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WSD's steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the "pricing power" of steel companies the world over will be impacted by changes in the steel industry's structure. The views and opinions expressed in this article are solely those of World Steel Dynamics and not necessarily those of AIST.



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Panic in China. Economic indicators are negative.

China's economy is in a phase of escalating threats to its "command" economic system, which has enjoyed unprecedented success in the past 20 years (refer to Table 1 on the next page). Here are some of the threats: (a) Capital flowed out of the country at a high rate in April and May; (b) the gain in fixed asset investment (FAI) is down to only about 2% year to year; (c) business sentiment is poor; and (d) about 50% of exporting businesses in a UBS survey say they are planning to move some of their manufacturing offshore.

China has far more to lose than to gain in any trade battle with the U.S. since it exports to the U.S. about US\$650 billion of products each year (which compares to China's GDP of about US\$12 trillion annually and the U.S. at about US\$20 trillion annually). It imports about US\$120 billion of goods from the U.S. each year, including soybeans and other agricultural products. (Note: World trade in merchandise is about US\$12 trillion per year.)

With worker wages in China since 2000 up 10–15% per year and breakthrough technologies reducing the labor content of new factories wherever they are built, the Chinese, despite their manufacturing prowess, have lost significant competitive advantage in the past half-decade.

Chinese economic policymakers may be talking tough but, as WSD sees it, they are in a panic mode. At a recent Chinese major economic conference, they made a commitment to sharply boost research and development spending in order to give their companies a competitive advantage; but this is a long-term development. As we know, the long term does not exist; it's the result of the stringing together of short-term events.

Granted that Chinese policymakers are about to initiate new sizable and broad-based economic stimuli, might this lead to unacceptable increases in Chinese municipal debt as many pundits are warning? WSD thinks not, for the following reasons. First, all municipalities are, in fact, Central Government-owned; hence, it's hard to imagine that any single one will go bankrupt and, thereby, threaten the entire financial system. Second, the bulk of the municipal debt is short term in nature; hence, when it wishes, the government can exchange this debt for long-term debt. Chinese investors would rush to buy up the long-term debt because it would be liquid; it would carry an interest rate far above that received when funds are deposited in banks; and it would almost surely be rated "investment grade" by the Chinese rating authorities.

This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors. ◆

Table 1

China Fixed Asset Investment and Gross Domestic Product

Year	Fixed asset investment (FAI)	Change (%)	Gross domestic product (GDP) current price	Change (%)	Ratio (FAI/GDP) (%)
1985	254.3	—	901.6	—	28.2
1986	312.1	22.7	1,027.5	14.0	30.4
1987	379.2	21.5	1,205.8	17.4	31.4
1988	475.4	25.4	1,504.3	24.8	31.6
1989	441.0	(7.2)	1,699.2	13.0	26.0
1990	451.7	2.4	1,887.0	11.1	23.9
1991	559.5	23.9	2,201.0	16.6	25.4
1992	808.0	44.4	2,719.0	23.5	29.7
1993	1,307.2	61.8	3,567.0	31.2	36.6
1994	1,704.2	30.4	4,864.0	36.4	35.0
1995	2,001.9	17.5	6,134.0	26.1	32.6
1996	2,291.4	14.5	7,181.0	17.1	31.9
1997	2,494.1	8.8	7,972.0	11.0	31.3
1998	2,840.6	13.9	8,520.0	6.9	33.3
1999	2,985.5	5.1	9,056.0	6.3	33.0
2000	3,291.8	10.3	10,058.0	11.1	32.7
2001	3,721.4	13.1	11,125.0	10.6	33.5
2002	4,350.0	16.9	12,229.0	9.9	35.6
2003	5,556.7	27.7	13,832.0	13.1	40.2
2004	7,047.7	26.8	16,274.0	17.7	43.3
2005	8,877.4	104.1	18,732.0	15.1	47.4
2006	10,999.8	23.9	21,944.0	17.1	50.1
2007	13,723.0	24.8	27,009.0	23.1	50.8
2008	17,283.0	25.9	31,924.0	18.2	54.1
2009	22,460.0	30.0	34,852.0	9.2	64.4
2010	25,168.0	12.1	41,212.0	18.2	61.1
2011	31,149.0	23.8	48,794.0	18.4	63.8
2012	37,469.0	20.3	53,858.0	10.4	69.6
2013	44,629.0	19.1	59,296.0	10.1	75.3
2014	51,202.0	14.7	64,128.0	8.1	79.8
2015	56,200.0	9.8	68,599.0	7.0	81.9
2016	60,647.0	7.9	74,006.0	7.9	81.9
2017***	64,124.0	5.7	82,075.0	10.9	78.1
2018***	64,568.0	5.9	90,031.0	9.7	71.7
2019e	68,312.9	5.8	97,683.6	8.5	69.9
2020e	72,138.5	5.6	105,791.4	8.3	68.2

Source: WSD estimates.

*Gross domestic capital formation.

**Fixed asset investment includes land sales and other items that are not a measure of construction and capital expending activity.

***The data come from China statistics.