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WORKSHOP ON STEEL TRADE ISSUES

THE SITUATION IN STEEL TRADE: COUNTRY REPORTS
STATEMENT BY MR. NGE KWAN MIN

The Workshop will be held in Paris on 27-28 May 1998.

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**WORKSHOP ON STEEL TRADE ISSUES STEEL
THE SITUATION IN STEEL TRADE: COUNTRY REPORTS
STATEMENT BY MR. NGE KWAN MIN,
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PARIS, 27-28 MAY 1998**

The Economy in 1997

1. In early 1997, fundamentals for Malaysia continued to remain strong as real GDP growth moderated to a more sustainable pace and the external imbalance narrowed. The broad strategy of the Government for the medium term had essentially focused on addressing structural weaknesses, with an investment strategy directed at export orientation and productivity improvement.

2. Against this background, fiscal discipline was reinforced by monetary tightening to ensure overall macroeconomic stability. During this period, the supervisory framework in which the banking sector operated was tightened further to maintain a sound and resilient financial sector.

3. As the turmoil in the region unfolded, it imposed on economies the need to expedite and reinforce their adjustment policies. During the course of the year, policies in Malaysia were directed at further reducing the current account deficit in the balance of payments, increasing the fiscal surplus through significant cutbacks in public sector expenditure, reducing credit growth and containing inflationary expectations by tightening further monetary policy.

4. To strengthen banking institutions, more stringent prudential standards were imposed on the recognition of non-performing loans (NPL) and provisioning, as well as acquiring greater transparency on the financial positions of banking institutions.

5. The authorities were, however, aware that the measures on their own would not lead to a complete restoration of investor confidence. Nevertheless, the measures would contribute to minimising the risks of destabilising contagion effects arising from developments in the regional and global financial markets. Of importance, the measures are aimed at building the foundation on which an early recovery could be achieved.

6. The economy expanded by 7.8 per cent in 1997. This performance reflected mainly the underlying strength of the real economy where production was broad-based, with a strong export sector. Despite the onset of the regional financial crisis, growth in 1997 remained strong reflecting the structural adjustments that had been undertaken over the years. In particular, the banking sector was relatively resilient with NPL at a historical low.

7. Policies that limited private sector foreign borrowings to those with foreign exchange earnings to service the debt helped to contain external debt at a manageable level. Short-term debt was also low, with the bulk of the debt already hedged. There was adequate domestic liquidity to support productive economic activities. The national savings rate remained high at 40 per cent of GNP, while the country was at full employment.

8. The intensity of the contagion impact and the severe adjustments undertaken to restore confidence in the domestic financial markets are expected to have their full impact on the economy in 1998. While growth of the economy in 1998 will remain positive, it is expected to slow down to 2-3 per cent. Growth is expected to be sustained by exports as domestic demand is likely to decline due to lower consumption and investment.

9. A positive development will be the dramatic improvement in the balance of payments position in 1998. The current account deficit is expected to narrow significantly to less than 1 per cent of GNP, well below the target of 3 per cent set under the Government's adjustment programme. Taking into account the impact of the depreciation of ringgit, inflation is forecast to double to a range of 7-8 per cent.

10. The inflationary pressure essentially reflects the direct and indirect impact of ringgit depreciation. The lower growth is also expected to result in a softening in the employment situation and unemployment could increase to 3.5 per cent. However, a stronger recovery in exports and a positive response of the services sector to the depreciation could improve the growth prospects. Prospects for recovery will also depend on the restoration of stability in the financial markets.

Table 1: Malaysia - Selected Key Economic Indicators

	1995	1996	1997 ^p	1998 ^f
NATIONAL PRODUCT (per cent change)				
Real GDP	9.5	8.6	7.8	2-3
(RM billion)	120.3	130.6	140.9	144.4
Agriculture, forestry and fishery	1.1	2.2	3.0	-1.8
Mining and quarrying	9.0	4.5	2.0	2.2
Manufacturing	14.5	12.2	12.5	6.0
Construction	17.3	14.2	10.6	-4.0
Services	9.4	9.7	7.9	2.7
Nominal GNP	15.1	14.3	10.6	6.2
(RM billion)	208.2	237.9	263.1	279.4
Real GNP	9.3	8.4	7.5	1.7
(RM billion)	113.6	123.1	132.3	134.6
Real aggregate domestic demand ¹	13.4	7.0	6.4	-4.9
Private expenditure ¹	15.4	9.0	6.3	-2.4
Consumption	9.4	6.0	4.7	1.0
Investment	25.3	13.4	8.3	-6.8
Public expenditure ¹	8.0	1.3	6.9	-12.3
Consumption	7.3	1.4	4.8	-11.4
Investment	8.7	1.1	9.2	-13.3
Gross national savings (as per cent of GNP)	35.2	38.5	40.0	40.7
BALANCE OF PAYMENTS				
(RM billion)				
Merchandise balance	0.1	10.2	11.1	27.6
Exports (fob)	179.5	193.1	218.7	298.8
Imports (fob)	179.4	183.0	207.6	271.2
Services balance	-19.4	-19.5	-20.8	-25.3
(as per cent of GNP)	(-9.3)	(-8.2)	(-7.9)	(-9.0)
Current account balance	-21.8	-12.3	-13.4	-1.4
(as per cent of GNP)	(-10.5)	(-5.1)	(-5.1)	(-0.5)

Source: Bank Negara Malaysia Annual Report 1997

Notes: Figures may not necessarily add up due to rounding

1. Exclude stocks

p Preliminary

f Forecast

The Malaysian Steel Industry Today

11. Presently, the local steel industry can be broadly categorised into three product groups, namely primary products, rolling or finished products and lastly secondary products.

Primary Products

- Scrap Substitute: Hot Briquetted Iron (HBI) and Direct Reduced Iron (DRI)
- Crude Steel: Billet, Bloom, Beam Blank

12. Hot Briquetted Iron (HBI) and DRI are substitutes for scrap and mainly used in Electric Arc Furnace for production of molten steel. Hot Briquetted Iron (HBI) is produced by Amsteel Mills in Labuan and DRI is produced by Perwaja Steel in its Kemaman plant. Most of the HBI is exported as the mill was built for merchant HBI and in the case of Perwaja Steel, most of the DRI is for internal use.

13. There are currently six (6) producers of billet, which is the feed-stock for the finished long products of bars and wire rods, small sections and flat bar. They are Perwaja Steel, Amsteel, Southern Steel, Malayawata, Antara Steel Mills and Dah Yung. Only Perwaja Steel produces beam-blank and bloom to feed their beam and section mill which was commissioned in 1997.

Finished/Rolling Products

- Long Products: Bars, wire products, Sections
- Flat Products: Plates, hot rolled coils, cold rolled sheets

14. The major producers for bars and wire rods are the same as for billets. Before the commissioning of Perwaja's beam and section mill, only small sections are produced by domestic producers such as Anshin, Leader and Antara. With the commencement of its beam and section mill, Perwaja becomes the sole producer of medium and heavy sections in this country. Gunawan Steel becomes the only plate producer in this country when they started production of steel plate in their Kemaman plant last year by using imported slabs.

- Long/Secondary Products: Nails, wire, wire mesh, bolts and nuts, barb wire
- Flat/Secondary Products: Coated/painted steel, tubes and pipes (seamed)

15. There is currently no local production of slabs and also that of hot rolled strip and sheet. This according to the industry sources is the missing gap in the industry which has contributed in some ways to hindering the growth of the secondary flat product market. This missing link will be filled when Mega Steel commissions its plant in the second quarter of 1998 with a capacity of 2.0 million tons and that of Gunawan Steel with capacity of 1.4 million which is expected to be commissioned by end of 1999. At the moment, Gunawan Steel is producing hot rolled plates at its plant in Kemaman with the capacity of 250 000 tpy using imported slabs. Cold rolled sheets is currently being produced by Maruichi and Ornasteel. These are just ordinary grades and high quality grades still have to be imported.

Table 2: The Industry Structure

Category	Primary Products	Rolling/ Finished Products	Secondary Products
Iron units	HBI/DRI (2 producers 2 million tpy)		
Long Products	Billet/Bloom (6 producers, 4 million tpy)	Bar/wire rod /light section (over 30 producers, 3.5 million tpy) Medium/heavy section (1 producer, 700,000 tpy)	Wire and wire products, engineering bar products (many producers)
Flat Products	Slabs (not yet represented)	Hot rolled plate, sheet and strip (1 producer) Cold rolled sheet and strip (3 producers, 650,000 tpy)	Coated/Painted sheet (1 tinplater and 25 galvanizers/ prepainters) Pipe and tube (18 producers)

Performance of the Steel Industry in 1997***Demand***

16. The industry's performance in 1997 underwent changes in demand patterns, as compared to previous years.

17. Demand for iron and steel products for January-June 1997 remained strong as most projects were still in various stages of construction.

18. However, for July 1997, MISIF members began to see cutbacks in demand as the construction industry began to contract and projects were being withdrawn.

Production

19. Nevertheless, the strong performance in the first half of 1997 did result in an increase in production (especially in long products) as compared to 1996.

20. Output of primary products (ie scrap substitutes and semi-finished products) exceeded 4 million MT, finished rolled long products (bars, wire rods and sections) registered 3.8 million MT, finished rolled products (ie cold rolled sheets) exceeded 500 000 and secondary flats (coated sheets, pipes and tubes) was about 1 million tons.

Imports

21. While the production of primary iron and steel products is generally able to meet the demand of domestic construction industry, Malaysia in 1997 continued to import slabs, hot rolled coils, sections and stainless steels for downstream processing.

Exports

22. Owing to strong demand, exports of steel products decreased in 1997 when compared with 1996. Nevertheless, Malaysia continued to export most of the HBI and DRI at about 800,000 MT in 1997.

Prospects for 1997

23. Being a supplier of iron and steel products to the construction industry, the MISIF members are in 1998 severely affected by the financial crisis.

24. Domestic demand for iron and steel products have, in the first quarter of 1998 seen a 45 per cent drop and is expected to drop further if no major construction starts take place.

25. Unlike previous years, the Malaysian steel industry is beginning to take active interest in exports.

Table 3: Performance of the Malaysian Iron & Steel Industry Federation 1996/97 (Preliminary)

ITEMS/PRODUCTS	PRODUCTION		IMPORTS		EXPORTS		CONSUMPTION	
	1996	1997	1996	1997	1996	1997	1996	1997
DRI/HBI	1 172 000	1 486 000	0	0	1 057 000	824 938	115 000	661 062
Semi-finished (billets)	3 210 000	3 200 000	910 520	622 000	22 580	36	4 097 940	3 821 964
Sections	240 000		568 340	608 000	25 000	5 000	783 340	
Bars	2 346 000	2 509 000	124 290	84 500	78 900	13 932	2 391 390	2 579 568
Wire rods	795 000	944 000	200 920	114 357	2 550	195	993 370	1 058 162
Plates	70 000		920 000	751 000	24 000	35 347	966 000	
Hot rolled coils	-	-	1 370 000	1 518 980	-	180 000	1 370 000	1 337 980
Cold rolled coils	480 000		586 560	62 980	120 000	171 000	946 560	
GI sheets	273 000	339 961	166 000	184 661	19 620	20 181	419 380	504 441
Tinplate	190 000		10 470	71 613	18 640	269 461	181 830	
Other metallic coated sheets	-		151 000	219 336	5 000	48 805	145 000	
Pipes & tubes	685 410	752 729	441 000	150 000	199 000	66 659	927 410	836 070

Source: MISIF

Approved New Projects

<i>COMPANY</i>	PRODUCTS	CAPACITY (‘000MT)	STATUS OF IMPLEMENTATION
<i>Long Products</i>			
1. Amsteel Mills	Wire rods	500	Production end 1998
2. Southern Steel	Billets	500	Production end 1998
3. Malaysian Steel Works	Billets	200	Production end 1998
<i>Hot rolled</i>			
1. Tahan Steel	HR coils, strips, hoops, sheets & plates	540	- Earthworks - Equipment Ordered
<i>Hot rolled</i>			
2. Megasteel Industries	Pig iron, slab, hot rolled coils and sheets, cold rolled galvanised coils and sheets	2,400	Plant to commence production by end of 1998
3. Nusantara Steel	Hot rolled steel coils, strips and hoops, hot rolled steel sheets	2,500	Ground-breaking in Feb 1998
<i>Cold Rolled</i>			
1. Song Seng Steel Mills	Cold rolled steel sheets	150	Land acquired
2. Megasteel Industries	Cold rolled coils & sheets	1,000	Company now implementing HR and this project will follow in due course

The Financial Crisis

26. The Malaysian iron and steel industry, similar to its ASEAN counterparts are feeling the full effect of the financial crisis.

27. Through MISIF, the companies have informed the Government that the industry is severely affected by:

- Contraction of the construction industry to which the first quarter of 1998 has shown a 45 per cent drop in demand for construction steel.
- Tight liquidity and high interest rates for banks.
- Increasing costs of raw material, especially of scrap for which exchange rates have devalued from RM2.5 to RM3.6

Outlook and Conclusion

28. The Malaysian iron and steel industry expect 1998 and 1999 to experience low demand for building materials in the light of the severe contraction in the building sector.

29. The MISIF members have to make sudden adjustments from a period of high growth to extremely low demands. The outlook for the next 2-3 years looks bleak and the companies have to work extremely hard to export and to lower costs of production.

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