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Press Release

MAKE IN INDIA: HOW CAN INDIA HAVE A STRONG STEEL INDUSTRY?

‘Make in India’ cannot have its full impact without making steel in India. If the high, long-term potential of the steel industry in India is to be realized, the government must introduce a comprehensive program of reforms for the industry.

NEW DELHI (6 October 2015) — NCAER, the National Council of Applied Economic Research in New Delhi, India’s oldest and largest economic think tank, today released a new research study on India’s steel industry, *The Indian Steel Industry: Key Reforms for a Brighter Future*. The NCAER research study, sponsored and facilitated by TATA Steel, was launched at a special function in New Delhi by **Dr V K Saraswat, Member, NITI Aayog**.

With steel accounting for about 2 per cent of India’s GDP and 16 per cent of its industrial share, a healthy steel sector is vital for the Indian economy, particularly for manufacturing and construction. The Government of India and Prime Minister Modi launched the well-received *Make in India* programme in 2014. Under this broad umbrella of reforms designed to make India a global manufacturing and supply-chain hub, efforts are underway to improve the ease of doing business, including reform of labor laws, rationalization of land acquisition, and faster provision of transport and connectivity infrastructure, and thereby to promote both foreign and domestic investment in manufacturing and to create the jobs badly needed for India’s growing, young labour force.

Whatever shape India’s much hoped for manufacturing revolution will take, whether to meet export or domestic demand, it will need steel for infrastructure and for manufacturing. The findings of the NCAER Study suggest that the steel sector in India has a very high potential. While the steel industry in other major economies is aging, with little prospect of high growth, India’s steel industry is young. While many old steel producers are struggling with the difficult task of retrofitting, India as a late-comer has the advantage of leapfrogging to the latest technology that is efficient and environmentally friendly. If India’s economic growth accelerates, the production of steel should increase by several hundred million tons over the next few decades.

But the new NCAER study finds that the enthusiasm about *Make in India* appears to be bypassing the steel industry. The current condition of the Indian steel industry is dismal, with

low profits, low capacity utilization and dim prospects for new private investment, either foreign or domestic. The August 2015 devaluation of the Chinese yuan is further fueling fears about China dumping of steel into the Indian market. The Study departs from the conventional wisdom that the Indian steel industry is constrained just by usual supply-side factors, such as the availability of land or minerals or environmental clearances, and clearly establishes that the industry is also hampered by inadequate demand and other cyclic, macroeconomic factors.

Dr V K Saraswat, Member, NITI Aayog was the Chief Guest of the event and launched the report in front of the esteemed audience. While releasing the study, **Dr Saraswat** noted in his opening remarks that, *“The Indian steel industry is at crossroads today. There is need for the industry, think tanks and policymakers to start looking at all factors holistically, especially those related to domestic taxation, inverted duty structures, raw material costs and transportation. The Commerce, Steel, Coal, Finance and Railway Ministries need to have a synergistic and integrated outlook to de-stress the sector. Steel is the basic industry to increase the share of manufacturing in the country. We also have to tune our policies with respect to the emerging foreign trade structures. The inclusion of steel in umbrella trade agreements needs to be revisited. We are happy that NCAER and the industry are working towards identifying such issues and we at NITI Aayog support these efforts to provide an impetus to domestic manufacturing.”*

The NCAER study’s **principal author, Dr Ramgopal Agarwala, NCAER**, remarked, *“There is just no room for complacency about the Indian steel industry. We are in a harsh international environment and still on the downside of an economic cycle without clear indications of a decided upturn. Many of the investments made during the last upturn are coming on stream just when the demand for steel remains weak because of the yet uncertain investment climate in India and globally.”*

Speaking at the event, **Mr Chanakya Chaudhary, Group Director for Corporate Communication & Regulatory Affairs, Tata Steel** said, *“The Indian Steel Industry is slated to play a key role in the country’s growth story and the “Make in India” programme provides the industry the opportunity to achieve this potential. In this context, NCAER’s new research on, “The Indian Steel Industry: Key Reforms for a Brighter Future” reveals that the steel industry is currently constrained by both supply-side factors such as availability of raw materials, as well as demand-side macroeconomic factors, including imports from steel surplus countries. While the Government has taken cognizance of these challenges, and is making efforts to provide an impetus to the steel industry, there is need for a long term policy perspective for creating a sustainable steel industry in India.”*

The NCAER Study emphasises that under a business-as-usual scenario, Indian steel is unlikely to meet either the goals of the 12th Five-Year Plan or the goal of some 300 million tonnes of production by 2025 as proposed in the Government's *Draft Steel Policy 2012*.

Moving from the current stressed state of the Indian steel industry to the realization of its high potential will not be easy. The NCAER Study presents a roadmap for policies and practices that the government and industry need to follow to encourage the growth of a vibrant Indian steel industry for the longer term. The NCAER Study uncovers eleven roadblocks that it says stand in the way of a brighter future for steel in India. In order to remove those roadblocks, comprehensive reforms, and not just tinkering at the margin with present policies and practices, are needed.

Based on this analysis in the NCAER research report, and other work that could be commissioned, NCAER suggests that the Government should consider formulating a new Steel Sector White Paper, with inputs invited from the industry, economists, other market analysts, upstream and downstream industries, and policymakers. Such a White Paper should have the explicit goal of examining what is needed in the short, medium and long term to realize the full potential of the sector, and not just *Make in India*, but continue to *make steel in India* in a strategic, commercially viable and environmentally friendly way.

The National Council of Applied Economic Research (NCAER)

Established in 1956, NCAER is India's oldest and largest independent, non-profit, economic policy research institute. NCAER's work falls into four thematic areas: Growth, macro, trade, and economic policy; investment climate, industry, infrastructure, labour, and urban; agriculture and rural development, natural resources, and environment; and poverty, equity, human development, and consumers. The focus of NCAER's work in these areas is on generating and analysing empirical evidence to support and inform policy choices. It is also one of a handful of think tanks globally that combine rigorous analysis and policy outreach with deep data collection capabilities, especially for household surveys. For more information, please visit www.ncaer.org.