

China's Voodoo Economics

By **Alexander Baron** - Oct 21, 2015



It's said that China is selling steel even below market price value

The visit of Chinese President Xi Jinping to the UK coincided with the **collapse of Caparo**, a major UK steel maker, and Tata Steel announcing big job losses. Some pundits have blamed this on China flooding the world market with cheap steel, and even David Cameron has made noises about unfair trade. Let's get this straight, China is selling steel cheap, below market price or even below cost, we are told, and people are complaining? That appears to be the case. Let's look at this from a different perspective, would you complain if your local supermarket were selling baked beans at below cost price? Let's take it one step further, would you complain if it were giving them away? No, but it is likely other traders would. Is there any such thing as unfair trade?

To answer that question with especial reference to steel, check out this **1984 video** by American Libertarian Murray Rothbard. More generally, check out *The Petition of the Candlemakers*, which

dates from 1845. And to understand what might be the reaction if someone were giving away something energy perhaps for free or nearly free, check out this short [science fiction story](#).

One person who was not taken in by the sob story of redundancies in the UK steel industry was Chinese Ambassador Liu Xiaoming who said British industry must make adjustments. While he is right on the money with regard to Britain, what he seems to be forgetting is that it is the people of China who are paying for these cheap imports which are said to be destroying the UK steel industry.

This practice is known as dumping, and often it has a conspiratorial ring to it, the usual suggestion is that some wicked capitalist will lower his prices temporarily in order to destroy the competition after which he will be able to charge whatever prices he likes. The evidence that this has ever happened in the global or even the national marketplace is at best anecdotal. It was said once to have been the case with Standard Oil; the muck-raking journalist Ida Tarbell made much of this, but from the beginning of the industry, America enjoyed cheap oil, and does down to the present day.

China has been exporting goods all over the world in exchange for bits of paper, but now this trade is more bilateral; containers that were shipped to the UK with cheap Chinese goods were shipped back empty, but are increasingly being shipped back full. This has to be better for all concerned. The only [purpose of international trade](#) should be to exchange goods and services produced by one country for goods and services produced by another. By each specialising in what they do best, goods and services can be produced more cheaply, and thus everyone benefits.

There are other things that could be said about the Chinese economy, such as its reliance on coal power and now on nuclear. With a population of over 1.3 billion, it should be looking to develop alternative forms of clean energy, and fast, but by the same token, it is not the fault of China that the UK steel industry is going down the tubes. Rather than subsidise a product that can't be sold for the sake of making work, UK steel production should be downsized dramatically. It may need government assistance for the affected regions to recover, but to do so will require investment in new industries and even new technologies rather than throwing good money after bad.