
Metal Bulletin

(AMM) Mexican steel industry must meet Chinese threat

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571 words
29 January 2008
06:24 PM
Metal Bulletin News Alert Service
English
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Mexico must improve quality and value in its steel industry to protect itself against China's energy policies and pressures from the yuan being tied to the U.S. dollar, according to one top Mexican official.

"Mexico must combat the threat of recession in the United States and the threats from China's energy and currency policies by moving up the value chain," Humberto Jasso, general manager of heavy industries and information technology at the Mexican Ministry of Economy, told a record crowd of more than 330 people at AMM's 13th annual Mexican Steel Conference in Monterrey, Mexico.

"We must add value to the tons we produce," said Jasso, the keynote speaker at the event. "It's not necessarily a matter of producing more, but of moving up the value chain. We must go up in quality and the value it adds to our steel."

Mexico is facing pressures from China very similar to the United States. The Chinese government practice of linking the yuan to the U.S. dollar, Jasso said, essentially has served to weaken both since the dollar's decline. "We don't really need to worry much about the exchange rate fluctuating between the peso and the dollar," he said. "The issue is between the U.S. currency and the rest of the world. There is no doubt the dollar is weak and it is being held up by some artificial intervention by other governments."

Jasso said that if a recession should hit the United States, as many expect, the peso will become more competitive in the rest of the world since the peso benefits from the dollar's weakness. But problems are developing because of China's artificial peg of the yuan to the dollar.

"What happens is that goods are becoming cheaper because both huge economies are depreciating substantially against the rest of the world," Jasso said. "That serves to distort international markets and makes it difficult to close the U.S. trade balance with China."

Jasso noted that the tie of the peso to the U.S. dollar by market forces does not distort international markets. However, the Chinese tie is government activated, he said, which means it is impossible for either the dollar or the peso to appreciate against the Chinese yuan as would typically happen if the currencies were allowed to move due to market forces.

Mexico also is keeping an eye on issues related to Chinese energy consumption. Jasso said that steel accounts for nearly 28 percent of energy consumption in China. The effect of that on the rest of the world is noteworthy, he said, in light of a recent study by the **Alliance for American Manufacturing** that found, among other things, that the Chinese steel industry enjoys heavy government subsidization that protects the industry from dealing with skyrocketing energy costs.

"Their steel producers are sheltered from high energy costs," Jasso said. "That is a very scary scenario that we hope does not blow up. We know that if a crisis comes in China, the smaller mills there are going to put pressure on the central government" to begin exporting steel to alleviate any glut on the Chinese market. "I don't want to be dramatic, but that is something we have to watch because of the effect it would have on the rest of the world."

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