton, it reached the highest point in September of 1009 yuan/ton!



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This is a 100% increase! This is dying. You know, China's thermal power generation accounts for 73% of the country's power generation. As soon as the price of coal rises, the power plant finds that the money to buy electricity for one year is only enough for half a year. Too much!

What's more, all companies are desperately starting work to respond to massive orders, and the sudden increase in power consumption has even used up the original one-year power generation plan. In 2021, industrial power consumption is 45.1 billion kWh, an increase of 206% over 2020.

The power generation plan was used up in advance, the price of electric coal increased, and the power plant lost money, power cut became a last resort measure.

The prices of bulk commodities price increases is easy, while the prices increase of processed goods is quite difficult. For Wall Street, price doubling is too easy, just find any reason to arrange a production cut.

But bulk commodities can double their prices, and can industrial products double their prices?

For example, the whole world knows that made in China products is high quality and cheap, and a piece of clothing costs only \$20. The lower-level population in the United States particularly likes it. But if price increase by 50%, China will lose a large group of target users immediately.

If the prices of commodities are rising, can you stop purchasing? No, then you will not be able to produce anythings. And the mine will still be there, no loss.at all.

So now China's hot export is a very embarrassing situation:

Foreigners raise the price of raw materials and make big money. The Chinese work hard and make small money. Even because of the skyrocketing shipping fee, they can't make money at all. They have to bear the inflation brought by the devaluation of the U.S. dollar.

How China's measurement facing the embarrassing situation?

China has anticipated this situation a long time ago, and has also arranged a countermeasure in advance: dual control of energy consumption.

Dual control of energy consumption refers to the dual control of total energy consumption and intensity, which can be simply understood as controlling the unit power consumption and controlling the total power consumption. The goal is to reduce dependence on energy consumption such as oil for economic growth, and to gradually transition to a low-carbon economy.



Obviously, the promotion was not so smooth. So power cut policy was implemented to control the society energy consumption, which has great influence on the industrial production.

You should know that industry accounts for the absolute majority of electricity consumption, and it is also a major event directly related to the survival of the enterprise. Power is not the purpose, but the purpose is to regulate and control.

At the beginning of the development of China's manufacturing industry, it basically started from the low end. Because of the low barriers to entry, buying a few outdated equipment and a few people for training can start production at full capacity. It doesn't matter if the quality is low. If Europe and the United States customers cannot accept the low quality, then products will be sold to Southeast Asia and Africa. The result of this is that decades have passed. China's manufacturing industry still has not gotten rid of the extensive development model of high investment, high consumption, and high emissions. It not only has great damage and impact on the resources and environment, but also very low profit. Design, R&D and marketing capability increased only a little but caused a deep reliance on international orders and international raw materials.

Although the profit is little, if the production capacity is expanded, there'll be good returns and good profit as well.



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In normal times, this idea is correct, but the current situation is not feasible.

Because once the epidemic eases and foreign production resumes, Chinese companies will face overcapacity, which can lead to losses and close down.

And if it is worsened, the current debt and stock market bubbles in the United States are superimposed, and the world is likely to enter the Great Depression. it will be difficult for small enterprises to survive and will inevitably close in batches.

In other words, no matter whether the epidemic situation is alleviated or worsened in the future, China's current low-end production capacity is likely to be unable to survive.

Therefore, the country adopted power cut measures, part of the purpose is to remove low end production capability in advance, everyone should control production capacity and force industrial upgrades.

What's industrial upgrades?

Industrial upgrade simply means product quality upgrade, technology upgrade, brand upgrade, none of them is easy. Product differentiation, technology accumulation, and brand formation require time, money and even luck to complete. The probability of success is probably less than 1%.

This is a very difficult decision for many small enterprises to decide the uncertain industrial upgrade or not.

Therefore, the country must take action to help them make up their minds to force small and medium-sized enterprises to step out of their comfort zone and upgrade their industries, because they cannot survive unless they upgrade!





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For example, in the early years, Guangdong was phosphorous copper ball production base, and the labor cost was RMB1500/ton. After the labor shortage, various factories were desperately recruiting people, and labor costs continued to increase. Finally, one factory could not stand it and just spent RMB 5 million to introduce a fully automatic robot production line which reduced the labor cost to RMB1,000/MT, and the product quality is very stable, and there will be no mistakes.

More importantly, other factories work eight hours a day, even if they work overtime, it is still 10 hours. However, his factory produces 24 hours without interruption and has a monthly output value of up to RMB100 million, which has a huge advantage. As a result, more than 180 other local factories producing phosphor bronze balls closed down.

What's the influence of the power cut policy?

The pricing power of raw materials is controlled by international capital, and the pricing increase has brought great profit to the capitals, now China is trying to get the pricing power of finished products.

After power cut and Forcing companies to reduce production, the demand for international raw materials has decreased. then the prices of raw materials will stabilize and consolidate. After the production cut, the total export production capacity decreased, then the price of finished products will rise.

Anyway, only China control the Covid-19, and is the first country to resume work and production on a large scale, and only China can meet the global huge demand.

In one word, after decreased production capability, The cost of raw materials has dropped, the price of finished products has risen, energy consumption has been reduced, and higher finished products price, meanwhile, more and more China enterprises will try to upgrade their production lines and decrease unit costs and energy consumption.

For oversea importers, the price of purchased products from China will increase and finally increased because of limited supply capability. The inflation will finally been brought to the world.





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Some guys describe this as a gambling between the global major countries.

Is international capital unable to withstand our production cuts first, and bulk prices decrease?

Or China cannot withstand the tight supply caused by production cuts and further push up bulk prices in the short term?

Is Western countries couldn't hold back our production cuts and price hikes, and we stubbornly exported inflation?

Or China cannot hold the crisis of production reduction, and upstream inflation will be transmitted to downstream, triggering domestic inflation?

Nobody knows...

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