

A critical evaluation of Steel Industry in Sudan - Opportunities for Indian Exporters

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The global steel industry has been going through major changes since 1970. China has emerged as a major producer and consumer, as has India to a lesser extent. Consolidation has been rapid in Europe. The volume of steel consumed has been the barometer for measuring development and economic progress. Whether it is construction or industrial goods, steel is the basic raw material. Lighter metals and stronger alloys have been developed; plastics and synthetics have replaced steel in many areas. This paper makes an attempt to explore the market opportunity for steel in Sudan and suggests some precautionary measure to deal with such markets.

Introduction

Global steel production grew very much in the 20th century from a meager 28 million tonnes at the inception of the century to 780 million tonnes at the closing. That was the epoch when the steel industry urbanized in Western Europe and the USA followed by the Eastern Europe, Soviet Union and Japan. Yet, steel utilization in the industrial countries has attained a high stable level and growth has pointed off. After being in the center in the developed world for more than a century, concentration has now shifted to the developing regions. In the West, steel is referred to as a twilight industry. In the developing countries, the sun is still growing, for most it is only a dawn.

Towards the conclusion of the last century, intensification of steel production was in the developing countries such as China, South Korea, Brazil and India. Steel production and utilization grew gradually in China in the early years but later it picked up impetus and the concluding years of the century saw it racing at the

forefront of the rest of the world. China produced 220.1 million tonnes in 2003, 272.2 million tonnes in 2004 and 349.36 million tonnes in 2005. That is a great deal above the production in 2005 of Japan at 112.47 million tonnes, the USA at 93.90 million tonnes and Russia at 66.15 million tonnes. Expansion of the Chinese steel industry appears to be stunning. However, China has been more and more raising steel production for many years; it has also been importing significant quantities of steel. It is only now that China has turned into a net exporter of steel. This circuitously means that China has also reached a level of production diffusion and its steel industry is further likely to observe more of consolidation and reorganization in coming years slightly than any major expansion of its assets.

Statement Of Problem

As the globalization of markets continues at a rapid pace, business practitioners and educators alike face the challenge of staying current with the developments. Every company requires a source of new information

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and insights on international business events. International marketing educators require a forum for disseminating their thoughts and research findings. Some firms have chosen to maintain a global site, with reference only to local sales or support offices; others, in contrast, have unique sites for each country. In some cases, global sites will hyperlink surfers to a country or region relevant site. Throughout history, countries have tended to trade with each other, but usually to a much lesser extent than they do today. Technological advances are so fast that, at any point, a different country may have the latest and most effective technology in compelling areas. Certain product lines require tremendous economies of scale to be cost effective, so these costs must be spread over several different markets.

Current Situation

Trade is increasingly global in scope today. There are several reasons for this. One significant reason is technological-because of improved transportation and communication opportunities today, trade is now more practical. Thus, consumers and businesses now have access to the very best products from many different countries. Increasingly rapid technology lifecycles also increases the competition among countries as to who can produce the newest in technology. In part to accommodate these realities, countries in the last several decades have taken increasing steps to promote global trade through agreements such as the General Treaty on Trade and Tariffs, and trade organizations such as the World Trade Organization (WTO), North American Free Trade Agreement (NAFTA), and the European Union (EU)

Objectives

- To study international marketing's role in increased global steel demand
- To study about the steel industry in Indian and global Market.

- To analyze Sudan as a country and find out the opportunities associated with it with special focus to Steel Industry.
- To study the different strategies by which firm can enter in to the territories of Sudan

Need for the Study

After the globalization all local and national companies are going to enter in the global market. Many companies have already entered and doing business at international level. A purely domestic firm focuses only on its home market, has no current ambitions of expanding abroad, and does not perceive any significant competitive threat from abroad. Such a firm may eventually get some orders from abroad, which are seen either as an irritation (for small orders, there may be a great deal of effort and cost involved in obtaining relatively modest revenue). As the firm begins to export more, it enters the export stage, where little effort is made to market the product abroad, although an increasing number of foreign orders are filled.

Source of Data

Research is positioned as an exploratory as well as descriptive study; in-depth open-ended interviews are executed for primary source of data collection. Over and above, the researcher have interviewed members of management, project leaders of the client companies of different countries and steel organizations based at India

Beneficiaries

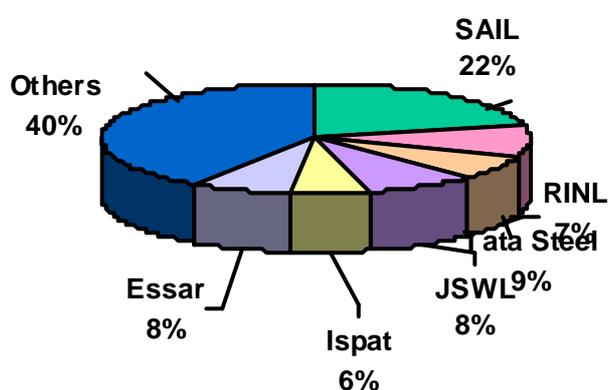
The study would beneficial to the various exporting company's (especially exporters dealing with Sudan) problems in managing the clients and risk involve in expansion to various countries where they are presently not dealing.

Steel Production - Growth Story

The production and consumption of steel during the

last five years ending as on 31 March 2003 is given in the annexure Table - 1. As alongside the overall demand (consumption) of 131.63 million MT during 1998-99 to 2002-03, the production of 145.34 million MT was in surfeit by 13.71 million MT representing 10.42 per cent of demand. It would be seen that the production of steel in quantity to its consumption increased from 1.15 per cent in 1998-99 to 16.85 percent in 2002-03.

Company Wise Production For Year 05-06



Promotional Incentives

The iron and steel sector has acknowledged various incentives to promote exports in the current EXIM Policy (2002-2007). First, the quantitative restrictions on exports have been removed, except in the case of a few sensitive items. Second, the setting up of overseas banking units in Special Economic Zones has been permitted. Third, the duty-neutralization schemes such as Duty Entitlement Pass Book (DEPB) were introduced. Though the DEPB was suspended in Mar 04, it had proved to be quite beneficial in helping exporters increase their overseas market. The most significant move has been the elimination of Duty Exemption Entitlement Scheme in order to trim down the transaction time. The other promotional measures relate to the tariff structure. The tariffs saw a sharp reduction (25% to 50%) in the liberalization era, opening up the domestic sector to international competition. To protect the interests of the domestic producers, the Government tried to augment domestic production by

plummeting the import of raw materials to as low as 5% (non-coking coal, met coke, nickel) and even 'nil' (coking coal). Also, the Advanced Licensing Scheme has been introduced, which permits duty free import of raw material for exports. A Steel Exporters round-table has also been set up to cater the requirements of producers and exporters and to determine issues, problems and bottlenecks related to exports.

Sudan Economy - An Overview

The Country - Sudan is buffeted by civil war, unceasing political instability, adverse weather, high inflation, a fall in remittances from abroad, and counterproductive economic policy. The private sector's main areas of bustle are agriculture and trading, with most private industrial outlay predating 1980. Agriculture employs 80% of the work force. Commerce mainly processes agricultural items. Slothful economic performance over the precedent decade, attributable largely to declining yearly rainfall, has kept per capita income at low levels. A huge foreign debt and enormous arrears continue to cause difficulties. In 1990 the International Monetary Fund took the unusual step of declaring Sudan non-cooperative due to its nonpayment of arrears to the Fund. After Sudan backtracked on promised reforms in 1992-93, the IMF threatened to oust Sudan from the Fund. To avoid expulsion, Khartoum agreed to make payments on its amount outstanding to the Fund, liberalize exchange rates, and lessen subsidies, measures it has partly implemented. The government's continued prosecution of the national war and its mounting international isolation continued to inhibit growth in the nonagricultural sectors of the economy during 1998. Hyperinflation has raised consumer prices above the reach of most.

International Disputes

Administrative boundary with Kenya does not concur with international boundary; Egypt emphasizes its claim to the "Hala'ib Triangle," a barren area of 20,580 sq km

under partial Sudanese management that is defined by an administrative boundary that supersedes the treaty boundary of 1899.

Sudan - The Country Analysis

Prominent Features: Government-dominated diverse economy. Contemporary agriculture sector and most of modern industry restricted by government corporations directly or through joint ventures; virtually all small- and medium-sized industry, most services, conventional agriculture, and handicrafts controlled privately. Civil war in south, massive invasion of refugees from adjacent countries, and drought in 1980s and 1991 have hindered economic development. New economic revival program proclaimed June 1990 to end economic stagnation, develop agriculture, liberalize trade, eliminate most government monopolies, gradually eliminate budget deficit, and develop energy resources.

Agriculture, Livestock, Fisheries, and Forestry: Agriculture and livestock growing provided livelihood for about 80 percent of population and around 95 percent of exports in early 1990s. Agriculture characterized by contemporary market-oriented sector of irrigated and mechanized rain fed farming concentrated in middle part of country and large traditional sector engaged in subsistence activities elsewhere. Principal modern sector crops: cotton, sorghum, groundnuts, sugarcane, wheat, and sesame. Traditional sector crops: sorghum, millet, sesame, and groundnuts. Fisheries still mostly subsistence occupation. Apart from gum Arabic, a major export, forests used chiefly for fuel.

Manufacturing: Public enterprises dominate in modern manufacturing activity, mainly foodstuffs, beverages, textiles. Output of government plants normally well below capacities because of raw materials shortages, power outages, lack of spare parts, and lack of experienced managerial staff and skilled laborers. Three-quarters of large-scale modern manufacturing

in the state of Al Khartoum.

Mining: Contributed less than 1 percent to gross domestic product (GDP) in 1990. Most petroleum exploration operations ended in 1984 because of civil war in south and had not resumed as of mid-1991.

Energy: Chief sources of energy in 1990: domestic wood, charcoal, hydroelectric power, imported petroleum; large hydroelectric potential only partially exploited. Central area of country served by electric power grid; some towns elsewhere had local generating facilities.

Foreign Trade: Agricultural products lead exports. Large trade deficit since late 1970s, accentuated by increased costs of petroleum imports. Main destinations of exports in 1986: Saudi Arabia, Japan, Britain, and other European Community (EC) members. Main suppliers: Saudi Arabia (petroleum), Britain, other EC members, United States, Japan, and China. Among various sectors of economy, the percentage share of services sector in the total GDP is highest. But both industries and agriculture have their relative importance in the country. Value Additions made by different sectors as the percentage of total GDP in the country are given in Annexure Table - 2

Major industries in the country are textiles, edible oils, petroleum and pharmaceuticals.

Important agricultural products in the country are cotton, sorghum, wheat, mangos, bananas, sheep and livestock. Further, table - 3 shows the percentage share of various sectors in the total GDP. Both agriculture and oil production has contributed a lot to the country's economy. Country's Economic Indicators are given in the Table -6.

Conclusion & Recommendation

As the researcher have analyzed the whole country

from the perspective of steel industry we can conclude that this is the perfect time for any steel manufacturing and marketing company to enter into this country because,

- A little market competition
- Global pressure to liberalization
- Growing importance of private sector and FDI sector
- Changing role of government
- Abolishment of privilege of SOEs
- Commitment to FDI attraction
- Commitment to provision of infrastructure
- The manufacturing Commodity as an import has increased continuously over the period from 481.4 in 1998 to 1178.5 in 2001.
- As the population is increasing continuously, so the condition of basic infrastructure will increase optimally.
- As far as GDP is concern their imports were increased substantially so the contribution of Steel sector was not remarkable because of their dependence on other countries. Currently the GDP contribution of Steel is around 8 per cent
- As majority of the company are importing Raw materials and after completing further process they are able to sell, they don't have basic infrastructure to support to fulfill current demand.

Overall, we can conclude that at initial point we should appoint a Stockiest (contractual agent) to look after the business.

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Annexure

Table - 1

Year	Production	Consumption
1998-99	23.82	23.55
1999-00	26.71	25.09
2000-01	29.27	26.53
2001-02	31.63	27.44
2002-03	33.91	29.02

(In million MT)

Table - 2

Value Added (% of GDP)	2000	2003	2004
Agriculture, value added (% of GDP)	39.8	42.1	39.3
Industry, value added (% of GDP)	20.0	20.4	24.6
Services, etc., value added (% of GDP)	40.2	37.5	36.1

Table - 3

Percentage share of various sectors in the total GDP

% Of GDP	1984-85	2003-04	2004-05
Agriculture	30.7	32	29.7
Industry	16	24.2	28.4
Manufacturing	8.3	8.4	7.9
Services	53.3	43.8	41.9

Table - 4

Government Budget, 1996-97, 1997-98, and 1998- 99

Revenues	1996-97	1997-98	1998- 99
Direct taxes	404.5	300.5	351.6
Indirect taxes	839.9	984.6	1,222.6
Other	224.6	200,4	216.2
Total revenues	1,469.0	1,485.5	1,790.4
Expenditures			

Ordinary budget			
Defense and security	260.6	462.0	473.1
Economic services	74.3	196.0	208.0
Social services	69.9	160.8	182.0
Loan repayments	212.0	118.0	465.4
Provincial governments	270.3	360.5	557.0
Other	755.6	1,214.9	1,492.8
Total ordinary budget	1,642.7	2,512.2	3,378.3
Development budget			
Agricultural sector	135.4	139.1	96.3
Industrial sector	119.2	110.1	74.6
Transportation and communications	67.6	52.1	57.9
Services sector	59.4	54.3	32.5
Other	101.4	97.4	107.8
Total development budget	483.0	453.0	369.1
Total expenditures	2,125.7	2,965.2	3,747.4

(in millions of Sudanese pounds)

Source: Based on information from ""Sudan--Statistical Survey,"" The Middle East and North Africa, 2001, London, 2002

Table - 5
Gross Domestic Product by Sector, 1997-98 to 2000-01

Sector	1997-98	1998-99	1999- 00	2000-01
Agriculture	32.0	34.0	32.0	36.0
Commerce	22.0	15.0	15.0	n.a.
Transportation and communications	10.0	11.0	11.0	n.a.
Manufacturing and mining	10.0	7.0	8.0	8.2
Construction	4.0	5.0	6.0	4.6
Electricity and water	n.a.	n.a.	n.a.	1.8
Government services	10.0	n.a.	n.a.	11.5
Other services	12.0	26.0	25.0	37.8
TOTAL	100.0	100.0	100.0	100.0

n.a.--not available; included in other categories. 1 Years ending June 30

Source: Based on information from ""Sudan--Statistical Survey,"" The Middle East and North Africa, 2001, London, 2002

Table - 6
Economic Indicators

Other	101.4	97.4	107.8
Economic Indicator	2000	2003	2004
GNI, Atlas method (current US\$)	10.3 billion	15.4 billion	18.7 billion
GNI per capita, Atlas method (current US\$)	310.0	440.0	530.0
GDP (current US\$)	12.2 billion	17.8 billion	21.1 billion
GDP growth (annual %)	6.5	6.0	6.0
Inflation, GDP deflator (annual %)	8.4	8.2	10.6

Table - 7
Country's overall trade scenario is as follows:

Foreign Trade	2000	2003	2004
Merchandise trade (% of GDP)	27.6	30.5	37.2
Net barter terms of trade (2000 = 100)	100.0	103.6	120.7
Foreign direct investment, net inflows (BoP, current US\$)	392.0 million	1.3 billion	1.5 billion
Long-term debt (DOD, current US\$)	10.9 billion	11.9 billion	12.2 billion
Agriculture, value added (% of GDP)	39.8	42.1	39.3
Industry, value added (% of GDP)	20.0	20.4	24.6
Services, etc., value added (% of GDP)	40.2	37.5	36.1

Source: www.economywatch.com/sudan

Table - 8
Principal Exports of Sudan, 1998-2001

Commodity	1998	1999	2000	2001
Cotton	366.7	455.2	978.4	1,348.8
Sesame	58.8	134.8	269.0	333.3
Gum arabic	141.7	267.1	281.6	313.0
Sorghum (durra)	n.a.	248.8	106.7	297.1
Sheep and lambs	66.8	42.9	124.5	192.5
Other	199.2	348.3	530.2	538.4
TOTAL	833.2	1,497.1	2,290.4	3,023.1

n.a.--not available.

in millions of Sudanese pounds

Table - 9
Principal Imports of Sudan, 1998-01

Commodity	1998	1999	2000	2001
Manufactured goods	481.4	501.0	1,042.6	1,178.5
Petroleum and petroleum products	292.6	497.9	1,044.6	1,082.2
Machinery and equipment	405.7	484.9	776.1	826.4
Transportation equipment	n.a.	368.9	507.8	786.6
Chemicals	342.9	248.1	500.9	399.1
Wheat and flour	120.5	199.6	402.2	412.8
Other	687.2	312.5	497.9	687.8
TOTAL	2,402.2	2,612.9	4,772.1	5,373.4

n.a.-not available.

in millions of Sudanese pounds