

Unfair trade and its impact on Latin America

An analysis by ALACERO and CANACERO
based on an OECD presentation



For a level playing field and a stronger,
more united industry.

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The steel sector is facing a global crisis due to unfair trade from China and the countries of Southeast Asia

01 How does China's subsidy system work for its sectors?

Chinese steel floods the global market at artificially low prices. These products do not compete fairly, they are result of subsidies - direct and indirect - that distort the market. This ends up affecting employment and production in Latin America and generates the primarization of our region.

What's this subsidy-laden road like?

> Initial conditions

- Subsidized credit in its three fundamental dimensions: value, term and interest rate.
- Subsidies for the use of land and initial infrastructure.
- State direction in the acquisition and merger of competing companies.
- Direct subsidies for investments in the construction of factories and furnaces.
- Below-market prices for raw materials

> Production

- Contracting suppliers (Chinese companies also subsidized) > Limits on external competition to supply Chinese companies.
- Energy and public services at subsidized or free prices.
- Tax exemptions when hiring staff.
- Working capital financing at subsidized rates from state banks
- Contracts with companies in the value chain to produce cars, washing machines, fridges and building materials in China > Often, this production has no real demand associated with it.

> Export

- Subsidies in international transport logistics.
- Domestic regulations and those of allied countries in Southeast Asia force companies to buy Chinese steel.

What are the consequences?

- **Disproportionate subsidies**
Large subsidies can distort competition, reduce incentives for efficiency and increase dependence on state aid.
 - **Risk of overcapacity**
Strong support for the expansion of electric arc steel production – through subsidies and preferential access to land, energy and credit – can lead to over-investment, outstripping market demand and exacerbating existing overcapacity problems.
 - **Policy incoherence**
Sustainability subsidies coexist with continued support for coal, slowing the shift to low-carbon steel and highlighting the contradictions in China's policy mix.
-

02 Chinese investment in ASEAN: strategic expansion and installed capacity

China is investing in steel industries in ASEAN countries, increasing their production capacity.

In the last 5 years, these investments have added approximately 10 Mt of steel production capacity in ASEAN:

- **Thailand - 2 Mt (EAF)** | Investment by a private Chinese company (POE).
- **Malaysia - 2 Mt (BOF)** | Joint venture with a Chinese POE. This is the only operational BOF facility in Malaysia, with a capacity well above the average for EAF units in the country (~0.4 Mt).
- **Indonesia - 6 Mt (BOF; 3 units)** | Joint venture with two Chinese POEs. Before these investments, Indonesia had only one BOF (3 Mt, by POSCO in 2013). Recent projects led by China have tripled Indonesia's BOF capacity in the last decade.

Of the 63.51 Mt of steel capacity from Chinese investments in the ASEAN region, 96.3% has received some form of subsidy from local governments.

The main drivers of steel capacity growth in Malaysia, Vietnam and Indonesia are subsidies in the form of tax exemptions, low-cost financing and reduced energy prices:

Types of support instruments for Steel Industry by country

	Malaysia	Vietnam	Indonesia
Investment tax allowance	■		
Corporate tax reductions	■	■	■
Natural gas price subsidies			■
Reduce lands cost		■	
Import duty exemptions		■	■

Source: OCDE

Case of Indonesia

Impact of tax and import duty exemptions on the competitiveness of steel exports and on its trade balance.

Thanks to its system of investments and subsidies, Indonesia has managed to significantly reduce steel production costs. As a result, in a period of five years, the country has managed to reverse its trade balance: its exports now far exceed its imports.

**Indonesian steel exports and imports
(2019 -2023)**



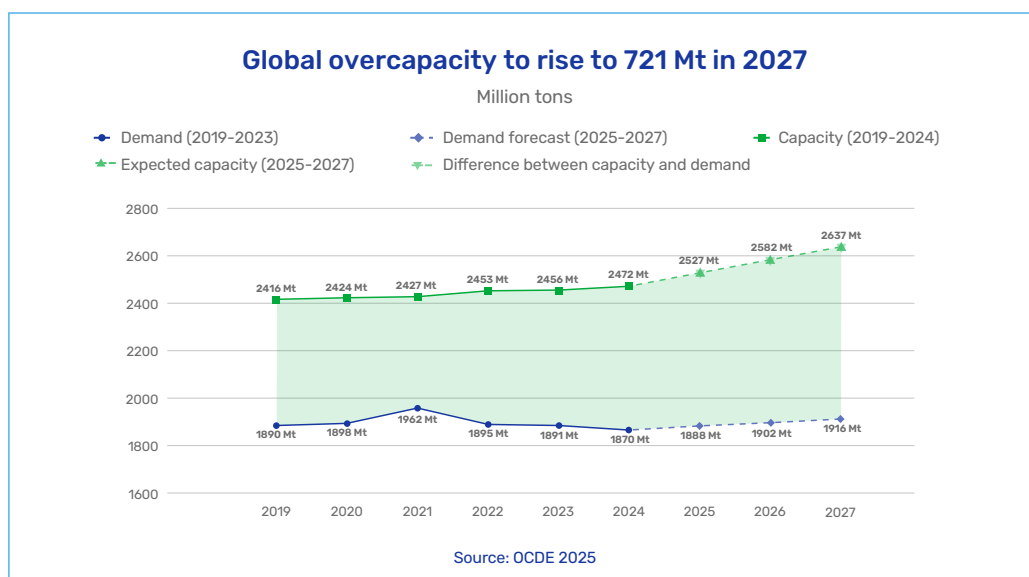
Source: OCDE

Looking ahead, it is estimated that Chinese companies, both state-owned and private, will increase new production capacity in the ASEAN region by 34.7 million tons (Mt).

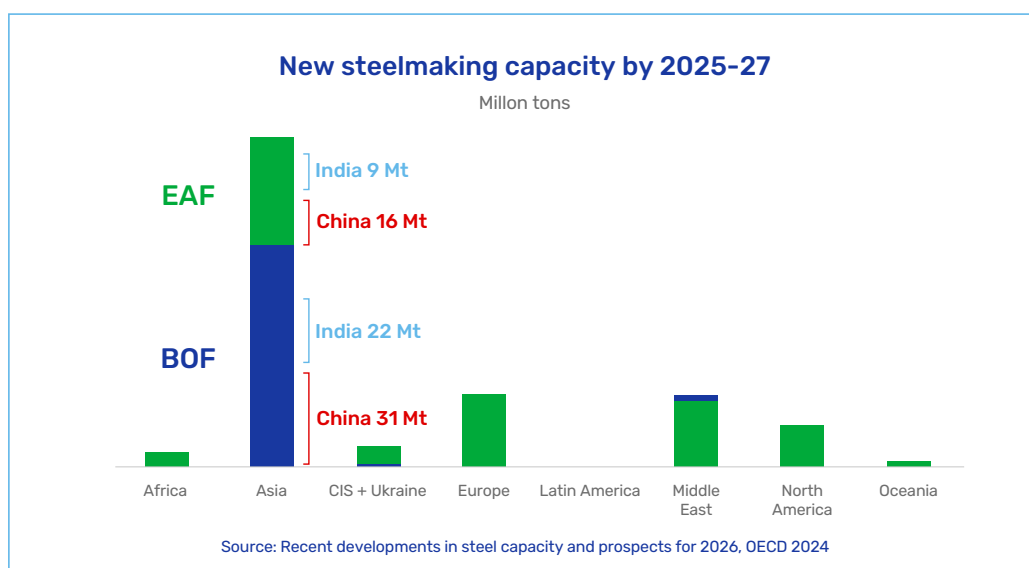
03 Concentration and overcapacity in the global steel market

Subsidies and investments generate an estimated global production overcapacity of 721 Mt in 2027, which could seriously affect the steel sector and small and medium-sized companies around the world.

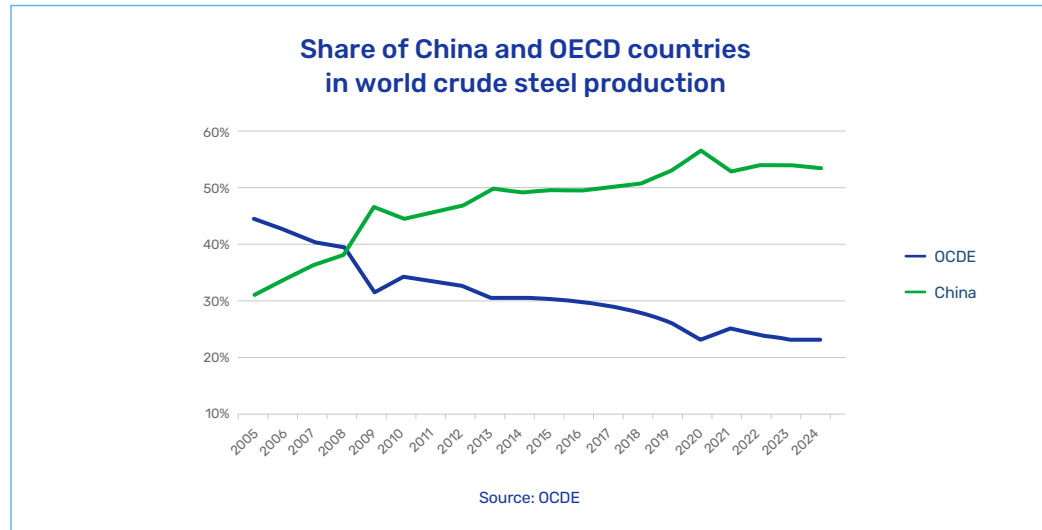
> Demand vs. capacity



- > Over the next two years, the increase in global surplus capacity is estimated to be 165 Mt, while consumption would increase by only 46 Mt. Of these 165 Mt, China (47.3 Mt), India (30.4 Mt) and the ASEAN countries (14.8 Mt) account for 56% (92.5 Mt).



- Overcapacity and unfair competition from China are having an impact on production in other OECD member countries, which is falling.

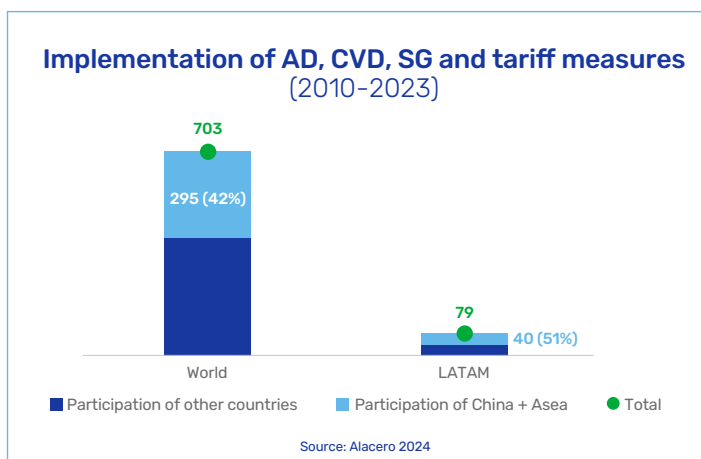


04 Trade defense strategies

In this context, countries around the world use various measures and tools –tariffs, countervailing duties and safeguard measures– against unfair trade.

In the period from 2010 to 2023, Latin America implemented 79 trade measures, 51% of which were directed against China and the ASEAN countries. In comparison, globally, 703 measures were implemented in the same period, 42% of which also targeted China and ASEAN.

However, the effectiveness of these measures in Latin America is not ideal, partly due to the long implementation and resolution times.

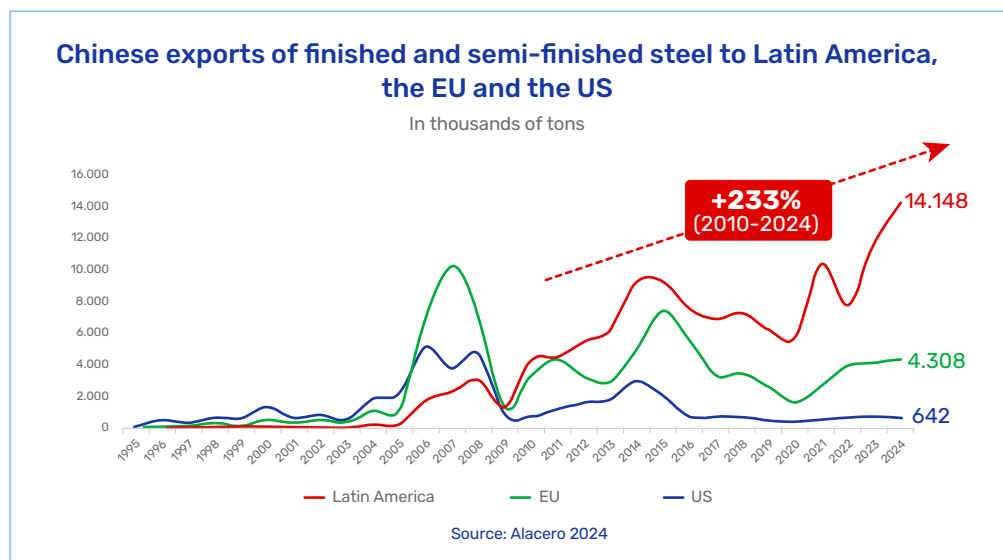


- Latin America makes limited use of tariffs, countervailing duties (CVD) and safeguard measures (SG).
- The implementation time for LATAM measures is longer than in developed countries.

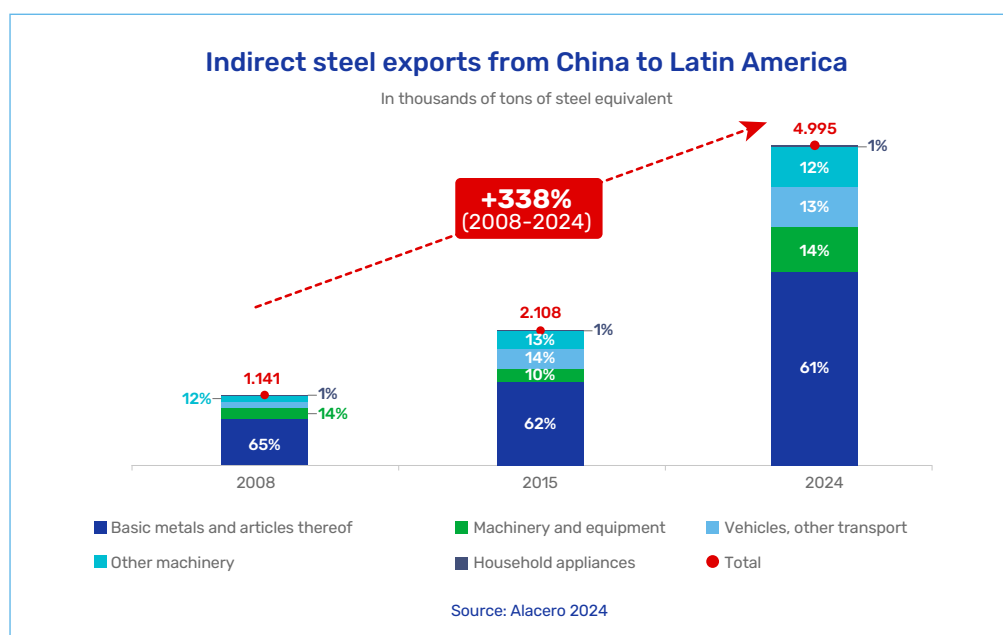
05 Impact on Latin America

China's unfair trade has a direct impact on Latin America.

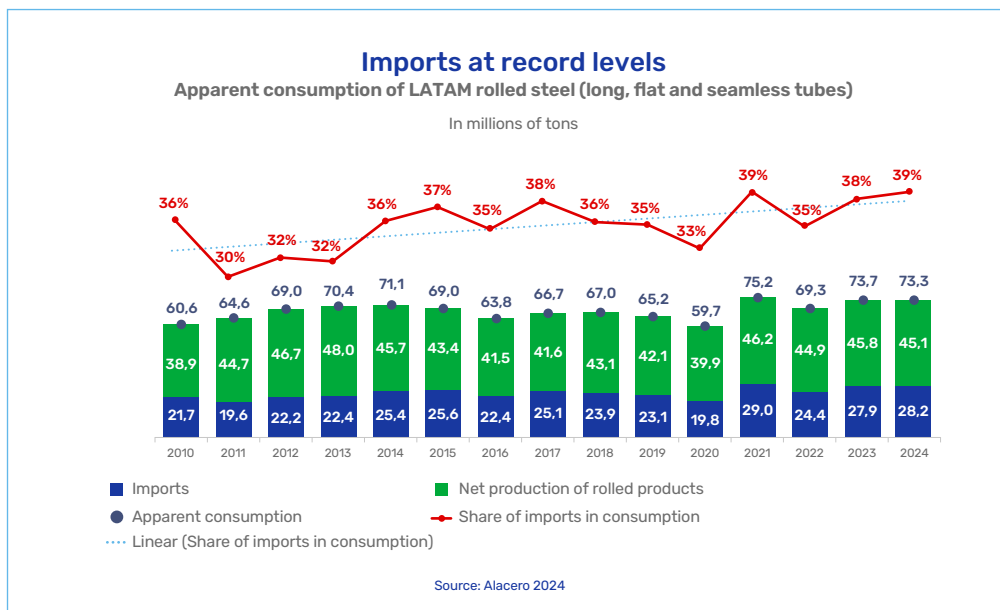
- In the last 15 years, Chinese exports of finished and semi-finished steel have grown by 233% in Latin America.



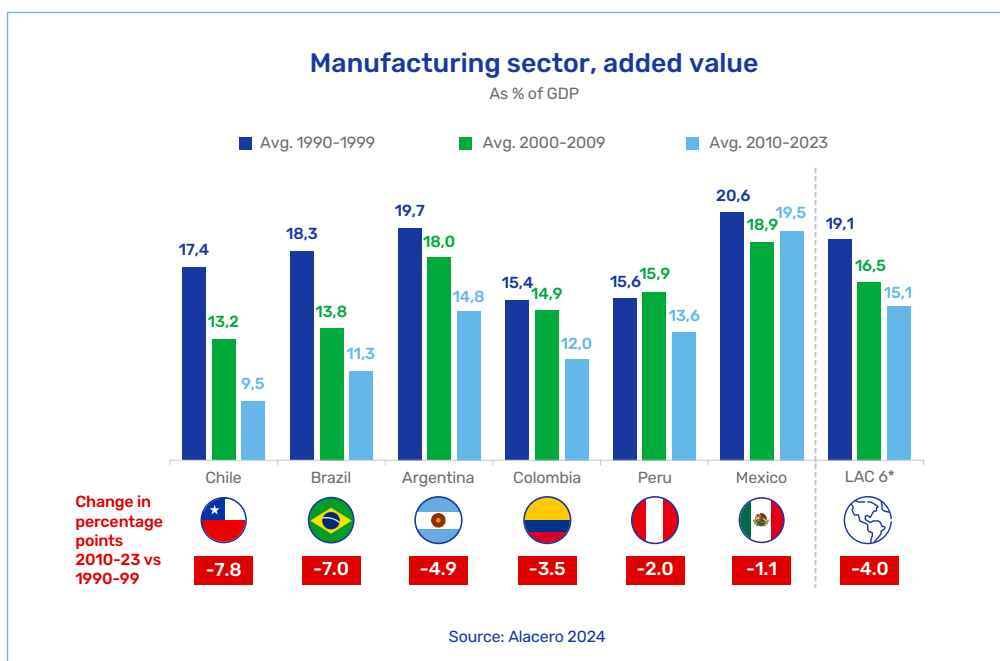
- Likewise, this has further affected the value chain: Between 2008 and 2024, China's indirect steel exports to Latin America increased by 338%.



- The share of imports in consumption is at record levels. In 2024, 39% of the steel consumed in Latin America was imported.



- All these factors have contributed to a negative impact on Latin America's economic development, driving a process of primarization in industry. In the last 25 years, the region's Gross Domestic Product (GDP) has fallen by 4 points. Chile, Brazil and Argentina stand out as the countries most affected by this trend.



06 Regional coordination and integrated responses: for a level playing field and a stronger, more united sector

> The importance of steel for Latin America's development

Steel is a vital input for Latin America's economic and social development. It represents the foundation on which our societies' strategic industries are built: from the infrastructure that connects cities and regions to the machinery that drives productive sectors.

A sector threatened by deindustrialization

- > Faced with the process of deindustrialization that Latin America is undergoing, it is urgent to implement an industrial development policy that promotes the regional integration of value chains. This policy must prioritize the defense of the 1.4 million direct and indirect jobs that depend on the steel industry in the region.

An uneven playing field: the urgency to act

- > Latin America currently faces a structural disadvantage in the global steel trade: the playing field is uneven. The lack of rapid, effective and coordinated responses at regional level leaves our sectors in a vulnerable position.

For this reason, it is imperative to move forward with more agile, energetic and regionally aligned trade defense actions, which will allow a level playing field to be re-established and guarantee the sustainable development of a sector that is key to Latin America's future.