

# Wiley Rein Trade Experts Author Study of Chinese Steel Industry

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Members of Wiley Rein's International Trade Practice have authored a new study concluding that the unprecedented growth of the Chinese steel industry is inconsistent with commercial considerations and has been facilitated by massive government intervention. The report, entitled *The Reform Myth: How China is Using State Power to Create the World's Dominant Steel Industry*, documents how China has accounted for all of the world's growth in steel production in the last decade, largely as a result of extensive government ownership, control and subsidization of the steel industry.

The study, which was prepared for the American Iron and Steel Institute (AISI) and the Steel Manufacturers Association (SMA), expands upon earlier research on the Chinese government's ownership, direction and subsidization of the Chinese steel industry. The report details how the Chinese government continues to exercise extensive ownership and control over its steel industry, in violation of its commitments regarding market reforms made upon accession to the World Trade Organization (WTO) in 2001.

"China's pervasive government ownership and control over its steel industry is increasing, not decreasing, in direct violation of China's WTO commitments," said Alan H. Price, partner at Wiley Rein and one of the study's authors. "New data demonstrate that eight of the 10 largest Chinese steel groups are 100% owned and controlled by the Chinese government, while 16 of the top 20 steel groups are 100% owned and controlled by the government. In fact, more than 95% of the production of the top 20 steel groups is subject to government ownership. The extraordinary level of government intervention is inconsistent with China's WTO commitments."

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In addition to government ownership, the report examines the Chinese government's industrial plans and other policy directives that allow the government to intervene in the operations of individual steel companies. Since 2005, the government has issued a number of industrial plans specifically covering the steel industry that have significantly increased the government's control over the development of the industry.

The report also reviews China's "Going Abroad" Policy, the next step in the country's industrial strategy. Pursuant to this policy, the Chinese government is deploying its massive "national champions" overseas to further the government's objectives, which include obtaining raw materials and technology, and increasing China's economic and political influence on a global scale.

From 2000 to 2009, Chinese steel production increased by an unprecedented 346%, while steel production in the rest of the world decreased by 10%. "The growth of the Chinese steel industry has not been driven by market forces," Price noted. "China's dominant position is the result of massive government intervention, including ownership, control and subsidization."

The report urges the United States and other trading partners to intensify their efforts to ensure that China complies with its WTO commitments and international legal obligations.