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WORKSHOP ON STEEL TRADE ISSUES

THE SITUATION IN STEEL TRADE: COUNTRY REPORTS  
STATEMENT BY MR. YU ZONGSEN

*The Workshop will be held in Paris on 27-28 May 1998.*

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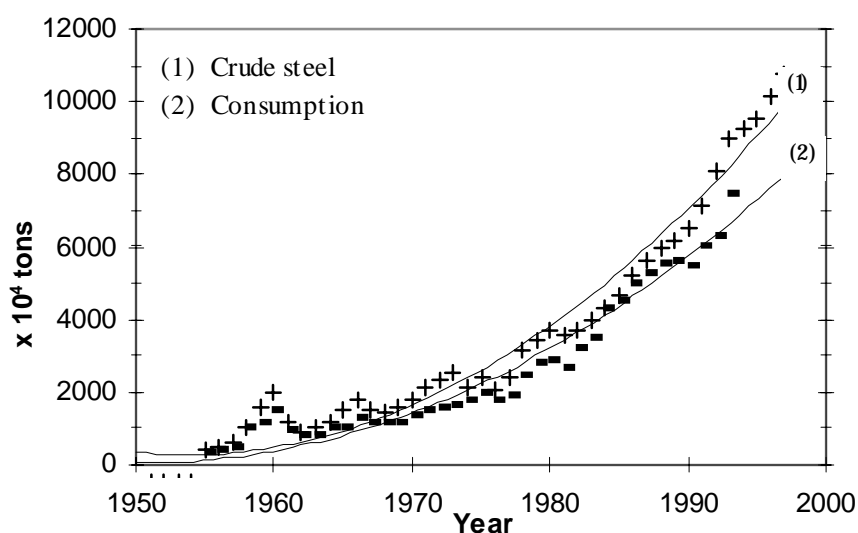
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**WORKSHOP ON STEEL TRADE ISSUES**  
**THE SITUATION IN STEEL TRADE: COUNTRY REPORTS**  
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**PARIS, 27-28 MAY 1998**

**Background: the development of the iron and steel industry in China**

1. To get a better understanding of steel trade of nowadays China, it is appropriate to introduce to you at first about the course of development of iron and steel industry since the founding of the People's Republic of China in 1949. Figure 1 shows the output of crude steel and consumption of steel products in China since 1949. The crude steel output in 1996 exceeded 100 million tons (101.24 million tons). Last year it increased to 107.57 million tons. It can be expected that the output would have further increase in the future. Table 1 shows forecast of consumption of steel product of China for the year 2000<sup>1</sup>. Table 2 is the author's personal prediction of steel consumption of China in the next century<sup>2</sup>. It is more difficult to predict domestic steel production since there are many uncertainties in import and export.

Figure 1. **Output of crude steel and consumption of steel products in China**



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1. Han-Soo Yu: *International Symposium on Steel Industry Development and Management Proceedings*. Ed. Guan Zhian, Metallurgical Industry Press (1997).
  2. Yu Zongsen: *How Much Steel China Needs in the Long Run*, to be published.

Table 1. **Various steel consumption forecasts for 2000**  
(Million tons of finished steel)

Institutions	Steel consumption	
Japan Iron & Steel Exporter's Association		(109.66)
Future Forecast Institution Co., Ltd. (Japan)		(120.00)
WEFA	111.50	(122.65)
IISI	115.00	(126.50)

*Note:* Figures in parentheses are on a crude steel basis.

*Source:* Various sources. Compiled by POSCO Research Institute;

Table 2. **The forecast of steel consumption of China in the next century**  
(x 1 million tons)

Year	2000	2010	2020	2030	2040	2050
Standard	100	133	164	191	215	237
Upper limit	95	125	152	176	197	216
Lower limit	104	141	175	205	231	255

## Import and export

2. Before the beginning of the 1990s, China had been short of steel for several decades. Each year, China had to import steel products to meet the demand of national economy. Table 3 shows the steel product import and export in China since 1950<sup>3</sup>. It could be seen that except in a few years, in most years import is more than export and the general trend is that, with the development of national economy, the quantity of import is increased accordingly. The export has been a minor part in the total production for long time.

Table 3. **Import and export of steel products of China**

x 10<sup>4</sup> tons

Year	Import	Export	Net import (import -- export)
50	40.75	0.04	40.71
51	63.09	0.11	62.98
52	45.99	0.04	45.95
53	93	0.06	92.94
54	79	0.61	78.39
55	81	6.1	74.9
56	72	19.89	52.11
57	70	9.63	60.37
58	152	19.7	132.3
59	86	10.42	75.58
60	85	8.48	76.52
61	25	18.72	6.28
62	21	32.5	-11.5
63	25	36.29	-11.29
64	41	39.97	1.03
65	76	47.19	28.81
66	138	48.77	89.23
67	159	30.67	128.33
68	167	30.15	136.85
69	185	24.77	160.23
70	260	21.46	238.54
71	219	31.84	187.16
72	230	51.27	178.73
73	403	56.32	346.68
74	369	45.06	323.94
75	396	40.97	355.03
76	486	33.94	452.06
77	515	22.17	492.83
78	829	33.24	795.76
79	814	36.8	777.2
80	500.64	39.77	460.87
81	331.85	61.72	270.13
82	393.78	110.11	283.67
83	977.97	49.23	928.74
84	1 331.45	20.33	1 311.12
85	1 963.49	18.12	1 945.37
86	1 742.2	19.7	1 722.5
87	119.51	27.7	91.81
88	866	15.9	850.1
89	843.1	78.1	765
90	410	209	201

3. *International Steel Statistics 1997*. Information Institute of the Ministry of Metallurgical Industry.

3. However, its quantity has been increased to over 1 million tons in 1982 and since 1990. Table 4 shows the percentage of import in the total consumption of steel products. It could be seen that up to now the import still is a considerable part of total consumption in China. It could be expected that this trend would not change at least in the near future.

Table 4. The percentage of import in the total consumption of steel products

Year	Consumption (x 10 <sup>4</sup> tons) (output + import - export)	Percentage of import (%)
53	240	38.75
57	472	14.83
62	439	4.78
65	902	8.43
70	1 420	18.31
75	1 945	20.36
80	3 163	15.52
85	5 477	32.92
89	5 725	16.56
90	5 361	7.91
91	5 713	6.27
92	7 209	9.79
93	10 621	28.49
94	10 536	21.67
95	9 784	14.28
96	10 515	15.20

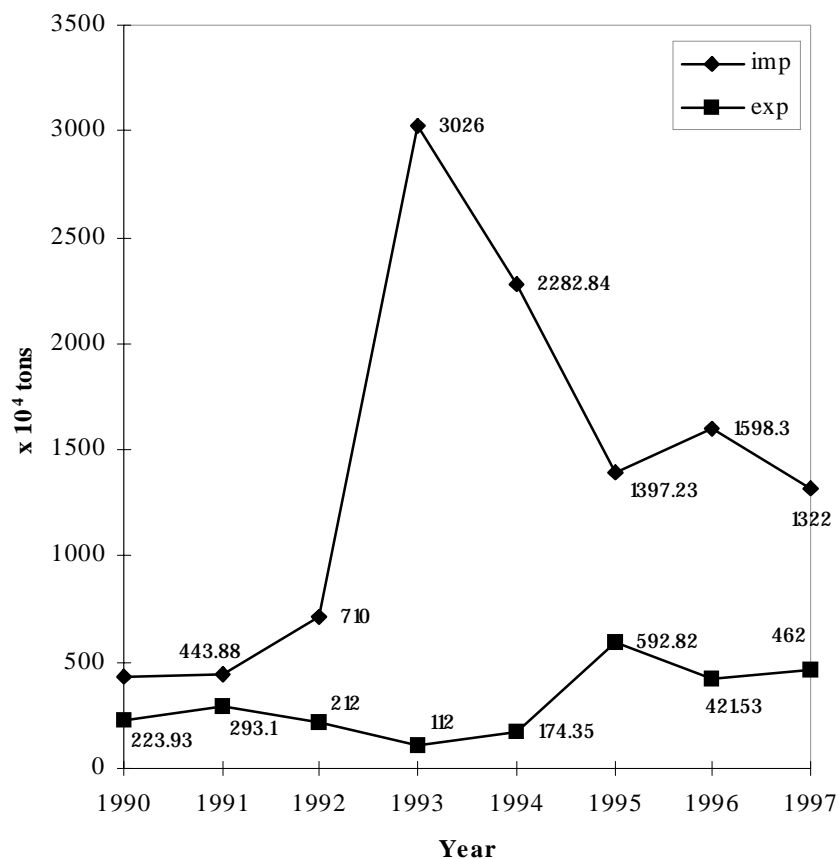
4. Let's have a closer look of import and export of steel products of China in recent years. Figure 2 shows the import and export since 1990. It could be seen that China imported more than 30 million tons of steel products in 1993<sup>4</sup>. It is the maximum quantity of import up till now. The reason for the record import is that at the beginning of the 1990s we got overheating in economy with quick expansion of capital construction. The price of steel products was very good at that time. To make profit every company dealing with import tried to import steel products as much as possible. After that, the government took many measures to curb the too quick expansion. Not until last year did the government

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4. *The Year Book of Iron and Steel Industry of China 1997*. The Editorial Board of the Yearbook, Beijing.

realise the goal of fairly high speed of development with low inflation rate. Along with this the import of steel products has turned to be more and less steadily since 1995.

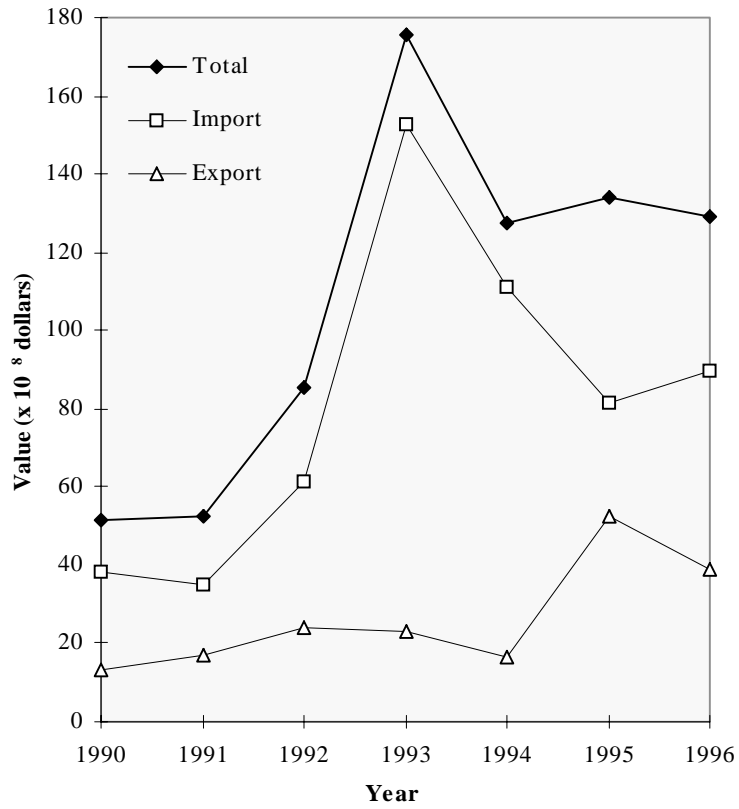
Figure 2. **Import and export of steel product in the nineties**



5. In addition to steel products, the import and export in the field related to iron and steel making include iron ore, scrap, billet, pig iron, coke, ferroalloy as well. Among them the iron ore is an important part of the trade. From 1995 each year we import iron ore for more than 40 million tons, it could be expected that the import of iron ore will increase along with the increase of steel production in the future.

Figure 3 shows the total value of import and export in the field of iron and steel making in American dollars.

Figure 3. Total value of import and export of metallurgical products



6. For the composition of imported steel products, the flat products make up the major part of it. Figure 4 shows the composition of imported steel products in recent years. Among flat products, the cold strip with the thickness <1mm, silicon sheet and galvanised sheet make up the main part of them, as shown in Figure 5.

Figure 4. Composition of imported steel products

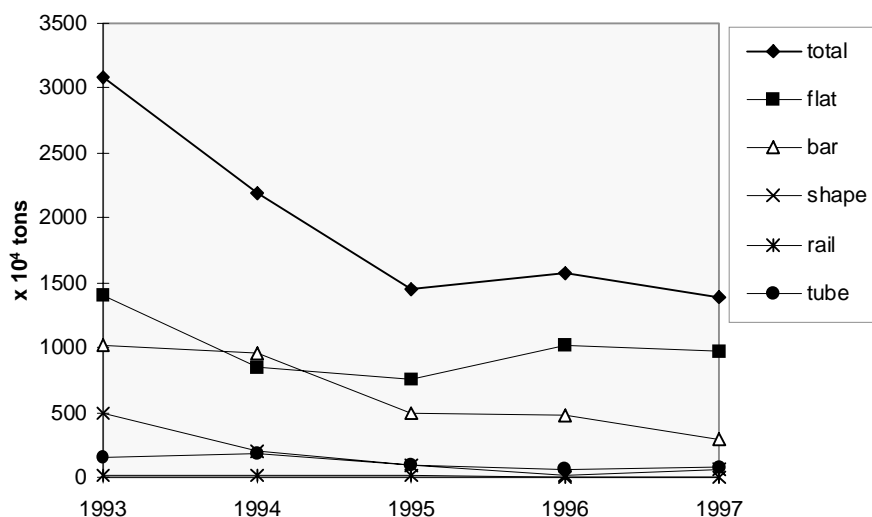
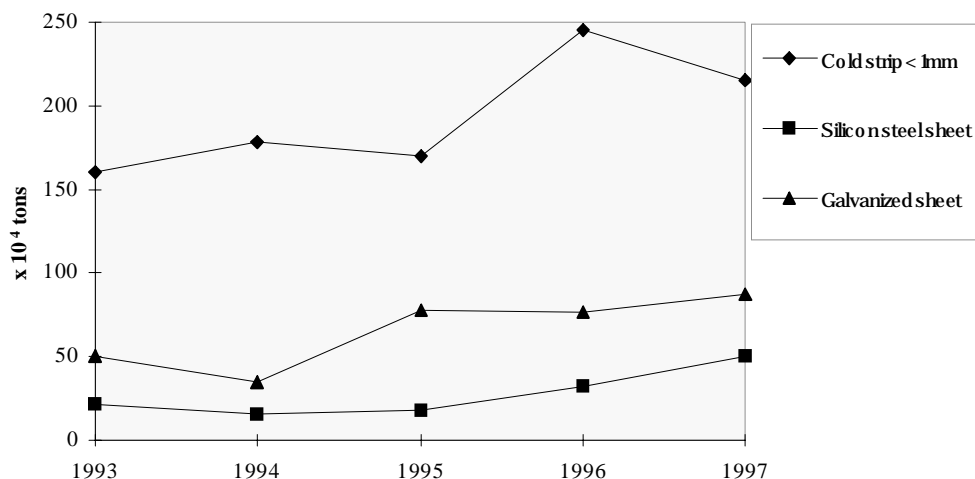


Figure 5. Compositions of flat products



7. Another aspect related to steel trade is the foreign investment in iron and steel industry. By the end of 1996 the sum of registered capital of joint ventures and enterprises solely owned by foreigners in China is nearly 14 billion yuan (about US \$1.68 billion). The total number of joint ventures and foreign enterprises is about 390. The major part of investment directly related to iron and steel making is in the downstream processing such as cold rolling, galvanising and tinning. In the meantime, a few Chinese



enterprises invest in several iron ore mines and factories abroad. The Channar iron ore mine in West Australia is one of the biggest.

8. Beginning from two or three years ago, China has extricated herself from the shortage of steel which had lasted for long time. The demand and supply of steel at home are roughly in a state of balance. The increase of production capacity exceeds the increase of demand slightly. In the meantime, with further implementation of opening-up policy and new efforts to enter WTO, the foreign suppliers get easier access to the Chinese market. Both factors result in oversupply of steel products and considerable reduction of profits for domestic manufacturers. To expand overseas market domestic suppliers are making new efforts to export more steel products, billet, pig iron, coke and other goods. However, facing the financial crisis in Asia, the outcome in this year and next year is difficult to predict. But in the long run, no one doubts about further increase of domestic consumption, domestic production and foreign trade of steel in China, since the national economy of China will keep fairly fast increase for many years.

### **Policy**

9. As mentioned above, for a long period China was in a situation of short of steel. Although during that period China was with a planning economic system and protective tariff system, to encourage import, a policy of tariff preference to reduce the customs duty for steel products was carried out. To increase the steelmaking capacity, the government invested heavily in iron and steel industry. A well-known example is the first phase construction of Baoshan Iron and Steel Company (Baogang) in Shanghai. After the planning system was replaced by marketing system which happened in the early 1990s, Baogang used its own money to start the second and third phase construction. After completion its capacity will be the top of steel companies in China and up to 12 million tons. In brief, Chinese government had given priority to the development of iron and steel industry for a long period.

10. To encourage export, China has carried out a policy of export rebate, after the commodities are exported, the value-added tax (VAT) will be paid back to the export enterprises. The export rebate rate has been reduced twice. The rebate rate is 9 per cent for steel products since 1995. On the other hand, the government reduces the import tax rate step by step. At the present time, the import tax rate for carbon steel products is from 5 per cent to 10 per cent. The Chinese government promises that the average level of taxes will be reduced in the future.

11. With the demand and supply of steel is roughly in a state of balance, iron and steel industry could not be seen on the list of government's priority. Although the steel output of China is at the top of world, in fact, as quality, variety, efficiency, productivity and environmental protection are concerned, Chinese iron and steel industry still has a long way to go. The competitiveness instead of quantity turns to be the key issue for further development. For the structure optimisation of iron and steel enterprises, in general entrepreneurs could no longer expect preferential policy from the government. To improve competitiveness they should do the restructuring by using their own money. Many enterprises will be renovated and turned to be modern enterprises with good management, but some others will be eliminated through competition. To help the modernisation of iron and steel industry, foreign investment is welcome, in June 1995, "*The Guidance Catalogue for Utilising Foreign Capital in China*" was promulgated by the State Council. As a raw material industry, steel industry is listed as one of the industries encouraged to utilise foreign investments. However, the emphasis would not be on the capacity in general, but on projects whose products are in urgent need and to introduce advanced technology, facility and management.