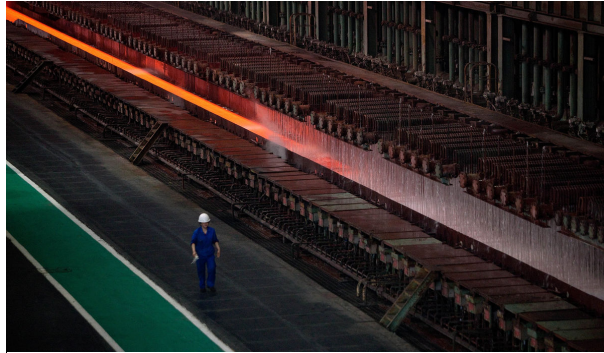


Record Exports of Cheap Chinese Steel May Spark Trade War

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Steel production takes place at the Baosteel Group Corp. facilities in Shanghai, China. Chinese steel producers are reluctant to reduce output, which would be more costly than maintaining production and sales, even at low prices. Photographer: Doug Kanter/Bloomberg

Record steel exports from China are undercutting foreign rivals on price, triggering complaints from Seoul to South Africa that may signal the start of a trade conflict.

China produces about half the world's steel and exports are on pace to exceed 80 million tons this year, the most ever, according to the China Iron & Steel Association.

That's exacerbating trade tensions in the region as Japanese Prime Minister Shinzo Abe and President Barack Obama meet with Chinese President Xi Jinping this week in Beijing. With China's economy slowing to levels not seen for more than two decades, producers are boosting shipments to other markets.

"It's certain the trend to export will continue next year," said Luo Yongdong, head of imports and exports at the Panzhihua Iron & Steel Group, a unit of Anshan Iron & Steel Group, one of China's largest steelmakers. "As a result, trade disputes will intensify."

Hebei Iron & Steel Group's Tangshan unit said this week it will make its first shipments of auto sheet to Latin America, while its Xuancheng unit shipped hard steel wire to Japan on Nov. 7 for the first time.

In Japan, Tokyo Steel Manufacturing Co. Managing Director Kiyoshi Imamura said the sheer scale of China's exports puts it on pace to reach 100 million tons a year. That's about equal to the entire output of Japan, the world's second-largest producer.

Steel Imports

Japan's Kobe Steel Ltd. and South Korea's Posco said they have complained to counterparts in China about the flood of metal that's eating into their sales. Chinese steel is also piling up in ports in India and Africa, where local producers have asked governments to do something to stop it.

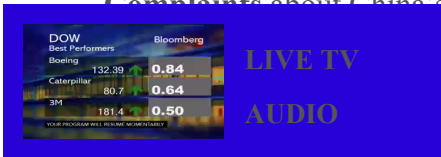
The exports are reaching as far as the U.S., where imports of the metal rose more than 50 percent in September. Exports to Taiwan and India rose more than four-fold.

In the Southeast Asia markets, China's lower costs allow it to sell some types of steel at about \$40 to \$50 a ton less than South Korea and \$100 lower than Japan, said Wei Zengmin, an analyst from Mysteel.com, the nation's largest industry research company.

"It's not only labor costs," said Wei. "The biggest advantage for China is the scale. The competition is so fierce among Chinese exporters so they are selling products at very low margins."

No Lull

Complaints about China's steel exports have yet to reach the World Trade Organization, the global among member states. Japan's Ministry of Economy, Trade and Industry reports from abroad, said Eriko Nagata, a deputy director in its office for trade investigations.



However, the outlook for China's economy suggests there will be no lull in either the surge in China steel or the protests against it.

The economy is expected to grow at 7 percent in 2015, the slowest annual pace since 1990, said Fan Jianping, chief economist at the State Information Center under the National Development and Reform Commission, China's top planning agency, on Oct. 25.

Chinese steel producers are reluctant to reduce output, which would be more costly than maintaining production and sales, even at low prices.

Severe Year

That confirms the concerns of In-Hwan Oh, executive vice president of business strategy at Posco, South Korea's biggest steelmaker.

“That means in the coming year, the challenge from China is going to be severe,” he said in an interview in Shanghai on Oct. 22.

In India, imports are reducing profit for local makers, said Sanak Mishra, secretary general of the Indian Steel Association, a lobbying group. “We have made a case to the government and requested it to ensure a level playing field.”

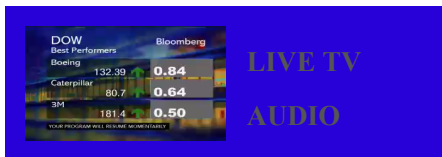
China’s steel exports to India more than doubled to 1.34 million tons in the six months starting April 1, according to data from the steel ministry.

ArcelorMittal South Africa Ltd., a unit of the world’s biggest steelmaker, is seeking duties on steel imports from China, Chief Executive Officer Paul O’Flaherty said in an Oct. 29 interview on Business Day TV.

Domino Effect

Tokyo Steel’s Imamura said the size of the increase in China’s exports is creating a domino effect through countries.

“Chinese steel goes to Taiwan and South Korea, driving down prices in those markets, then Taiwanese and Korean steel comes to the Japanese markets,” he said. The company was forced to cut prices for all its products by 3,000 yen (\$26) a ton for November, he said.



China and South Korea in September to head off any trade measures, such as seeking other solutions, Kobe Steel sales executive Yukimasa Miyashita told reporters on Oct. 5.

“Still, we told them it could lead to trade measures if it’s concluded the imports are damaging the domestic industry.”

China’s steel exports are rising because they are competitive, said Li Xinchuang, deputy secretary general of the China Iron and Steel Association.

“The final reason for the trade friction is our foreign rivals are not competitive enough.”

— *With assistance by Helen Yuan*