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Questioning China's Steel Industry

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About 31,000 American factory jobs vanished last month. And if a University of New Haven professor is right — and she probably is — the Chinese government is, at least in some way, to blame.

The reason: A massive and sustained subsidization of the booming steel industry in China, a nation that in less than three years has morphed from a net importer of steel to the world's largest exporter of that key industrial material.

The impact of an influx of cheap Chinese steel will increasingly reverberate in Connecticut, particularly in towns like Wallingford, where despite years of contraction in other parts of the country, the steel industry remains a key employer and economic driver.

Companies like Infra-Metals, a steel processor and distributor that employs more than 100 in its Wallingford plant, are banking on big growth in the Nutmeg State. Earlier this year, the company said it expected 15 to 20 percent growth in production from its Wallingford plant through 2009, fueled largely by construction projects like Foxwoods Casino and the Connecticut Science Center.

The plant receives about 95 percent of its steel from domestic sources. But as the influx of cheap Chinese steel continues, replacing the steel made by American manufacturers, there's reason to believe the dynamics of the market could change that ratio.

Other Connecticut steel firms have found it necessary to merge in order to compete in the increasingly globalized steel industry. Take for instance, Connecticut Steel, a Wallingford rod-making firm, which was founded seven years ago. In 2006, its local ownership sold the company to Nucor, the Charlotte, N.C.-based giant of the steel industry. The reason given by its former owners: It needed to be bigger in order to compete.

China's booming steel industry has exacerbated many of the problems in the steel industry in other countries. And nearly all of that can be traced back to subsidies that, according to Usha C. V. Haley, director of the Global Business

Center at the University of New Haven, amount to nearly $16 billion a year, and pay for the massive fuel costs needed to melt, form and reform that precious industrial commodity.

The $15.7 billion paid last year to manufacturers of steel in China amounted to a nearly 3,800 percent increase since the year 2000, Haley's research shows. As of yet, the Chinese government has failed even to acknowledge the subsidies exist .

There are other interesting tidbits uncovered by Haley about the world of Chinese steel. One of the more interesting is how the Chinese steel industry is arguably the most fragmented on earth. Only one of the country's producers ranks among the 10 largest worldwide, and none of the country's 22 provinces accounts for more than 10 percent of China's steel production.

Energy, rather than labor, is by far the largest cost for China to belch out steel, meaning the major subsidies that the country uses are far more important to sustaining its industry than its lowly paid workers.

These dynamics allow China to produce steel at a cost about 25 percent lower than competitors in the rest of the world, and sell it for about 20 percent less.

"American manufacturers just can't compete price-wise," Haley said. "It's just not fair competition. Free trade only works when everybody plays by the rules."

As Haley pointed out, "when we lose a manufacturing job we lose four other jobs as well...the so-called 'China price' has a tremendous impact, and not just on the price of steel."

To put that in context: Between 2000 and 2007, as Chinese subsidies rose 3,800 percent, the American steel industry lost 60,000 jobs, or about 29 percent of its work force.

China's gains — at least, as far as the steel industry is concerned — have been this country's loss. And for too long, the reasons behind that dynamic have been clouded.

The simple logic of cheap labor fails fully to explain why the echoes one hears in many now-closed Connecticut factories ring in Chinese and not English.

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