Business Talk

Steel Scenario in Developing Countries

- Steelworld Correspondent

China and India are, today, the engines of growth in the midst of rapid economic transformation on the global economy. India has emerged as the second most-attractive location after China, ahead of the US and Russia, for global foreign direct investment (FDI) in 2007. According to UNCTAD's world investment report, China is the most preferred investment location, followed by India, the US, the Russian Federation and Brazil. The fast growing Chinese stainless steel market has provided good market opportunities for stainless steelmakers, and attracted many domestic and foreign investors' attention.

The stainless steel production and consumption have been rapidly increased over the last century, especially the yearly average rate up to 5% in the last 50 years. And following the last 20 years' economic development, China has now set up a solid foundation for further development of stainless steel industry, its consumption, the production and import growth of stainless steels. In 2003, the appearance consumption of stainless steel in Chinese mainland surpassed 4 million tons, including nearly 3 million tons imported, which was over the total annual consumption of Japan and the United States.

Stagnant and booming market situation co-existed in China stainless steel market.

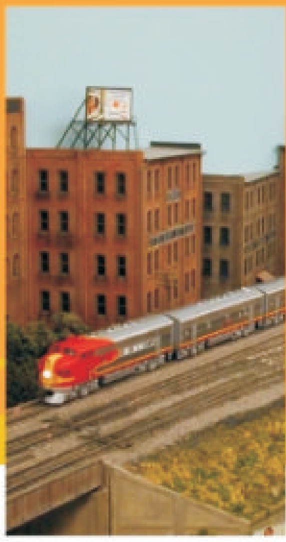
Stainless steel market situation in the passing 2005 is unforgettable. After the large fluctuation in China stainless steel market in 2005, industry insiders in stainless steel industry has suffered stagnant situation, and most of them have retreated from current market. While the outsiders of stainless steel industry have been unaware of this situation and they have still immersed in the hallucination of "rapid development and good profit". Although many aspects have indicated that stainless steel industry in China has suffered serious oversupply situation at the moment, many parties have been booming and ready to inject lots of capitals into stainless steel industry. At present, Baosteel & Naning Lianqiang's project, Tangshan Steel's project, and Wenzhuo's project have been under construction. All in all, stainless steel market has suffered huge fluctuation.

Present Status

With the rapid development of steel industry, production capacity of Chinese stainless steel is predicted to exceed 9million tons in 2008. Due to growing production, stainless steel has an excessive supply and prices of Stainless steel has been fallen down. Some main Chinese Stainless steel producers have to cut down their output by 30% from the second quarter. Even the production volume is still growing but the rate is obviously slowing down .Stainless steel output is about 1.97million mt by increased 20.7% in the 1Q of 2008 but by 72.5% in the same period of 2007.Therefore, its demand for raw materials reduced relatively, which brought a result of dropping price of raw materials. Moreover, export volume of electrolytic manganese Metal also reduced sharply compared with that in 2007. Only Stainless Steel Scrap has been stable due to shortage supply

Trade: India and China

Trade has been the integral part of the burgeoning bilateral economic relationship between the two countries. Bilateral trade has grown by over 10 times since 2000-01 – from just US$ 2.33 billion in 2000-01, to US$ 25.68 billion in 2006-07. India's exports to China, likewise, have grown nearly ten-fold – from US$ 831.3 million (accounting for 1.87 per cent of total exports) in 2000-01, to US$ 8290.7 million (6.56 per cent of total exports) in 2006-07. The growth continued in 2007-08, with exports to China touching US$ 7868.6 million during April-January 2007–08 – as against US$ 6572.8 million in the same period last fiscal. Significant exports from India to China include cotton, organic chemicals, iron, steel and inorganic chemicals among others. Simultaneously, India's imports from China have



increased from US$ 1502.2 million (accounting for 2.97 per cent of total imports) in 2000-01, to a whopping US$ 17399 million (9.53 per cent of total imports) in 2006-07. Furthermore, during April-January 2007–08, imports have increased by 60.1 per cent to US$ 22592.3 million against US$ 14108 million in the corresponding period last fiscal. On the other hand, imports from China are highest in the category of electrical machinery and equipment, organic chemicals, mineral fuels, oil and oil products.

In fact, this surge in bilateral trade between the two countries has resulted in China displacing US to become the number one trade partner of India. During April-January 2007–08, Indo-China trade was US$ 30.46 billion against the Indo-US bilateral trade level of US$ 28.27 billion. This is no mean achievement, considering the fact that, bilateral trade between India and China was only about one-fourth of Indo-US trade in 2001-02. With such rapid growth, the bilateral trade target of US$ 20 billion by 2008 was achieved well ahead of time. Also, the next Indo-China bilateral trade target of US$ 60 billion by 2010 is likely to easily achievable. Further, to cement the rapidly strengthening bilateral trade ties, both countries are planning to sign a Free Trade Area agreement at the earliest. Both China and India are throwing up competition for countries like Hong Kong (China), the Republic of Korea, Singapore and Taiwan as the main sources of FDI in developing Asia. The share of India and China in the total global FDI outflows has been increasing continuously. While both accounted for 10 per cent of total FDI outflows in 2005 in the Asian region, it increased to 25 per cent in 2007

Future Outlook

India's growing consumer market, skilled human resources, and software excellence together with China's own large market, its manufacturing prowess and cost competitiveness provide a strong platform for exponential growth of their bilateral economic ties. Simultaneously, the unprecedented growth stimulus in two of the world's largest countries is expected to boost demand in the global economy and open up massive market opportunities for trading partners, especially neighbouring Asian economies. Moreover, the rest of Asia is also being energized by the boom in China and India. The two countries will also make a mark in the global tourism industry as they become the new global players competing for a huge chunk of tourists, and transforming the geopolitical landscape by 2010. The US, though a key factor, will have less influence, according to researchers from the University of New South Wales, and Australian School of Business among other universities.

Firm Demand

A series of steel price rises reflect booming Asian market conditions at a time when developed countries see slowing demand. Hyundai Securities analyst Song Dong-heon said any slowdown in the global economy was unlikely to sharply dent the earnings of Asian steel firms as the industry's consolidation would help them better manage supply and steel price policy.As part of China's reform of its overcrowded steel industry, Hebei Steel was created last month by combining Tangshan and Handan, overtaking Shanghai-based Baosteel as the country's No.1 steel maker by output.On top of China's curbs on steel exports to meet strong domestic demand, soaring global freight costs have dampened seaborne steel trade to the region, creating tight supply conditions and bolstering prices.Led by China, Asia's steel consumption in 2008 may grow 8.6 percent, outpacing the global growth rate of 6.7 percent, according to the International Iron & Steel Institute. China, the world's largest steel exporter and consumer, will likely cut overseas shipments this year due to the government controls, helping South Korean and Japanese firms raise export prices in the second half, said Kim Hyun-tae, a Goodmorning Shinhan Securities analyst.