U.S. INTERNATIONAL TRADE COMMISSION

CHINA: GOVERNMENT POLICIES AFFECTING U.S. TRADE IN SELECTED SECTORS
INV. NO. 332-491

SUBMISSION OF THE AMERICAN IRON AND STEEL INSTITUTE

The American Iron and Steel Institute (AISI) represents companies that make the vast majority of steel produced annually in the United States, Canada and Mexico. AISI and its North American members have long been concerned with the impact of Chinese government policies on the steel industry in the NAFTA region. Through the bestowal of billions of dollars of subsidies, as well as other forms of support, the Chinese government has helped build a steel industry far larger than anything a free market would have created. By subsidizing exports of steel and steel-related products to the United States and the rest of the world, these actions have directly harmed both America's steel industry and many of its domestic customers.

At a September 18, 2007 "China Summit" conference in Washington sponsored by *American Metal Market*, AISI presented a paper on the "China Trade Impact on North American Manufacturing" (attached). Among its key points are that:

- China, contrary to popular view, is not a low cost producer when it comes to steel;
- Its surging exports of steel and steel-related goods are fueled by massive subsidies; and
- In the U.S., upwards of a million manufacturing jobs have been lost due to China trade.

Chinese Government Support for the Chinese Steel Industry

Looking at steel specifically, the bottom line is that China has the most heavily subsidized steel industry in the world. AISI sponsored a recent report, *Money for Metal*, which explores in detail the relationship between the Chinese steel industry and the Chinese government.[1] As the report explains, the Chinese steel industry in its current form is essentially the creation of the government of China.

The Chinese government has lavished tens of billions of dollars in subsidies on its steel industry. *Money for Metal* identifies over $50 billion in subsidies. However, because of an ongoing lack of transparency and publicly available information, this figure is almost certainly too low by a factor of two or three.

The Impact of Chinese Government Policies on the Steel Industry

As a direct consequence of the Chinese government's largesse, China's steel production has exploded. In 2000, China produced 126.3 million metric tonnes of steel, compared to 101.8 million tonnes for America's steel industry. In that year, China accounted for around 15 percent of world steel production. In 2006, China produced 423.4 million tonnes of steel, while the United States made only 98.2 million tonnes, less than in 2000. Based on January-June 2007 data, China will account for 36.4 percent of total world steel production this year. The following chart shows China's increasing share of global steel production.

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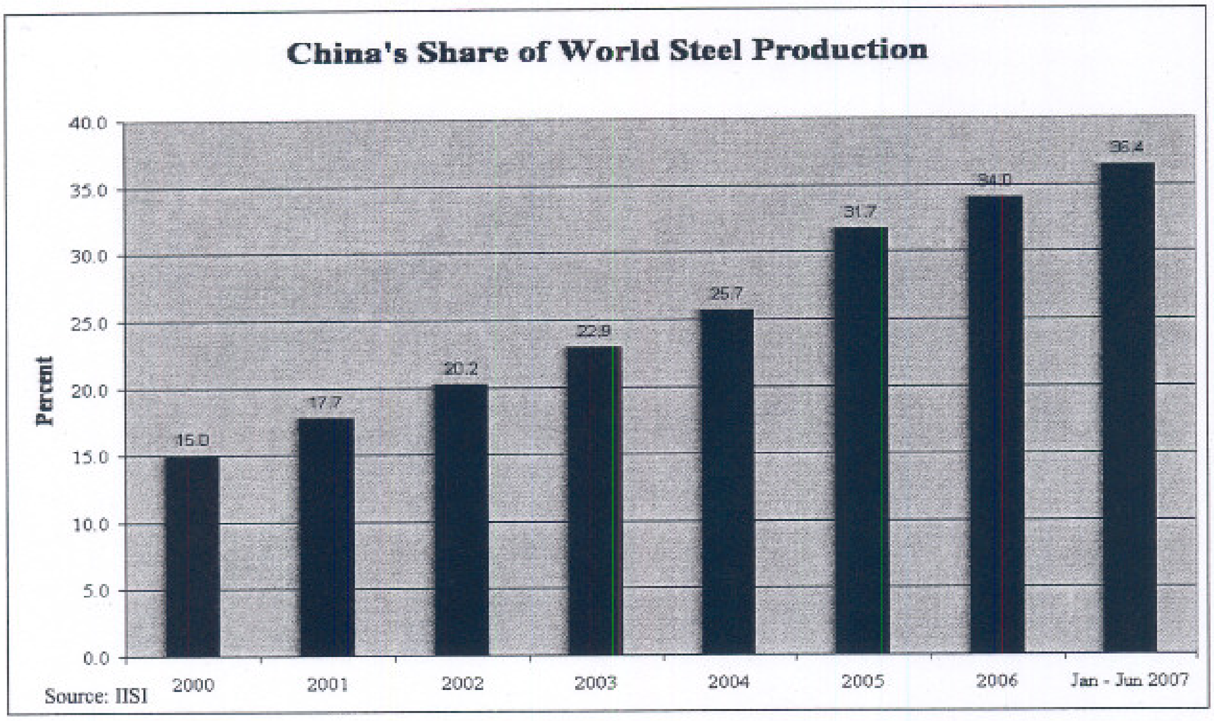
1 The report is available on the AISI web site at http://www.steel.org/AM/Template.cfm?Section=China_Focus&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=20996. It has been submitted to the Commission in this investigation.



China's Share of World Steel Production

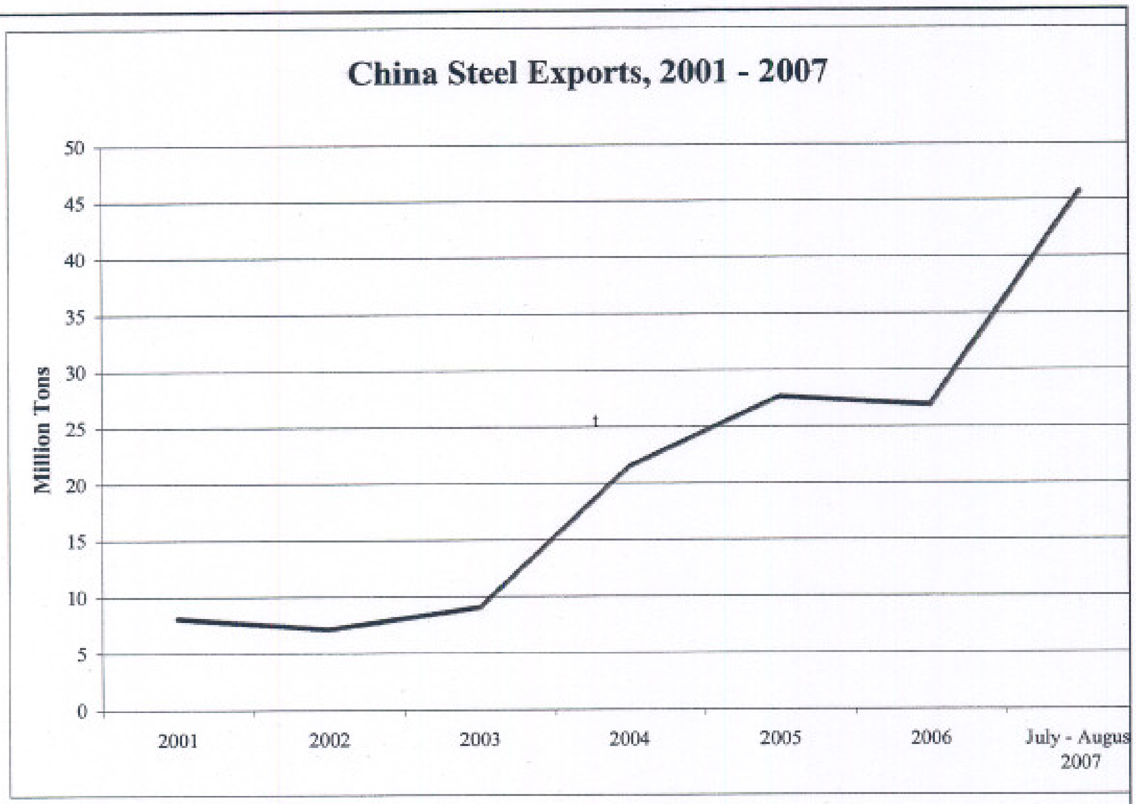
It is noteworthy that the period 2001–2006 was one of prolonged economic expansion in the United States. Yet, during this period, and despite significant improvements in domestic steel industry productivity and competitiveness, America's steel production remained essentially level. This was due in part to:

- The emergence of China as the greatest source of imported steel from offshore; and
- The continued buildup of steel-intensive manufacturing and export capability in China, which has caused U.S. customers to lose market share to China both in the United States and in world export markets.

The unprecedented surge in Chinese steel production was followed inexorably by an enormous increase in China's exports of steel to the United States -- and the rest of the world. In 2001, U.S. imports of steel from China totaled around 691,000 tonnes. By 2006, imports from China had increased by over 600 percent, to 4.9 million tonnes. If U.S. imports from China this year continue at their current rate, the figure for 2007 will be 4.6 million tonnes. China's steel exports to the U.S. have affected all product lines, including critical high value products. The value of steel imports from China grew from around $454 million in 2000 to $3.6 *billion* in 2006. The only products not affected are those under trade orders.

By way of comparison, U.S. exports of steel mill products to China also grew between 2001 and 2006, but only by 50,000 tonnes. Over this period the Chinese economy was booming, and China emerged as the largest steel consumer in the world. Had the government of China not (1) subsidized and directed the breakneck expansion of its steel industry, (2) kept its currency severely undervalued and (3) pursued manufacturing policies that included the use of WTO-illegal export and import substitution subsidies to foreign-invested enterprises, U.S. exports of steel to China both directly and indirectly would have been higher.

Chinese steel exports to the rest of the world also increased dramatically during this period. In 2001, China exported around 8.1 million tonnes of steel. By 2006, the figure had grown to 26.9 million tonnes. Chinese steel exports thus far in 2007 are up by nearly 70 percent and, through August of this year, China had already exported 45.7 million tonnes of steel. The following chart shows the explosive increase in Chinese steel exports to the world between 2001 and 2007.



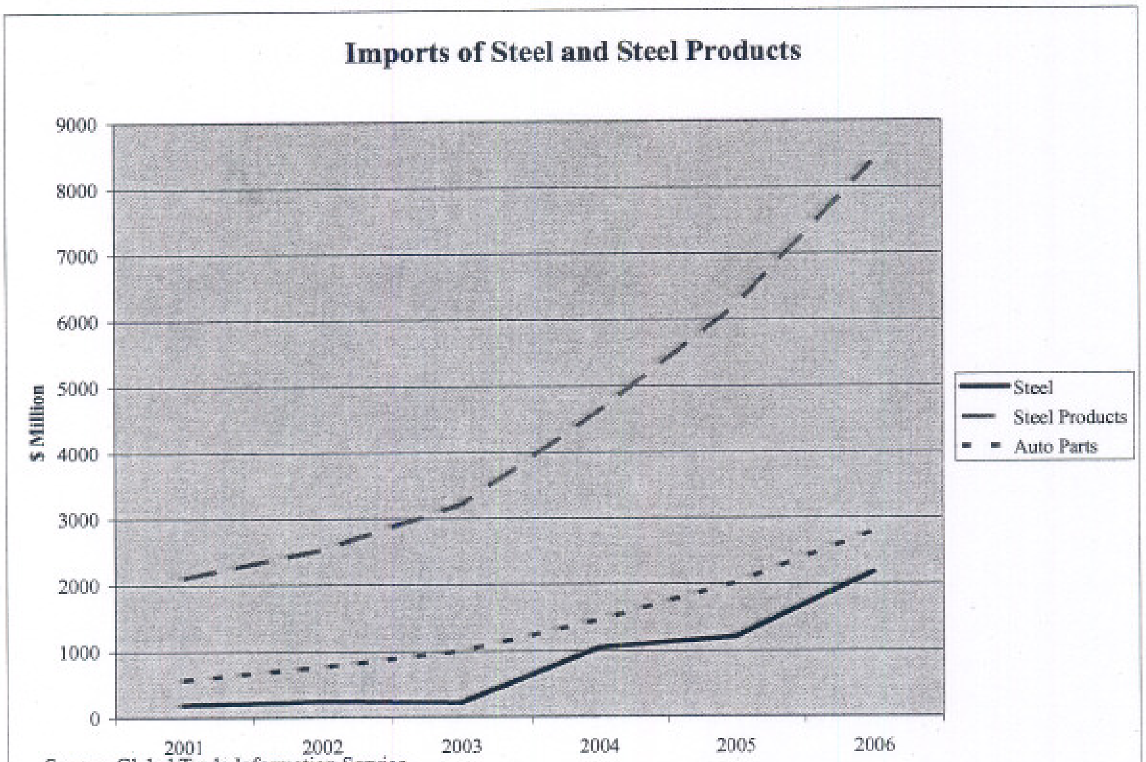
Source: Global Trade Information Service

Not surprisingly, a growing percentage of Chinese production is being shipped to export markets. According to data from the International Iron and Steel Institute, in the first half of 2006, Chinese exports accounted for 36 percent of China's new steel production. In the first half of 2007, Chinese exports accounted for 82 percent of such production. In August 2007 – notwithstanding a series of Chinese government border tax changes supposedly intended to curb certain steel exports -- China's steel exports still represented 15 percent of China's ever-surging total steel production. Such figures directly contradict the Chinese government's assurances that China would not be a disruptive presence in world steel markets.

The Impact on Steel Consuming Industries

The Chinese government continues to rely on policies, which have as their goal, to turn China into "the world's factory." It encourages foreign investment in manufacturing in China through a combination of direct subsidies and investment measures that require investment and production in China (as well as exports, R&D and the transfer of intellectual property) as a condition for access to the Chinese market. A typical example is the automotive industry, where China will allow U.S. automakers to sell their products in China only if they build production facilities there. As a consequence, dozens of American manufacturers have shifted production at least in part from the United States to China, while thousands of Chinese manufacturers have begun exporting products containing steel to the United States.

The impact of this policy is reflected in the import statistics. In 2001, Chinese exports to the U.S. of products classified under HTS 73, "articles of iron and steel," were worth $2.1 billion. By 2006, this amount had skyrocketed to $8.4 billion, an increase of nearly 300 percent. In 2006, China accounted for nearly 40 percent of all U.S. imports under HTS 73. Over the same period, imports of automotive parts from China rose from around $570 million to $2.8 billion, an increase of nearly 390 percent. The following chart shows the dramatic increase in the value of U.S. imports of steel and products containing steel between 2001 and 2006.



Source: Global Trade Information Service

These trends are reflected as well in overall "indirect" trade in steel (imports and exports of manufactured goods expressed in tons of steel). AISI estimates that, in 2001, the United States imported the equivalent of 2.8 million net tons of steel from China in the form of products containing steel. By 2006, this amount had risen to 6.1 million tons. The balance of indirect trade in steel for the United States declined from an already-poor 2.5 million ton deficit in 2001 to a 5.5 million ton deficit in 2006. What China has done is to employ a non-market-based economic development model of industrial targeting and subsidies. As a result, America's indirect steel trade deficit with China is today larger than with any other country.

The actions of the government of China have adversely affected the American steel industry both directly and indirectly. The Chinese government, through a combination of carrots and sticks --

including some that are WTO-illegal on their face -- is using artificial and unfair incentives to encourage many of the industry's domestic customers to move production to China. When U.S. manufacturers who use steel in their products transfer production offshore, there is the potential that, over time, they will use less American steel. Thus, surging direct imports of steel from China represent only one aspect of the negative impact that Chinese government policies have had on the domestic steel industry. The unfolding indirect impact is at least equally significant.

Conclusion

Chinese government policies have had and continue to have a very serious adverse impact on the U.S. steel industry. As a result of subsidies and other trade and market-distorting policies, China has been the leading offshore exporter of steel mill products to the United States over the last 18 months. High levels of imports of dumped and subsidized Chinese steel have led to lost domestic steel industry production, revenue, wages and jobs.

At the same time, the damage from Chinese government subsidies and other trade and market-distorting policies is not limited to the direct harm done to America's steel industry. China has pursued a conscious strategy to expand its production of manufactured articles containing steel -- in particular, in so-called "strategic" industries such as automotive. This, in turn, has led to:

- Domestic customer "flight" to China;
- Increased imports from China of steel-containing goods; and
- Fewer U.S. exports of steel-intensive products than would have been the case otherwise in the absence of these Chinese "industrial policies."

manufacturing capabilities, R&D and jobs, to the ultimate detriment of our entire economy and U.S. national security.