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Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

**NOTE** : Answer **ALL** Questions.

1. Read the following and answer the questions given at the end :

**Indian Iron and Steel Industry – Requires cautious strategic planning**

Iron and steel sector is the sheet-anchor of a country's overall industrial growth as it provides an indispensable basic input for various industries. This industry commands large backward and forward linkages that pave the way for further industrialisation. For these and many other reasons, steel industry is often considered as the backbone of an economy.

**The Global Steel Industry**

Increasing modernisation in the twenty-first century has led to the doubling of global steel production. Asia and the Middle East remained the most vibrant regions in terms of production with more than 7.0% CAGR. Further, regions like EU, Africa and North America exhibited contraction, registering negative CAGR of around 1.2%. At the country level, China remained by far, the largest producer of crude steel accounting for nearly half of the world's steel production. Among the top 10 exporters of iron and steel in the world, China is leading with highest share and India ranked 11<sup>th</sup> in the list of exporters. The world market for steel amounted to US \$1.3 trillion in 2015, with production levels of 1,694.73 million tonnes and consumption at 1,545.50 million tonnes.

The reality is that steel supply has outpaced demand over the last five years. The industry is facing a very challenging situation because of the structural over supply of steel in international markets. The global composite carbon steel prices plunged down, owing to a demand-supply mismatch. This was the ninth consecutive decline in global steel prices during May, 2014 to February, 2015. The dumping of steel has caused a huge pressure on the net sales realisations and the margins of global steel companies.

The collapse in the price of steel is mainly the result of falling demand and, until recently, rising production in China. Between the year 2000 and 2014, global steel production doubled

from around 800 million tonnes to around 1.6 billion tonnes a year, mainly driven by rising output in China. Until the year 2014, Chinese demand rose at approximately the same rate as its steel mills could produce, meaning that the impact on the rest of the world was limited. But as its construction boom came to an end, demand sagged; prompting the country's state-owned steel makers to sell their growing surpluses in foreign markets.

Further, the recent devaluation of Chinese Yuan in October, 2015 has improved prospects of higher steel exports from China. With a huge exportable surplus, China is not just a growing threat for India, but to almost all the steel making nations in the world.

Britain's steel industry is not the only one in the West feeling the pinch from low steel prices. Both Belgium and Italy are spending public money to keep their steel mills running and the American industry is facing job losses.

Globally, there is structural over capacity in steel sector, which has led these steel producing countries to export steel products. Contradicting to global steel demand, India is one of the countries, where steel demand has grown in the first nine months of the year 2015. This has given an opportunity for the international steel players to make India an export dumping ground.

### **The Indian Steel Industry**

India's economic growth is contingent upon the growth of its steel industry. Consumption of steel is taken to be an indicator of economic development. While steel continues to have a stronghold in traditional sectors such as construction, housing and transportation, special steels are increasingly used in engineering industries such as power generation, petrochemicals, auto industry and fertilizers. India occupies a central position on the global steel map, with the establishment of new state-of-the-art steel mills, acquisition of global scale capacities by players, continuous modernisation and upgradation of older plants, improving energy efficiency and backward integration into global raw material sources. The Indian steel sector was the first core sector to be given complete freedom from the licensing regime. There are at present eleven integrated steel plants and eighteen secondary mini-steel plants in the country.

The steel industry in India has also witnessed a rapid rise in production over the past few years at the backdrop of enhancement of capacity. This has resulted in India becoming the third largest producer of crude steel ahead of UK and Brazil, and just behind China and Japan and the largest producer of sponge iron in the world.

Steel accounts for about 2 per cent of India's GDP and holds a 6 per cent share in the industrial production of the country. With construction and infrastructure sectors together occupying a significant share in total steel demand in India, the revival of these two sectors is expected to cause a positive effect on the domestic steel industry. On account of steady growth in the domestic steel consumption, India became the third largest consumer (China being first) of steel globally in 2009, and continues to remain so till today.

At the aggregate level, the markets of North America, Asia and Oceania are regions where Indian iron and steel products are competitive and these regions have also exhibited strong import demand for the products. In Europe and Africa, Indian steel products are competitive, but the growth in import demand has been frail.

In terms of value, India's exports of iron and steel in the year 2008-09 was less than its imports, leading to a trade deficit of US \$0.6 billion. However, after having witnessed a trade deficit for a number of years, in 2013-14 India displayed a trade surplus. But in 2014-15, a marginal trade deficit was experienced. Import continued to hurt the industry, rising 29 per cent to 8.4 million tonnes, while exports decreased by 30 per cent to 2.9 million tonnes till the end of December, 2015 (becoming net importers).

Besides all this positivism, the Indian steel industry is also not free from global crisis. The industry is struggling for last few years to sustain itself and trying too hard to contribute in the national economic growth.

### **Major drawbacks of Indian Steel Industry**

Following are some common drawbacks faced by the Indian iron and steel industry :

- The industry requires large capital investment which a developing country like ours cannot afford. Many of the public sector integrated steel plants have been established with the help of foreign aid.
- During the last two decades after the oil crisis, steep hike in energy costs and escalation of costs of other inputs reduced the margin of profit of the steel plants. This resulted in lower levels of investment in technological developments.
- Material value productivity in India is still very low. In Japan and Korea, less than 1.1 tonnes (and in several developed countries 1.05 tonnes) of crude steel is required to produce a tonne of saleable steel. In India, the average is still high at 1.2 tonnes.

- The per capita labour productivity in India is at 90-100 tonnes per year which is one of the lowest in the world. The labour productivity in Japan, Korea and some other major steel producing countries is about 600-700 tonnes per man per year. At Gallatin steel, a mini mill in the U.S., there are less than 300 workers to produce 1.2 million tonnes of hot rolled coils. A comparable firm in India employs 5,000 workers.
- Raw material scarcity is on the top of the agenda. India is very much dependent on imported coking coal. Approximately 60-65 per cent of the domestic coking coal requirements are met through imports due to unavailability of appropriate quantities in the country.

### **Industry's Expectation**

The Indian steel industry is demanding protection from the crisis. The industry wants longer duration duties like anti-dumping duties to counter cheaper imports. Domestic steel makers have urged the government to keep steel out of the purview of any future free-trade agreements (FTAs) and also review the existing pacts to ensure that their interests are safeguarded. Taking advantage of duty benefits under FTAs, steel makers from Japan and Korea have already become a serious threat to Indian steel industry.

### **Government Measures**

The Government of India has taken this matter seriously by implementing following steps not only to protect but also to develop the industry :

- It imposed a 20 per cent *ad valorem* safeguard import duty on some steel products.
- It has also set a floor price or minimum import price (MIP) on 173 steel products to deter countries led by China from undercutting local mills, the first such move in more than 15 years. Due to this, imports became costlier by 26-70 per cent helping the local steel players to compete better.
- Further it imposed anti-dumping duty on stainless steel imports, as it tries to protect the struggling domestic industry from cheap imports. Some other countries have also adopted the same practices; countries like America and Australia have imposed dumping duties on Chinese steel. Indian steel makers may also attract anti-dumping duty in Canada.

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- Out of nearly two dozen sectors identified by the government as focus areas under the 'Make in India' campaign, the cost of steel is crucial to the competitiveness of manufacturing in at least nine industries — automobiles, automobile components, construction, defence manufacturing, electrical machinery, railways, renewables, thermal power, and oil and gas.
- Additionally, the government's focus on rural-urban (rurban) cluster development is also likely to push-up demand for steel. The budget outlay of ₹2,21,246 crore on infrastructure including railways meets the long standing demand from core sectoral industries such as cement and steel.
- For ensuring quality of steel, several items have been brought under a quality control order issued by the Government.

### **Global challenges ahead**

The Indian steel industry is expected to face following global challenges till 2025 and beyond :

- Australia and Brazil are expected to supply about 90 per cent of all seaborne iron ore by 2022. This increase in supply and moderation in demand may continue to exert pressure on iron ore prices.
- China, which is currently a net importer of scrap, is expected to have a surplus of scrap by 2025. This will decrease demand and push down the prices of other raw materials such as coking coal and iron ore.
- Shale gas, emerging as cheap source of fuel, could change the competitive landscape in steel making. Countries such as Iran, Saudi Arabia and Mexico are using natural gas and iron ore to make direct reduced iron (DRI). This process does not need coking coal.
- Ongoing research in the steel industry, especially to meet the environmental standards, will bring in a lot of technological changes in coming years which are quite expensive.

### **Suggested Remedies**

- India needs public and private investment in urban and rural infrastructure, real estate, roads, railways, civil aviation and irrigation to boost-up steel consumption.

- Given the fact that steel market across the globe is vulnerable to global conditions, India needs to be more proactive in diversifying its export markets. It could, therefore, adopt a similar strategy as Brazil, focusing on geographically nearer markets where it has freight advantage, such as Nepal, Bangladesh and Sri Lanka.
- Indian companies should target export destinations for steel sheet products, such as the Middle East and Africa, where they have a freight advantage over China, Japan and South Korea.

## Questions —

- (a) Explain the consequences in the global steel industry due to demand scarcity. What are the causes, according to you, that lead the industry to crisis ?  
*(10 marks)*
- (b) Prove why steel industry is considered as the backbone of Indian economy ? What are the common problems that the industry is facing in its regular operations ? Being an international expert, suggest steps to boost the industry.  
*(10 marks)*
- (c) What do you mean by FTA ? What are its merits and demerits ? Explain how the Indian steel makers are in threat from Japan and Korea due to FTA.  
*(10 marks)*
- (d) "The domestic steel players need to be protected." Discuss the steps implemented by the government so far as to protect the industry.  
*(10 marks)*
- (e) Differentiate between 'dumping' and 'anti-dumping'. Why do you think that the imposition of anti-dumping duty on steel imported by India is beneficial for the Indian industry ? Explain the challenges the Indian steel industry is anticipating from global players in coming years.  
*(10 marks)*

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2. (a) India is currently the ninth largest civil aviation markets in the world. It is projected to be the third largest aviation market by the year 2020. Using Michael Porter's five forces model to the industry, discuss :
- (i) Threats of new entrants
  - (ii) Competitive rivalry among current players.
- (5 marks)*
- (b) Why do countries form regional trading blocks ? Do regional trading blocks help or hurt world trade ?
- (5 marks)*
- (c) Your friend is planning to start business as merchant exporter of gems and jewellery items. Being an international business consultant, prepare a note advising your friend on details of 'export from India scheme'.
- (5 marks)*
- (d) Which transitional arrangements are available for an exporter in the Foreign Trade Policy 2015-20 ?
- (5 marks)*
- (e) Explain the functions of the Export Promotion Council and the procedure for obtaining registration-cum-membership certificate of this Council.
- (5 marks)*
- (f) How does adoption of information technology in warehousing increase competitiveness ?
- (5 marks)*
3. Economies of certain countries are dependent mainly on international trade. Discuss.
- (5 marks)*
4. Describe main modes of FDI with strategic alliance. Highlight the mode widely operational in India.
- (5 marks)*

5. A small Indian firm has developed some valuable new medical products using its unique biotechnology know-how. It is now trying to decide how to best serve the markets of USA, Russia and Brazil and has identified the following options for consideration :
- (i) Manufacture the product at host country and appoint foreign sales agents to manage marketing activity.
  - (ii) Manufacture the product at host country and set-up a wholly owned subsidiary in each country to manage marketing.
  - (iii) Enter the respective countries by alliance mode with pharmaceutical firms operating in the countries. The medicine would be manufactured in each respective country by 50/50 joint venture and the respective foreign firms would take the responsibility of making medicine in their own country.

If investment in medicine manufacturing facilities is a major criteria, choose the best option, giving reasons.

*(5 marks)*

6. It has been argued by experts that agreements on anti-dumping practices and agreement on subsidies and countervailing measures are defensive tools available to importing countries to deal with conditions of unfair trade practices in international trade. Do you agree ? Justify.

*(5 marks)*