



We should thank China for its foolish steel-dumping agenda

Dan Pearson

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The G20 Leaders' Declaration called on the Global Forum on Steel Excess Capacity to fix the mind-boggling overcapacity in steel. The OECD Steel Committee estimates worldwide production capacity at almost 2390 million metric tons (MMT) in 2016, far more than the 1629 MMT actually produced. Roughly one-third of all mills simply aren't needed, and it is no secret that the biggest source of overcapacity is China.

So, as 30 countries sit down for Global Forum discussions, an uncomfortable dynamic unfolds. Twenty-nine countries are unhappy with the stresses being inflicted on their steel industries by worldwide oversupply, so they will ask China to cut back. China, however, is not terribly eager to make the politically difficult decisions to reduce steel production.

From the Chinese view, if their success in steel is hurting someone else, that may be a reason to keep doing it. In other words, "If the United States doesn't like our policies, we must be doing something right."

Twenty years ago, China embarked on a government-driven effort to expand steel output, succeeding all too well. The World Steel Association reports that China's annual production rose more than eight-fold, reaching 808 MMT last year. Its total steel capacity is thought to be 1200 MMT, so many of its mills are idled. Today China produces half of the world's steel, and its output is still rising.

What do basic economics tell us about this situation? China is wasting an enormous amount of resources in order to sell steel to other countries for less than it actually is worth. This is foolish. In essence, China is transferring wealth from itself to other countries.

On the other hand, the United States also is acting foolishly by refusing to accept bargain-priced steel. It restricts imports through the use of 200 antidumping and countervailing duty (AD/CVD) measures. This has made the United States a high-priced island in an ocean of low-priced steel. Economists have understood for decades that restricting imports always reduces a country's

overall economic welfare. The U.S. economy undoubtedly is being hurt by its own protectionist steel policies.

High steel prices may be nice for U.S. mills, but they create real problems for steel users. The downstream manufacturing sector that uses steel as an input is very large. It employs 6.5 million people and produces a value-add to the economy of over \$1 trillion. Steel mills, on the other hand, employ only 140,000 workers and add just \$36 billion to the economy. So downstream manufacturing is 46 times larger in terms of employment and 29 times larger in terms of its contribution to GDP.

Steel-consuming manufacturers tend to compete directly with goods imported from other countries. It is poor public policy to undermine the competitiveness of firms that make cars and air conditioners by inflating steel costs artificially. After all, losing just 2 percent of downstream manufacturing jobs would equal the total number of workers in steel mills.

President Trump understands well the angst of people who feel left behind, despite economic growth in much of the country. Steel import restrictions should be ended for the good of the broad manufacturing economy, but that change ought to be accompanied by a concerted effort to raise the quality of the public discourse on trade issues. Many people have been poorly informed by recent political rhetoric directed against imports.

Society may wish to consider enhanced adjustment assistance for steel workers who could lose jobs as the industry adapts to open markets. The Trump administration should explain that the federal government — a clumsy beast in the best of circumstances — simply is not able to bring factory jobs back to every town, and it ought not to try. Rather, the government should empower people to find new jobs by ensuring that they have recourse to education, vocational training and relocation assistance.

What's the best way to get China's attention? In Chinese culture, preserving "face" is important. All responsible trading nations want China to downsize and restructure its steel industry. The quickest way to encourage that change would be to make clear that we think the policies that have bloated China's steel industry are silly.

The best approach to resolving the steel market's challenges would be to open the U.S. border to imports while simultaneously offering aid to steel workers. This would restructure U.S. policies so they work with economic forces instead of fighting against them. And it would enable the United States to gain economic advantage from China's steel follies instead of just complaining about them.

Meanwhile, back at the Global Forum, the U.S message to China should be, "Thank you for transferring so much wealth to the United States by selling low-priced steel. Please keep doing it."

Daniel R. Pearson is a senior fellow in trade policy studies at the Cato Institute. Prior to joining Cato, Pearson served for 10 years on the U.S. International Trade Commission, the federal agency that, among other responsibilities, oversees the U.S. trade remedy laws.