



Welders producing mining machinery at a factory owned by XCMG, China's largest producer of industrial equipment. Credit...Giulia Marchi for The New York Times

## ***China Tries Its Favorite Economic Cure: More Construction***

Strong sales at China's biggest construction equipment maker show Beijing's strategy for recovery after the virus. But while the company, XCMG, is prospering, the rest of the economy is struggling.

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**By Keith Bradsher**

- Published July 30, 2020 Updated Aug. 31, 2020

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XUZHOU, China — At a cavernous factory in the Chinese city of Xuzhou, 100 new workers have just been hired to produce giant construction cranes. Nearby, at another sprawling factory, employees toil until midnight to assemble drilling and tunneling machines. A few blocks away, their colleagues at a factory that makes dump trucks have received enough orders to keep them busy well into next year.

These factories, and half a dozen more in the city, are all owned by Xuzhou Construction Machinery Group, a state-owned industrial behemoth which manufactures the outsized machines behind China's latest construction boom.

The company, China's largest producer of construction equipment, is at the center of Beijing's strategy to revive the country's economy in the wake of the coronavirus pandemic by doubling down on a tested strategy: investing in infrastructure projects at home.

China appears to have mostly eradicated the coronavirus within its borders. But outbreaks overseas have caused economic downturns elsewhere that have hurt foreign demand for Chinese exports, including the trucks and machines made in Xuzhou.



A construction site in Xuzhou.Credit...Giulia Marchi for The New York Times

Foreign markets helped fuel the country's rapid growth for four decades. But now China is back to doing business with a local customer — itself. Once again, Beijing is investing heavily in the country's own infrastructure, employing millions of people not just to build new roads, railway lines and sewage systems but also to make the equipment necessary for those projects.

“This year is a very bad year for overseas contracts, and I cannot travel,” said Vincent Cao, the drilling and tunneling equipment manager at the company, better known by its initials XCMG. Despite those limitations, business is booming, he said, adding: “It is a good year for China.”

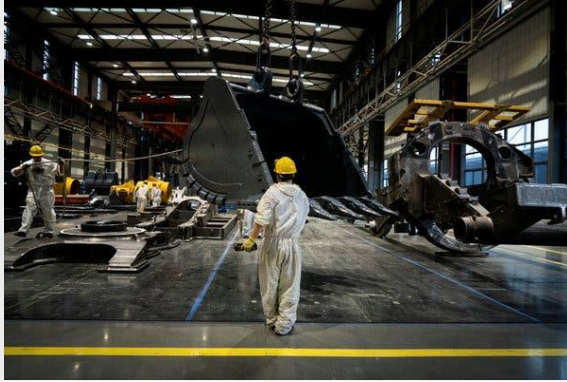
On its face, China's strategy appears to be working. Big investments helped make China the first major economy to see its economy rebound after an outbreak, with output rising 3.2 percent from April through June compared to the same period last year. China's economy is reviving even as Europe's downturn now appears significantly deeper than originally expected, and the American economy struggles.



Employees at work in an XCMG factory in Xuzhou.Credit...Giulia Marchi for The New York Times



As business has boomed after the pandemic, XCMG's employees have been receiving fat overtime paychecks.Credit...Giulia Marchi for The New York Times



An infrastructure boom in China is being fueled by debt.Credit...Giulia Marchi for The New York Times

Previous investment campaigns have given China some of the best infrastructure in the world, including the fastest train and longest sea bridge. But the latest push comes with its own set of risks and puts China at odds with how much of the rest of the world is handling the downturn.

Practically all of China's infrastructure projects are being funded with more debt. Economists warn that paying interest on all that debt may be a drag on future growth.

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Additionally, some Chinese economists say, the country does not need more record-breaking megaprojects but would instead benefit from modest programs, like building better sewer lines close to people's homes. While these less-glamorous infrastructure projects improve the quality of people's lives, they offer little glory or political reward for the local officials who oversee them.

China's captains of industry have prospered by building the country's premier projects, not by improving neighborhood sewer lines. Wang Min, XCMG's longtime chairman, said that he wanted to make big machines for large projects, a space in which few other Chinese businesses can compete.

When told of a sewage line being replaced in Xuzhou using construction equipment of modest size, Mr. Wang was unenthusiastic. "All enterprises can manufacture this kind of excavator, so we don't have any kind of competitive strength," he said. "But in terms of the large-scale excavators, XCMG has an advantage."

Image



Wang Min, XCMG's longtime chairman, said that he wanted to manufacture big machines for appropriately large projects, a space in which few other Chinese businesses can compete. Credit...Giulia Marchi for The New York Times

Long before building some of the world's largest cranes and bulldozers, XCMG got its start manufacturing land mines for the People's Liberation Army during World War II. In the 1950s, it briefly produced plows until it switched to making construction machinery.

The company, which is owned by the Xuzhou municipal government, is still inextricably entwined with the state and military, though it no longer produces weapons. XCMG has been an integral part of China's development strategy, and as the country has prospered so too has the company.

During China's last infrastructure binge, intended to bail the country out of the global financial crisis, XCMG's sales soared eightfold from 2008 to 2010. When Xi Jinping, the country's top leader, rolled out his Belt and Road Initiative in 2013 that offered enormous loans to developing countries to buy Chinese-made goods, XCMG was there, cashing in on exports to countries like Venezuela and Nigeria.

Now the company is shifting gears again. Many developing countries are struggling to repay their debts to state-owned Chinese banks and are unable to buy bulldozers and other gear. China has almost completely closed its borders, adding another wrinkle of difficulty for XCMG managers trying to close deals in distant markets.

Image



A high-speed train at Xuzhou railway station. Some economists believe the government should focus on more modest infrastructure projects. Credit...Giulia Marchi for The New York Times



But China is also looking inward. Mr. Xi has set poverty alleviation as the country's top economic goal this year. Many of China's poorest areas are remote villages, and extending road and rail lines to them requires extensive bridge and tunnel construction. That means putting lots of people and lots of XCMG equipment to work.

Premier Li Keqiang, China's second most powerful leader, called in May for much of the country's new construction spending to take place close to where people live. That would make it easier for millions of rural workers who have lost their jobs at factories producing goods for export to find new work without migrating to distant cities.

The scope of China's latest building boom is enormous, and XCMG is playing a pivotal role. Thirty-seven Chinese cities are in the process of building a total of 150 new subway lines, and the company is manufacturing the needed equipment for half of them.

The country's high-speed rail system, which already connects more than 700 towns and cities, is expanding so fast that it annually buys three times as many pile drivers as the European and American markets combined. XCMG, the world's biggest producer of pile drivers, has supplied most of them.



The scope of China's building boom is already enormous. Thirty-seven cities are in the process of building a total of 150 new subway lines. Credit...Giulia Marchi for The New York Times



Beijing is investing heavily in China's infrastructure, employing millions of people not just to build new roads and railways but also make the equipment necessary for those projects. Credit...Giulia Marchi for The New York Times



XCMG is positioned to become the world's third-largest manufacturer of construction equipment. Credit...Giulia Marchi for The New York Times

But China's plan to build its way out of its pandemic downturn contrasts with the policies of most Western governments. Western economists generally recommend transferring money directly to consumers rather than constructing ever more railroads and highways.

"It would be more efficient to give them the money than spending two-thirds of it on steel and petroleum and whatever," said Michael Pettis, a professor of finance at Peking University in Beijing.

A number of Chinese local governments experimented this spring with trying to restart consumer spending by issuing coupons worth a few dollars apiece for meals and other outlays. But the central government subsequently rejected that idea, pushing cities and provinces to spend instead on infrastructure.

As a result, local governments are borrowing heavily to pay for the construction, adding to already immense debts that China's leaders have tried for years to tame. But projects in remote areas may yield scant economic returns to repay debt. Dozens of new high-speed rail stations have been built in small towns, which ultimately see few paying passengers. In some stations, fewer than three trains make stops each day.

#### **Editors' Picks**



The site for a new subway station in Xuzhou, China. Credit...Giulia Marchi for The New York Times

Nevertheless, all of that construction is good for XCMG's business.

The company is now on the cusp of passing John Deere to become the world's third-largest manufacturer in the sector, trailing only Caterpillar and Komatsu, its

archrival. Mr. Wang, the chairman, said that he intended for the company to become the world's largest in the industry in another 15 years.

"It will be my dream," he said, "and my purpose for my life."

To that end, he said, he planned an overhaul of the company's ownership this autumn. The city of Xuzhou would retain 34 percent ownership in the company while surrounding Jiangsu Province would obtain 17 percent.

Another 47 percent would be sold directly to a group of large private sector and public sector investors and the final 2 percent would be acquired by XCMG's management. XCMG has begun interviewing possible financial advisers for the deal, said Mr. Wang, who declined to estimate its potential value.

In Xuzhou, the success of the company can be heard in the unrelenting thrum of its cavernous factories and is reflected in the fat overtime paychecks of its 20,000 employees.



The fat paychecks of factory workers have yet to trickle down to local businesses, including that of Xin Xiaoli, a fruit vendor. Credit...Giulia Marchi for The New York Times

The crane factory alone has scheduled two Sundays a month of extra production, in addition to a standard six-day workweek. Workers earn double pay on Sundays, said Song Decheng, who leads a team of workers building small cranes.

Yet that extra money has been slow to trickle to other businesses. While XCMG prospers, wide areas of China and parts of Xuzhou itself are still struggling.

Shoppers and repairmen used to throng the city's construction-materials market, a dusty, two-block area of small shops specializing in paint, cupboards and hardware. On a recent afternoon, it was completely deserted except for the vendors. Shan Kehu, a mortar salesman, said that the only customers who showed up were opportunists looking to stock up on merchandise at a reduced price.

"We're trying to keep the retail prices where they were before," he said.

The worries are similar across the city at Xuzhou's wholesale food market, a blocks-long labyrinth of open-sided steel sheds. A restaurant-supplies vendor, Cao Fang, complained that eateries have practically stopped buying utensils and plates.

At another vendor's stall, half the bananas were getting too ripe to sell.

“It has gotten a lot better,” said the fruit seller Xin Xiaoli. “But it hasn’t gotten to our normal levels yet.”



A construction site in Xuzhou.Credit...