

# Analysis of the Impact of Sino-US Trade War on Hebei Steel Industry

Jiayue Wang, Feng Feng\*

Department of Economic Management, Tianjin Agricultural University, Tianjin, 300384, China

**Abstract:** This paper mainly uses the literature method, combs the literature, combines the data empirical analysis, finds the background of Sino-US trade war, studies and discusses the impact of Sino-US trade war on Hebei steel industry, mainly reflected in steel exports, steel prices, stock prices of related enterprises and so on. Because of the trade structure, the Sino-US trade war has a certain negative impact on steel exports, but the extent is not large; the explanation for the fluctuation of steel prices is not very strong; but in the long run, the Sino-US trade war has led to the negative impact on the development prospects of the steel industry, which is reflected in the echo decline of the stock prices of listed companies. On this basis, we believe that we should take the measures of combining government guidance with enterprise practice to develop Hebei steel industry in an all-round way.

**Keywords:** Trade war; Hebei province; Steel industry; Restructuring

## 1. Introduction

Iron and steel is the economic lifeline of a country and the material basis of reproduction in modern society. As one of the most important industries in China, steel industry has also been affected since the Sino-US trade war. It is of great practical significance to study the impact of Sino-US trade war on Hebei steel industry, analyze the problems and draw conclusions, and put forward concrete measures to promote the development of steel industry.

## 2. Policy Game of Sino-US Trade War

### 2.1. The background and essence of sino-us trade war

With the enhancement of China's economic strength and international status, the quantity and amount of import and export commodities are also increasing, accompanied by the emergence of trade frictions. With the deepening of China's reform and opening up, especially after China's accession to the WTO in 2001, China's economy has developed rapidly and its international economic status has improved continuously. In 2010, China's nominal GDP exceeded Japan's ranking second in the world. Its comprehensive national strength has been growing and its influence in the world has been rising. This will inevitably arouse the great vigilance of the United States, the world's first superpower. In order to maintain the world's first hegemony, it is no wonder that the United States has taken action to curb China's further development. <sup>[1]</sup> Trade protectionism has risen again since Donald Trump, the 45th president of the United States took office. Because of the long-standing trade deficit between China and the United States, and because the United

States has long been wary of China's rapid development, China will inevitably become the target of trade war.

### 2.2. The process of sino-us trade war

In the first stage, in February 2018, the U.S. Department of Commerce released a report on the National Security Inspection (232 Survey) of U.S. imports of steel and aluminium products. On March 22, the same year, President Trump announced that based on the "301 Trade Survey" launched by China, tariffs on imports of steel and aluminium products from China were levied 25% and 10%, respectively. The Sino-U.S. trade war began.

In the second stage, after several rounds of sanctions and anti-sanctions measures, on July 6, 2018, the United States formally imposed a 25% tariff on 34 billion US dollars of Chinese goods, launching the largest trade war in the history of China-US economy.

In the third stage, on September 18, the U.S. government announced that it would impose tariffs on about \$200 billion of goods imported from China, raising the tariff rate by 10% from September 24, 2018 and 25% from January 1, 2019.

## 3. The Problems and Reasons of Hebei Steel Industry in Sino-US Trade War

The impact of Sino-US trade war on China's economy is undoubtedly relatively negative. From the point of view of total economic growth, the calculation results of Xingye Securities are as follows: assuming that the indirect impact is taken into account when the tax rate of 30% is levied on all Chinese imported products from the United States, the impact of trade war on China's GDP is -0.64%. During the same period, the calculation of China Gold

Corporation is as follows: assuming that the tax rate of 5% is levied on all Chinese import. The impact of tariff collection and trade war on China's GDP is not less than -0.07%.<sup>[2]</sup> Under the great macro pressure, Hebei steel industry may face more severe impact because of many sanctions related to iron and steel involved in the trade war.

The most direct impact of Sino-US trade war on Hebei's steel industry is reflected in the export trade of steel and other related products. This part will analyze the impact extent of Hebei steel export market from the two dimensions of quantity and price, and try to analyze the reasons behind it.

### 3.1. Short-term problems and causes

#### 3.1.1. Export volume of steel products

In the face of frequent disputes in iron and steel trade, the attraction of iron and steel industry to capital is reduced, and the connection between iron and steel enterprises and foreign enterprises is blocked, resulting in the reduction of export scale.<sup>[3]</sup> In the first 11 months of 2018, China exported 63.78 million tons of steel, down 8.6% from the same period last year.

The decrease of export scale is not obvious, which may be related to the structure of Sino-US steel import and export trade. According to Chinese customs statistics, China is not a major importer of steel from the United States. In 2017, China exported 118,000 tons of U.S. steel products, accounting for only 1.56% of China's total steel exports. In 2016, China's direct exports to the United States accounted for only 1.1% of total exports.<sup>[4]</sup> Therefore, the Sino-US trade war has less impact on China's steel exports.

#### 3.1.2. Steel price

Since the Sino-US trade war, steel price changes can be divided into three stages. However, the fluctuation of steel prices is not dominated by the Sino-US trade war. Changes in domestic demand, especially the adjustment of environmental protection policies, play a major role.

In the first stage, from March to June 2018, due to the warmer weather, construction sites and public works began gradually, which made domestic steel demand increasing. In May, limited by environmental protection measures, steel production was limited, distributors reduced sales, steel prices were unstable, and shocks were large. In June, steel demand declined, the market was relatively stable, and steel prices tended to stabilize in fluctuations.

The second stage: July to September 2018. The fluctuation trend of steel market is becoming more and more obvious, because there are less resources in stock in July, and steel costs are higher at this time, so manufacturers raise prices in order to obtain more economic benefits. With the introduction of environmental production re-

striction documents in September, the number of inventories is increasing. Due to insufficient overall demand, the unstable trend in the market is becoming more and more obvious.

The third stage: October to December 2018. Demand for steel has fallen sharply as the weather turns cold. Steel mills generally choose to carry out repairs in winter, which increases production costs and leads to higher prices. At the end of December, the pressure from environmental protection increased, the steel market itself was more sensitive to environmental protection, the enthusiasm of steel production was relatively low, and the price of steel decreased.

### 3.2. Long-term problems and causes

#### 3.2.1. Transit trade

Although the direct trade between China and the United States is not affected by the trade war because of the trade structure, a considerable part of China's steel exports are ultimately exported to the United States through transit trade, so it is necessary to evaluate the transit trade. According to Chinese Customs data, China exported 7524 tons of steel in 2017. 1.18 million tons of steel were exported to the United States, accounting for 1.6%.<sup>[5]</sup>

The U.S. Department of Commerce reported that in 2017, the U.S. imported 35.93 million tons of steel, with 91% of the top 20 steel source countries, which are also the main destinations for China's steel exports. Steel products are re-processed and re-exported to the United States through these countries. For example, in 2017, the United States imported 3.65 million tons of steel from Korea, while China exported 11.4 million tons of steel to Korea, accounting for 15% of China's exports that year.

However, the import policy of the United States to other countries is still changing, so the influence of China's steel re-export trade of the Sino-US trade brigade remains to be observed.

#### II. Stock Prices of Relevant Enterprises

In the long run, the Sino-US trade war has cast a shadow on the long-term development prospects of Hebei's steel industry, which may reduce investor information. We believe that the stock prices of Listed Companies in Hebei steel industry comprehensively reflect the impact, so we make a pertinent comment in this part.

There are three listed companies in Hebei steel enterprises: Hebei Iron and Steel Group Co., Ltd., Jizhong Energy Group Co., Ltd. and Kailuan (Group) Co., Ltd. However, the steel business of Jizhong Energy Group Co., Ltd. and Kailuan (Group) Co., Ltd. is not the main business, so we believe that the stock prices of these two companies can not fully reflect the impact of the Sino-US trade war on the steel industry.

On the afternoon of March 22, 2018, when the Sino-US trade war officially began, the stock price of Hebei Iron

and Steel Group dropped by 5.14%. In 2018, the stock price of Hegang has been in a downward trend.

## 4. Solutions to Problems of Hebei Steel Industry in Sino-US Trade War

### 4.1. Enterprise aspect

#### 4.1.1. Improving product quality and technology content, speeding up enterprise transformation and upgrading

In recent years, in the international steel market, relying on the advantage of labor cost in the production of steel products, China has intensified the fierce competition between developed countries and China in iron and steel trade, resulting in trade frictions based on international trade protectionism.<sup>[6]</sup> Therefore, upgrading the industrial chain and entering the high-end market are the necessary way for every steel enterprise to develop continuously.

#### 4.1.2. Respond to the "one belt and one way" policy to meet market demand. respond to the "one belt and one way" policy to meet market demand.

The investment and construction along the road led to the rapid growth of steel demand, and some countries in Southeast Asia even grew nearly 10% of steel. In South America, the steel industry increased for the first time in 2017. In 2017, Thailand imported 12.6 million tons of steel net, becoming the second largest net importer of steel in the world after the United States; Vietnam imported 12.3 million tons of steel net, Indonesia imported 8.7 million tons of steel net, Philippines imported 7.3 million tons of steel net, Malaysia imported 6 million tons of steel net. The net imports of steel from the above five Southeast Asian countries reached 46.9 million tons in 2017.<sup>[7]</sup> With the increasing steel demand of developing countries in Africa and South America, Chinese enterprises should actively explore new markets, adjust export structure, change passivity into initiative and seize opportunities to meet challenges.

### 4.2. Government aspect

#### 4.2.1. Optimizing production capacity, deepening reform and adjusting current industrial structure

In 2016, the start-up scale of global steel production capacity is only about 67% of the total scale, and generally less than 75% is regarded as a high level of industry surplus, so the problem of excess steel production capacity is a common problem faced by all countries in the world.<sup>[8]</sup> The starting point of merger and reorganization of iron and steel industry in industrial developed countries is usually after the end of the production cycle, and the output proportion of the first several major steel enterprises can be raised to a higher level of more than 60% after the

merger and reorganization. In the process of iron and steel production capacity removal, after a large number of inefficient and inefficient production capacity withdrawal, the remaining enterprises can play a strong joint effect through mergers and reorganizations.<sup>[9]</sup> To regulate the phenomenon of excess production capacity, strictly control enterprises and call for timely suspension of enterprises that fail to meet the standards. Restructuring small enterprises and reorganizing them into competitive iron and steel groups. At the same time, we should pay attention to the training of talents, increase the introduction of talents, and guide the development of iron and steel enterprises with professional talents.

#### 4.2.2. Establishing an anti-dumping early warning mechanism to protect the legitimate rights and interests of enterprises

The government should act as a solid backing for enterprises, actively respond to anti-dumping investigations from Europe and the United States, and help enterprises to carry out anti-dumping complaints. Provincial and municipal governments can pay attention to personnel training, increase public opinion propaganda and education on the international forms and industrial crises of teachers and students of relevant majors in Colleges and universities in the province, increase investment and construction efforts to ensure talent reserve, and increase talent attraction policies, so that the government can provide corresponding guarantees in social welfare, settling down, purchasing houses, children's education and scientific research resources, and attract international prosecution. High-quality litigation talents, to create a professional legal aid team to escort steel exports.<sup>[10]</sup>

## 5. Conclusion

In summary, we believe that the short-term impact of Sino-US trade war on Hebei steel industry is relatively small, and the long-term impact should be further observed, which is not discussed in this paper. The current tense international trade situation is closely related to political relations. If we want Hebei steel products to remain competitive in the international market, we need the joint efforts of the government and enterprises to fundamentally promote the development of Hebei steel industry.

## References

- [1] Chen Jiyong. Background, Reasons, Essence and China's Countermeasure of Sino-US Trade War. *Journal of Wuhan University (Philosophy and Social Sciences Edition)*. 2018, 71 (05), 72-81.
- [2] Zhang Wei. Evolution, Economic Impact and Policy Game of Sino-US Trade War. *Journal of Shenzhen University (Humanities and Social Sciences Edition)*. 2018, 35 (05), 73-82.

- 
- [3] Meng Huan. The influence of American "337 Survey" on the export of iron and steel products in China and Its Countermeasures. Hebei University of Economics and Trade, 2018.
- [4] Xiong Chunxiao, Wen Yujing. The Impact of New American Trade Protectionism on China's Export: Based on the Analysis of Steel Industry. *Taxation*. 2018, (17), 193.
- [5] Lu Li. The Impact of Sino-US Trade Conflict on Iron and Steel Industry, Shenhua Research Institute. 2018
- [6] Zhang Peng. How to Face Trade Friction in Iron and Steel Enterprises. *Research on Modern State-owned Enterprises*. 2018, (21), 86-89.
- [7] Ma Zhongpu. The trade war is not the mainstream of the world economy. There is no need to worry about the steel market. *Modern Logistics Daily*. 2018, 09, 10 (B01).
- [8] Xing Hanbing, Jinhua. Hebei Iron and Steel Products Encountered Foreign Anti-dumping Investigation Status and Countermeasure. *Modern Trade Industry*. 2018, 39(04), 32-34.
- [9] Shi Hongwei. Research and Suggestions on Supply-side Reform of China's Iron and Steel Industry. *Metallurgical Management*. 2018, (08), 4-12.
- [10] Chen Si. Hebei iron and steel industry encountered foreign anti-dumping investigation status and Countermeasures. *Brand research*. 2018, (01), 95-96+99.