Making Indian Steel Competitive

> Mains Syllabus: GS III - Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.

Why in the News?

Despite the US-China trade deal in Geneva, the imposition of 55 per cent duties on Chinese steel exports to the US significantly increases the risk of large-scale steel dumping from China into India.

What is the recent change in US – China Steel trade?

- **US – China Trade Agreement** – It is a temporary agreement to reduce the tariff between the countries.
- The U.S. has agreed to temporarily lower, for 90 days, its overall tariffs on Chinese goods from 145% to 30%, while China will cut its tariffs on American imports from 125% to 10%.
- **Steel Duty** - Despite the deal, the US imposed 55 % duties on Chinese steel exports.
- **Impact on India** – This increases the risk of large-scale steel dumping from China into India.
- **India's Proactive Measures** - India has swiftly set-up an import-surge monitoring group and has imposed safeguard duties on steel.

India's Steel Industry
• **Steel Production** - Crude steel production grew from 109.137 million tonnes (MT) in 2019-20 to 144.299 MT in 2023-24, registering a robust growth of 13.4% over the previous year (127.197 MT in 2022-23). • **Capacity Utilization** – This rate has increased to 81% during the same period. • **Steel Consumption** - Total finished steel consumption grew from 100.171 MT in 2019-20 to 136.291 MT in 2023-24. • Steel is a deregulated sector , So the Government acts as a facilitator by creating a conducive policy environment for the development of the steel sector. • **National Steel Policy (NSP) 2017** - It set ambitious targets to achieve a crude steel capacity of 300 million tonnes by 2030-31, with an expected production of 255 million tonnes of crude steel and 230 million tonnes of finished steel. • **PLI for Steel** – It is aimed at boosting domestic steel production through attracting capital investments and reducing imports. • **DMI&SP Policy** - Domestically Manufactured Iron & Steel Products Policy promotes 'Made in India' steel for Government procurement. • **Reduction of Basic Custom Duty** - To make the steel industry globally competitive, in Budget 2024, the Government reduced the Basic Customs Duty on ferro nickel, a raw material, and extended the duty exemption on ferrous scrap until March 2026.

Why is Chinese steel competitive than India's?

- **Production Capacity Difference**– China and India are the world top 2 steel producers with 1,050 million tonnes (mt) and 150 mt in 2024 respectively.
- **Large Scale of Economy** – A single Chinese steel company Baowu's produces 130 mtpa (metric tonne per annum) output, almost matching India's total steel production.
- **High Productivity** - Chinese plants have achieved 3,000-4,000 tonnes per worker annually, compared to just 800-1,200 tonnes at Indian plants.
- **Technology Edge** – Chinese steel plants have adopted advanced technologies like Advanced automation, Industry 4.0 technologies, AI-driven operations, where India's Steel Inc. is lacking.
- **Efficient Resource Use** - Chinese plants maintain over 95% utilisation rates, supported by superior infrastructure and reliable power supply.
- In contrast, Indian plants face frequent maintenance shutdowns, high industrial power tariffs, supply disruptions, and greater reliance on manual operations.
- **Superior Infrastructure** - Over 70% of China's bulk cargo, including iron ore, moves efficiently through inland waterways and rail, compared to less than 30% in India.
- **Integrated Supply-Chains** – China's dedicated freight corridors and port-centric clusters ensure seamless raw material flow.
- Meanwhile, Indian plants sourcing from distant mines, like those in Odisha and Maharashtra, face higher costs and delays.
- **Strong Government Incentives & Cheap Financing** - Manufacturers enjoy subsidies, 13% export rebates, and loans at 3-5% , while Indian firms face borrowing costs of 8-12% .
- **Better Monetary System** - China's managed float of yuan, backed by large forex reserves, stabilises inflation and financing costs, keeping steel exports competitive.
- In contrast, India's floating exchange rate triggers currency volatility, inflating production costs despite protective duties and limited PLI schemes.
- **Quality Coal** - While India has abundant iron ore, it lacks coal with the required carbon-content, necessitating expensive imports.
- These structural disadvantages make Indian steel more expensive and vulnerable to cheaper Chinese dumping, especially amid escalating trade-tariff-tech and currency war(s) fragmenting the global industrial and trading order.

What are the impacts of Chinese steel dumping into India?

- **Cripples Indian manufacturers** - China's relentless steel dumping depresses the consumption of domestic steel.
- SMEs, in particular, have reported revenue declines of 15-20% due to import competition.
- This financial strain and depressed margin pushed several smaller players to the brink, while larger producers are deferring critical capacity additions.
- **Stalls Future Investments** - The influx of cheap Chinese steel erodes profit margins for Indian manufacturers, making the domestic market less attractive for new investments.
- **Limits Specialised Steel Initiatives under PLI** - Persistent dumping of low-priced Chinese steel restricts the success of these initiatives by making it difficult for Indian

producers to compete, particularly in higher-value segments

- **Disrupts Supply-Chains** - Dumping creates volatility in the steel market, which disrupts established supply chains.
- **Harms Downstream Industries** – If domestic producers are forced to cut production or shut down, downstream industries like construction, engineering, and automotive face increased vulnerability to global price shocks and supply disruptions.
- **Reduces Employment** - The financial pressure from dumped imports can lead to job losses in the steel sector as companies cut costs, reduce production, or shut down operations.
- **Threatens Economic Development** - Steel is foundational to infrastructure, manufacturing, and defense sectors.
- A weakened steel industry undermines broader economic development goals.

What needs to be done?

- Surging imports of flat-rolled steel, stainless steel, and ferro-alloys have exposed deep-rooted structural vulnerabilities, contributing to a $7.33 billion trade deficit in the iron and steel sector.
- These imbalances call for an urgent review of trade provisions under existing FTAs.
- Simultaneously, structural reforms needs to be launched to dismantle oligopolistic control, improve cost-efficiency, and attract credible foreign players.
- Safeguard measures must be matched with merit-based incentives to upgrade in specialty steel, improve quality, and enable sustainability.
- Protection is only meaningful if it drives long-term competitiveness, industrial sovereignty, and a fair, future-ready steel ecosystem.

Reference

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