

ist.co /busi

i n

THE ECONO LIST 6/17/2024

the wo ld, des

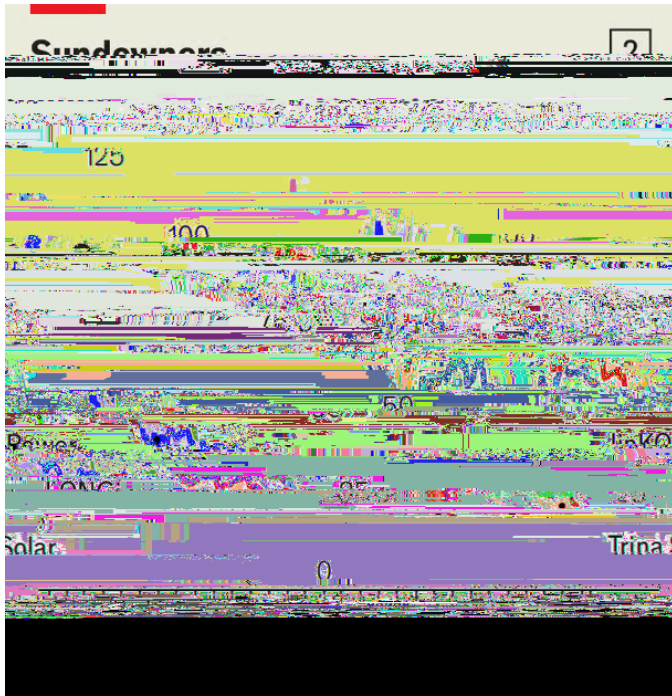


Chart: The Economist

So far, however, there are a few signs of an end to China's overcapacity problem. Despite financial pressure from falling prices, the industry's largest companies continue to upgrade their technology and expand their output in an effort to keep their marginal costs below those of their competitors. Wood Mackenzie forecasts that China's solar industry will expand capacity to nearly 1,700GW by 2022 (see chart).

Cloud cover

State support for the industry is contributing to the supply glut. For decades leaders of municipal and provincial governments in China have sought to build local solar industries that hire from their populations and contribute taxes. Support comes in a variety of forms, including free land, free electricity, interest-free loans and access to cutting-edge technologies, notes Usha Hale of Wichita State University. She reckons all this adds up to about 5% of a solar company's costs, on average, but could be as high as 15% in some cases.

There are signs such support has been growing more generous, notes Ms Hale. Some local governments are financing and building solar factories that they then lease and later sell. Many will be tempted to step in to prevent local solar champions from going under. That is especially

... suggests a period of consolidation looms for China's solar industry. Jenn Chase of
... GNEF, a research group, has seen this play out before. "The era of slight profits, then
... periods of terrible margins, then bankruptcies and exits. We call it the solar coast."
... China eventually catch up with supply, as lower module prices encourage developers to
... the solar power. In the meantime, China's solar industry should prepare for a bump ride.

ore

... content