Commentary 3

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Article

China's Cheap Steel Hurts Latin America's Industry

BY Diálogo

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The Latin American steel industry is facing a crisis due to China's unfair trade practices, which flooded the market with cheap steel, threatening regional producers' jobs and livelihood, *Radio France International* reported.

"China's production affects Latin American economies, putting at risk 1.4 million jobs in the steel sector; forcing the suspension of operations of several companies and massive layoffs," Gabriela Fajardo Mejía, an expert in international relations and doctoral candidate in Global Society Law at the University of Navarra in Spain, told *Diálogo* on May 28. "[Production] is not subjected to environmental and quality standards. Chinese companies do not comply with rules of transparency and regulations."

China's strategy of selling its product below market prices has triggered a dumping situation that severely affects Latin America. According to data from the World Steel Association, China's share of global crude steel production reaches 54 percent. Between January and April 2024 alone, China produced 343.7 metric tons of steel.

"The slowdown in China's real estate and construction business caused domestic demand for steel to decline, leaving producers dependent on other countries to make up the shortfall," Henry Ziemer, research associate with the Americas Program at the Center for Strategic and International Studies, told *Diálogo*. "As the U.S. market looks increasingly unfavorable for Chinese steel producers, they are now looking to Latin American countries with fewer trade barriers to get rid of excess capacity."

In addition, the Chinese government subsidized steel production and exports during the pandemic. This caused a wave of cheap Chinese steel to spread around the world, Colombian newspaper *El Tiempo* reported.

Mexico, Chile, and Brazil have significantly increased tariffs on steel imports from China to protect domestic companies, with other countries in the region likely to follow suit.

Cheap Chinese steel is sinking the Latin American steel industry, causing several of the region's large companies to freeze or shut down operations, the Latin American Steel Association (Alacero) said in a statement. For Alejandro Wagner, Alacero executive

director from June 1, 2021 to June 1, 2024, the situation is creating a "process of deindustrialization in the region," he told *BBC*.

In March, Chile's Compañía de Aceros del Pacífico (CAP) suspended operations at its emblematic Huachipato industrial plant, citing its inability to compete with Chinese prices, and stressing that China's dumping has affected the economic and social development of the region. The company resumed activities after the government imposed a temporary tariff on Chinese steel imports. The Huachipato's board of directors expressed hope that the measure would become definitive.

Similarly in Colombia, the steel industry is asking for fair competition, as they experience the devasting rippling economic effects. "We have been enduring unfair competition for two years through massive imports from China and Russia at predatory prices, even 40 percent below international and market prices," Fabio Galán, president of Acerías Pazdelrío, told daily *El Colombiano*.

"In the past there have been reports that iron ore mines in Mexico, raided by organized crime cartels, played an important role in shipping looted iron ore to China, which was then converted into steel," Ziemer said. "These reports provide additional evidence that China's unfair and opaque trade practices create perverse incentives within the hemisphere, which can encourage criminal organizations and undermine the quality of governance."

Brazilian steel producer Gerdau announced in March that it would temporarily lay off workers at its São José dos Campos plant, in São Paulo, blaming it on China's unfair competition. Gustavo Werneck, president of the company, told the Brazilian media *InfoMoney* that these measures are only the first step to contain the Chinese surge.

"In addition, China subsidizes its companies in the sector, which allows lowering their costs. It is mainly worrying that quality and environmental standards for this production are not a factor taken into account by the Chinese government, but it is even more worrying that they are not a factor to be considered by steel buyers in Latin American countries, who to the detriment of their own local industry are mainly influenced by the low price," Fajardo Mejía said. "While Latin American steel mills emit 1.55 tons of carbon dioxide (CO2) per ton of steel produced, China emits 2.24 tons of CO2, which represents 45 percent more pollution."

The imposition of tariffs on China's steel as a response to its unfair practices also underscore the potential for trade tensions between the Latin American countries and China, with a potential for retaliation from the Asian country, known for its coercive diplomacy.

For instance, China banned soy-based products from Argentina in 2016 in response to far-reaching anti-dumping measures, Argentine daily *La Nación* reported. In 2019, following the arrest of a Huawei executive in Vancouver, China suspended all purchases of Canadian canola seed, *AP* reported.

“China produces more steel than the next nine steel-producing countries combined, giving it a powerful tool to influence prices and disrupt local economies,” Ziemer said. “However, the fact that this latest round has targeted countries like Chile and Mexico may present an opportunity for the United States to coordinate with Latin American countries on ways to mitigate China’s unfair trade practices and protect their domestic industries.”

Commentary

The article addresses concerns about the tariff impositions on China's cheap steel by many Latin American countries to protect local steel industry. Due to the slowdown of China's real estate and construction business, the excess of steel leaves Chinese steel producers dependent on other countries to make up the shortfall. The exportation subsidy imposed by Chinese government during the pandemic further increased the wave of cheap Chinese steel to spread around the world. Latin American countries therefore impose trade protection to prevent deindustrialization as a result of the **change** in steel industry.

China and Russia have unfair competition with other countries at predatory prices, which are 40% below the original international and Latin American domestic market price. The world price is lowered to $P_w<P_d$, so only a quantity of Q_1 is supplied by domestic steel producers, while the excess quantity Q_2-Q_1 is provided by export—mostly by China, which took up 54% of global crude steel production.

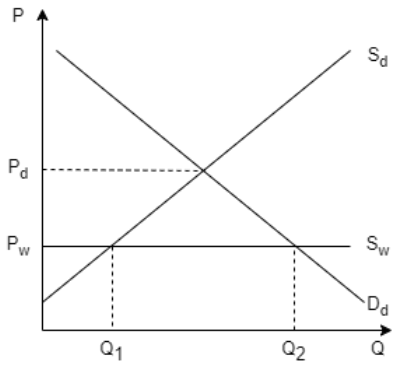

Figure 1: Under free trade, the steel price is P_w and domestic supply is Q_1.

To **change** the dumping situation, many Latin countries have imposed, or are currently considering imposing tariffs on China's cheap steel, shifting the price of steel upwards to (P_w+tariff), to protect local industry.

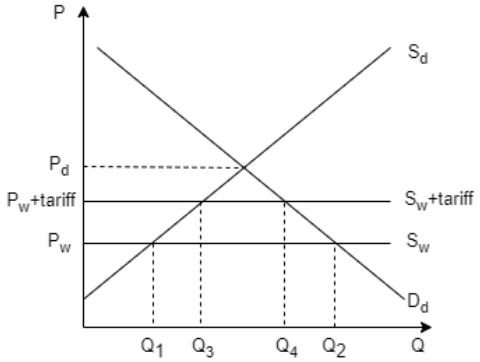

Figure 2: After imposing policy, the new quantity supplied by domestic firms is Q_3.

At the **changed** world price (P_w+tariff), the domestic quantity of steel supplied increased from Q_1 to Q_3, the quantity of steel demanded fell from Q_2 to Q_4, the total

quantity imported fell to Q_4-Q_3 while the quantity of steel supplied by domestic producers increased from Q_1 to Q_3. A misallocation of resources is caused by increasing production by inefficient producers and decreased consumption of consumers.

Tariff can help shield local producers from the influx of cheap steel that has been driving them out of business. After the imposition of tariff, consumers are required to buy imported steel products at (P_w+tariff), so fewer will prefer imported goods, as Chile's Compañía de Aceros del Pacífico (CAP) "resumed activities." The original lower steel price provided by China has created a derived demand for labor in China rather than their own, causing a **change** in job positions, creating job loss and negative impacts on standards of living of household in an economy, putting "1.4 million jobs in steel sector" at risk. By imposing tariffs, the increased demand for domestic steel will further excite domestic production, more labor forces are required, so employment increases, thus **changing** the current employment issue.

Instead, the production of steel in China also creates a higher carbon emission, resulting in a negative **change** in the environment. Compared to Latin American steel mills which "emit 1.55 tons of carbon dioxide (CO2) per ton of steel produced," China emits 45% more pollution. By imposing the tariff and reducing the steel imported from China, the demand for China steel will decrease, followed by a decrease in steel production, less carbon emission, and a better-protected environment.

Enduring "unfair competition" for two years at prices 40% below international and market prices from China and Russia, the tariff imposition can **change** the level of the playing field and reduce the impact of price competition. Therefore, the tariff can allow more local industries to compete more fairly against subsidized foreign products and change the current unfair dumping market.

However, the **change** of policy by local governments may also lead to negative **changes** in international relationships.

As Latin American countries implement tariffs to address the issue of dumping, China could respond by introducing its own trade measures, such as imposing tariffs or restricting imports, as observed in previous disputes where China limited imports of soy-based products from Argentina and suspended purchases of Canadian canola seed. These actions could affect the trade dynamics between China and Latin American countries, potentially leading to increased trade tensions and impacting other sectors of the economy that depend on trade with China. A reduction in exports could potentially lower the real GDP of Latin American countries.

While tariffs may protect domestic industries, they can also lead to 40% higher steel prices for consumers and other industries reliant on steel. This **change** in steel import

affects steel prices could ultimately increase the price of goods using steel as raw materials, hurt the economy, and lead to inflationary pressures.

Additionally, in trade protection, while trying to protect the domestic product by **changing** the tariff, the allocation of resources **changes** to a misallocated situation on a global scale, as the production moves away from the lowest cost producers in other countries to higher cost domestic producers, worsening the global resource allocation.

In conclusion, China's low-cost steel exports have adversely affected the Latin American local steel industry, prompting the imposition of tariffs to address the challenges. While trade protection provides critical support for local industries and **changes** the situation, it brings both positive and negative ramifications. Careful policy consideration is essential to balance the benefits of domestic protection with the broader implications of trade protectionism.