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THE VIEW
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Steel storm

China is widely blamed for the massive lay-offs in the industry worldwide and its competitors are imposing heavy dumping duties on its products

The US Department of Commerce is proposing a whopping 522 per cent duty on Chinese steel.

"That is an outrageous and flagrant abuse of the World Trade Organisation rules," said my friend, an American steel trader. It was only after doing the research and running the numbers that I agreed with him.

China is widely blamed for a global steel crisis that has caused more than 13,000 lay-offs in the US and will likely cause the extinction of the British steel industry by the middle of the next decade. James Bouchard, chief executive of US producer Esmark, said on CNBC this week that "the Chinese will always make a lower price, there is no bottom, everyone else has said 'no more'."

Steel index prices are at a record low, having fallen 71 per cent in a year, according to Trading Economics. Global steel-making capacity is 2.4 billion tonnes a year but demand is a measly 1.5 billion tonnes. Chinese mills produce more than 800 million tonnes a year, exactly half of the world's output. The global industry is fragmented and competitive. Europe meets 20 per cent of demand, the US 10 per cent and Britain just over half a per cent. Global demand fell nearly 2 per cent last year and will stage only a fractional recovery this year.

China's centrally organised economy encouraged the over-building of steel mills in the 2000s, supported by a free rein on borrowing by local governments. It takes millions and years to build a mill and they have to run at full bore to make money – but today global capacity utilisation is only 68 per cent. The British industry is losing £1 million (HK$11.4 million) each day. Steelmakers are desperate to sell every single extra gram. Not surprisingly, Chinese imports into Britain jumped to 687,000 tonnes in 2014 from 303,000 tonnes the year before.

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It was Englishman Henry Bessemer who kick-started the Industrial Revolution by inventing steel in 1690. Steel was once part of the "commanding heights of the British economy", with 350,000 employees in 1967. It now has fewer than 18,000, a tiny fraction of British employment. In Wales today, workers are losing the jobs their fathers had before them and their fathers before that because European Union rules restrict government subsidies to rescue failing steelmakers.

In a free economy, steel companies must adapt to changing markets without artificial support. The British government recently declined a proposal to assist Sheffield Forgemasters, which would have cost £500,000 for each job. It would have been cheaper to give each worker the money and tell them to go away. Wuhan Iron and Steel did this in March by telling workers to take a month off.

How China handles that positioning will influence how protectionist the world becomes

"They don't dare say *xiagang* [lay-off] – they say 'take leave'," said one steelworker, quoted in the *Financial Times*. The jobs go but the workers remain.

Whatever their competitors say, Chinese steel is naturally cheap. If you build big, your costs will be cheaper. The question is whether China is selling at price levels where non-communist manufacturers cannot compete. If the proletariat is subsidising weak businesses, suspect management and power costs and is soft on climate change, you will always be open to criticism.

Premier Li Keqiang called for capacity to be rationalised by 10 per cent even as China milled a record 70 million tonnes last month. Wuhan Iron will this year lose more jobs than the size of the entire British steel industry but the government will cover 10 billion yuan (HK$11.8 billion) in restructuring expenses. Chinese exports may only be 14 per cent of domestic production but they still affect world prices.

So the US Department of Commerce (through the International Trade Commission) is already close to imposing a dumping tariff of 266 per cent on some Chinese steel and 71 per cent on some Japanese steel. The European Union last year imposed anti-dumping duties for six months on some imports from mainland China and Taiwan.

The industry deserves some sympathy. Half a million jobs are now under threat, mostly in China as it pays a heavy price for wasted, state-sponsored, debt-fuelled investment. But steel, like oil, is highly strategic. Construction may be the biggest use at present, but as a war materiel, steel is paramount. It was at the heart of the formation of the EU, vital as it is to the industrial-military complex.

There is a strong chance that China will end up with the lion's share of global production as competitors go to the wall. How China responsibly handles that positioning will influence how protectionist the world becomes in the 2020s.

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Illustration: Henry Wong