



# Economic Briefs

## INDIA

### AUTHORS

**Govind Hariharan**  
*Executive Director*

**Dimitri Dodonova**  
*Research Fellow*

ICA Institute  
Coles College of Business  
Kennesaw State University

1000 Chastain Rd., BB476  
MD 0403, Bldg. 4  
Kennesaw, GA 30144

☎ 770- 423-6580  
[www.icainstitute.org](http://www.icainstitute.org)



### Sectoral Snapshot

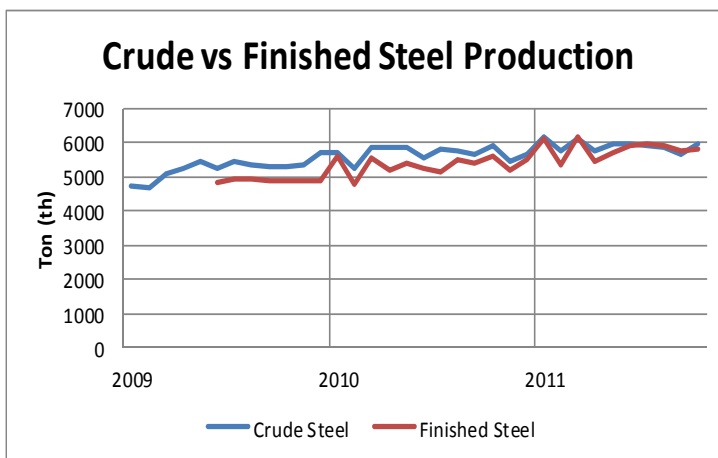
## Iron and Steel Industry in India: Gradually Losing the Shackles

Until 1990, the Indian iron and steel industry had been under compulsory licensing and pricing control by the government. The new industrial policy was adopted in 1990 resulting in the liberalization of the iron and steel sector especially as it pertains to private investment. Over the last 20 years, mostly due to the new policy and the rise in demand for steel, the Indian iron and steel industry has experienced expansion and modernization.

The per capita consumption of steel in India is still low at 47 kg a year, way below other emerging economies like China (309 kg) or Brazil (116 kg). Steel is mostly used in infrastructure, construction, housing, and consumer durables.

Over the last two years while the production level of crude steel has been higher than the finished steel, the gap has been reduced gradually. Between July and September 2011, for the first time, the production of finished steel exceeded the production of crude steel (fig 1).

Fig 1



Source: CEIC Data

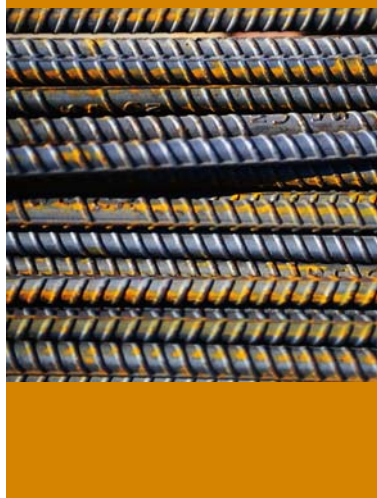
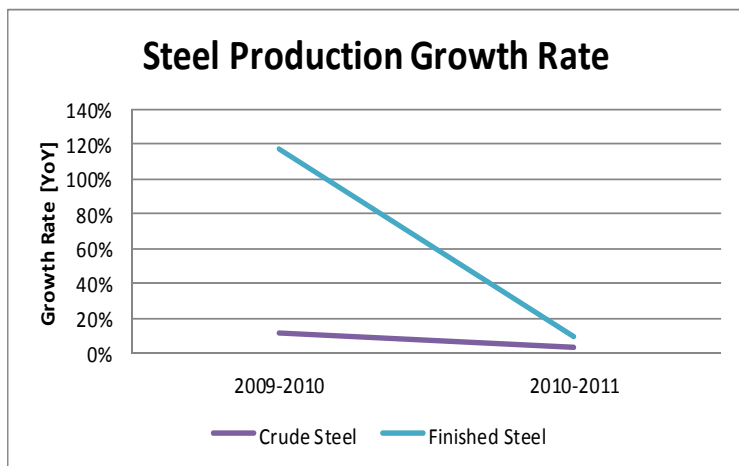




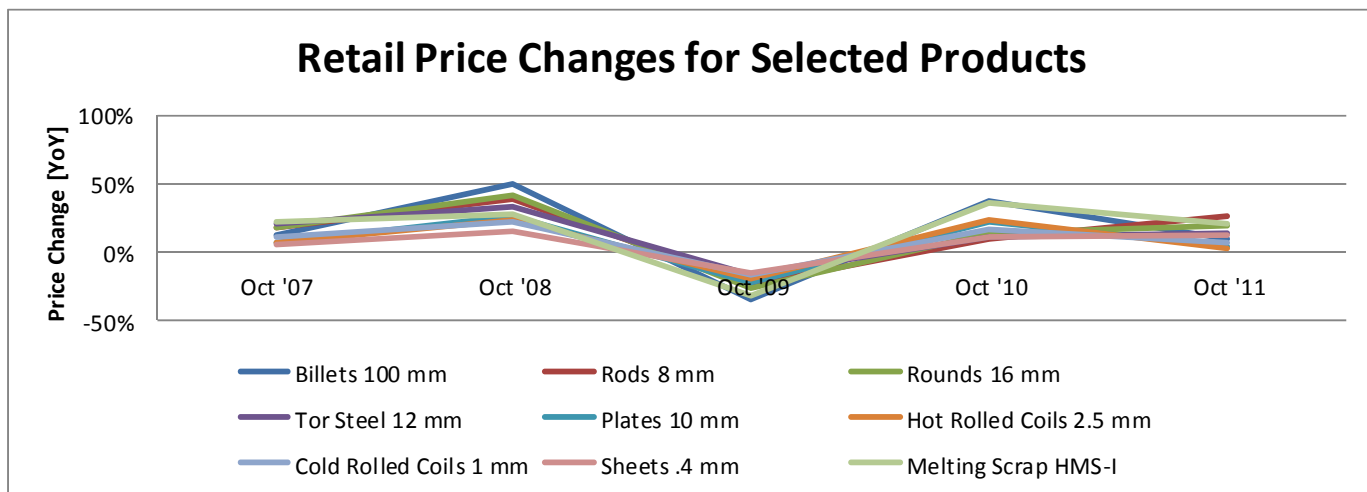
Fig 2



Source: CEIC Data

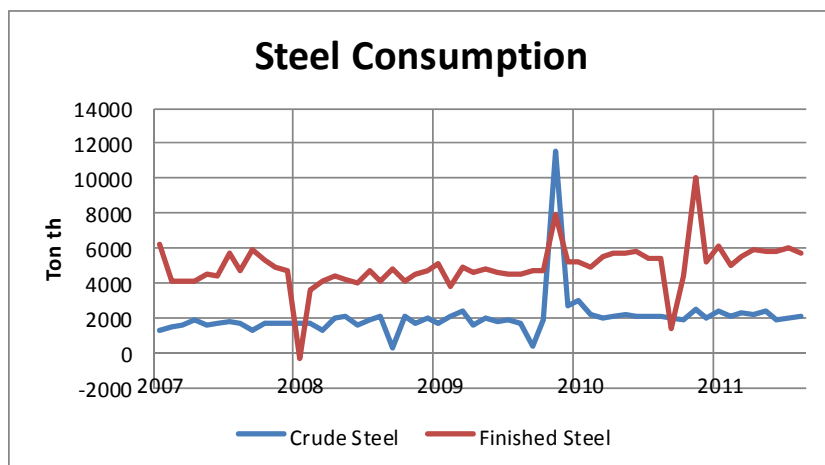
- In terms of production growth rate, however, the finished steel production suffered a greater decline comparing the last 12 months versus the previous year (fig 2).
- Steel product prices increased in 2008, depending on the particular product type, between 20% and 50% compared to the prices in 2007 (fig 3). Probably as a result of global slowdown, prices declined in 2009 for the first time between -15% and -35%, but has since shown a consistent overall price recovery.

Fig 3



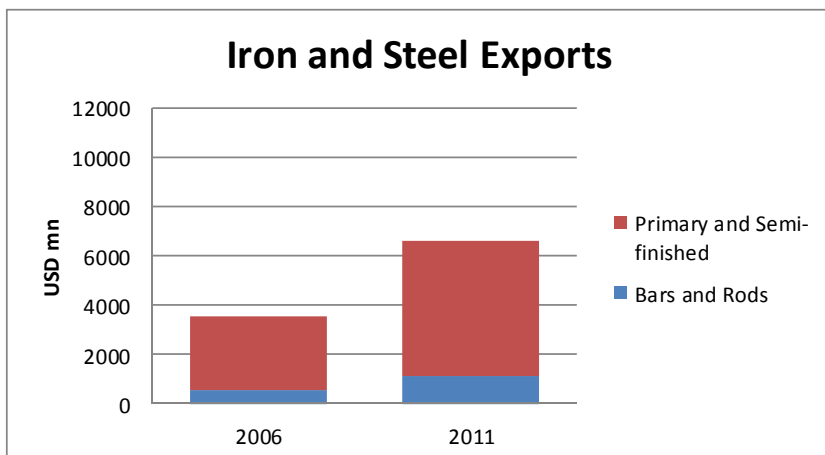
Source: CEIC Data

Fig 4



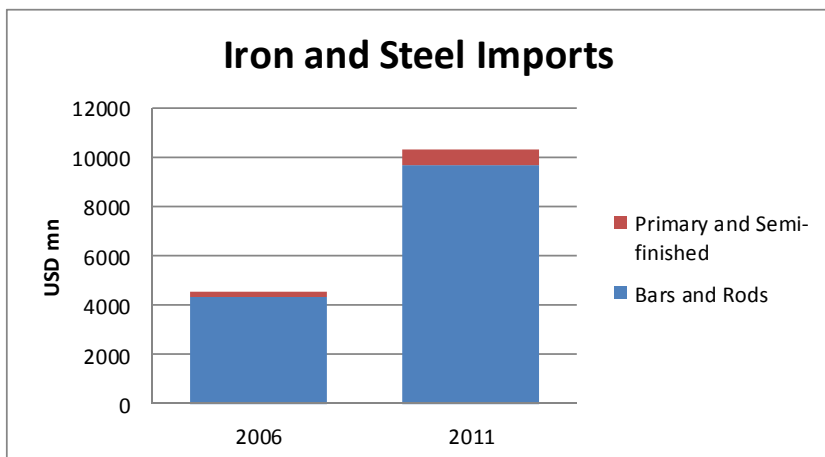
Source: CEIC Data

Fig 5



Source: CEIC Data

Fig 6

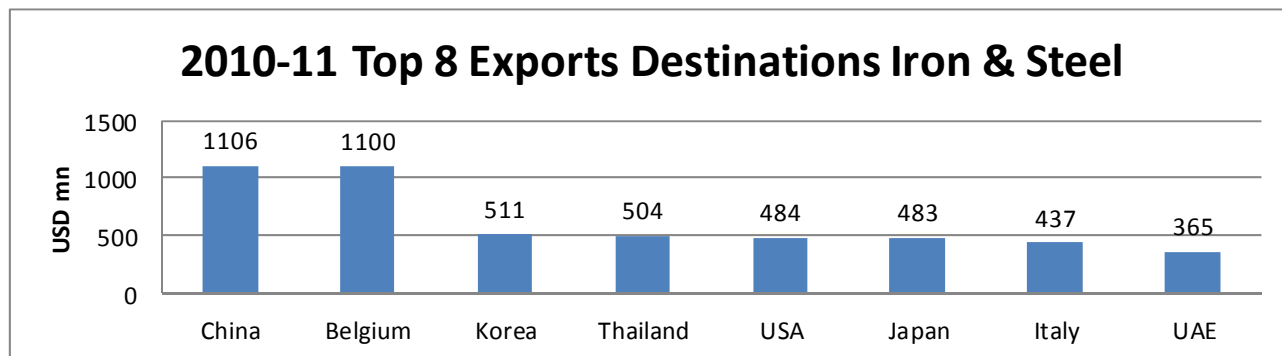


Source: CEIC Data

- Consumption of both crude and finished steel has shown an overall steady level through most of 2010 and 2011 with finished steel consumption maintaining a higher level.
- Steel exports (USD) has grown at 17% per year in the last five years. Although the more value-added bars and rods represented only 16% of total steel exported, this particular group of products experienced a 20% per year increase (fig 5), suggesting that the Indian export composition may be moving toward more value-added products.
- Over the past five years, Iron and Steel imports increased at a higher rate compared to exports, suggesting that local production could not meet growing domestic demand. In 2011, 10.3 B USD worth of iron and steel were imported, 127% more than in 2006, representing a 25% average annual increase in iron and steel imports (fig 6). In terms of imports composition, the primary and semi-finished steel represented only 4% in 2006 and 6% in 2011. This again points to the relative infancy of iron and steel production in India with a greater reliance of imports of finished products.



Fig 7

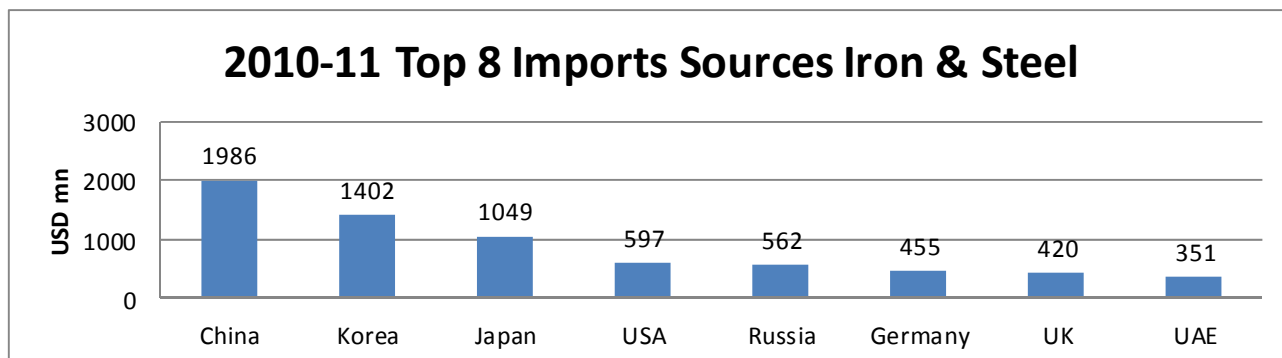


Source: CEIC Data

China and Belgium are clearly the top two exports destinations of Indian iron and steel (fig 7). India and Belgium have developed a strong relationship and have become active trade and investment partners especially over the last 5 years. Belgium received only 5% of Indian steel exports in 2006, as opposed to 12% in 2011. This shift has been at expense of the United States, which in 2006 accounted for 13% of total Indian Iron and Steel exports, and surprisingly only 5% in 2011.

China, Korea and Japan, are the top 3 imports sources of iron and steel (fig 8), with 18%, 13%, and 10% of total steel and iron imports in 2010-11, respectively. These three countries had provided only 5%, 7%, and 5% of total Iron and Steel Indian imports in 2006, respectively. Russia and to a lesser degree UK, were the suppliers that most dramatically lost their shares in the Indian marketplace in the last five years, with 11% and 7% of the total Iron and Steel Indian imports in 2006 and just 5% and 4% in 2010-11, respectively.

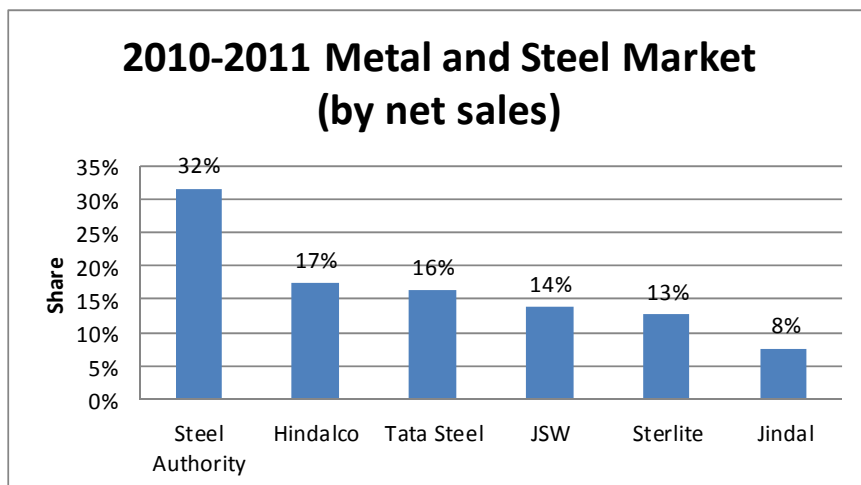
Fig 8



Source: CEIC Data



Fig 9



Source: CEIC Data

As the Iron and Steel industry in India loses some of the regulatory shackles of a public sector enterprise (PSE) and PSEs continue their growth toward efficiency we should see a gradual shift toward finished products and a greater share of private sector enterprises in this industry.

- The metal and steel industry is dominated by the Steel Authority of India, in which the Indian government has 86% of equity (fig 9). Hindalco and Tata Steel, with 17% and 16% of the market, are in distant second and third positions, respectively.