

CHAPTER 5

VISION FOR THE MALAYSIAN STEEL INDUSTRY

5.1: Personal Interview of Industry Experts

Personal interviews were conducted with a few steel manufacturers and organizations related to the steel industry to gather their opinions on the competitiveness of Malaysian steel industry and their visions of its future.

Only a few companies consented to be interviewed.

5.2: List of Interviewees

Line of business	the position of interviews
one trader for long products	managing director
One coil center for flat products	managing director
Two pipe manufacturers	manager for one company, general manager for the other company
one C/R manufacturer	general manager
one galvanized coil manufacturer	managing director
one H/R producer	executive officer
Malaysian Iron and Steel Industry Federation	chief officer
Malaysian Industrial Development Authority	officer in charge of steel industry

5.3: Design of the Questionnaires

Open - ended response questions were used in the interviews. Some problems or topics were posed to the respondents.

5.4: Types of Questions

Interviewees who are involved mostly in the manufacturing of flat items were interviewed. The reason is because the production capacity of flat items is not well developed even though the usage of flat items increases as the country become more industrialized. Meanwhile, the production capacity of long products has been rather well developed.

5.4.1 Question on the Vision for the Malaysian Steel Industry

The first question is, "What do you think should be the vision for the Malaysian steel industry?"

The objectives of this question are as follows:

- (1) To explore expert opinions on the general vision of the Malaysian steel industry.

(2) to investigate the appropriateness of the upstream policy.

5.4.2 Question on the Competitiveness of the Malaysian Steel Industry

The second question is, "How can the Malaysian steel industry ensure its competitiveness in the global market?" The reasons for this question are as follows:

- (1) In order to find out the factors which impacts the competitiveness of the Malaysian steel industry.
- (2) In order to find out the success in keeping the competitiveness of Malaysian steel industry even though its capacity is too small to compete with foreign suppliers. As far as the capacity is concerned, Malaysia take a long time to catch up with major players like Japan, Korea, and Taiwan because of huge investment needed. So it is important for Malaysian mills to find out how to ensure their competitiveness.

5.5: Research Findings

5.5.1: Response on the Vision for the Malaysian steel industry

All interviewees did not answer this question about their vision of Malaysian steel industry because they had not enough knowledge on the vision and had not studied it deeply.

However, interviewees expressed their opinions only when they were given a detailed question : "Mega steel, Nsantra, and Tahan Steel have obtained the approval to start H/R project. Among them, Mega Steel is scheduled to produce H/R in Dec., 1998. In your opinion, is this policy to move upstream appropriate? Why? For the time being, maybe for a few years, Mega Steel will not be able to compete with foreign suppliers without the imposition of protective import duty. What do you think?"

Seven interviewees (one trader, one coil center, one pipe manufacturer, one galvanized mill, one H/R producer, MISIF, and MIDA) showed positive responses to move upstream. These seven respondents are involved mainly in the domestic market. They favored the upstream policy mainly due to four reasons:

1) They think that it is time for Malaysia to start its own integrated steel mill for flat products, emphasizing it is for safeguarding national interest. They emphasized that Malaysia needed its own mill to provide a stable supply to Malaysian users.

2) As the new mill, Mega Steel, operates, most users of H/R coil will be free from the burden of carrying large amount of stock if they decide to purchase the materials from the local mill. Previously, all buyers of H/R coil have to import from overseas. They have to import the materials in large volume which is usually used for a three-month stock in order to prevent their factories from facing shortages of raw materials. Buyers will be able to order smaller quantities from the local mill.

3) Mega Steel provides import substitution. Malaysia imported 1,518,980 tons of H/R coils in 1997 which was approximately US\$530 million. Initially, the mill will substitute the commercial grade of H/R coil which is usually used for pipe making. The production of steel pipes and tubes in Malaysia reached 752,729 tons in 1997. This means that the steel pipe manufacturers used about 752,729 tons of H/R coil (The statistic does not split the production quantity for H/R and C/R pipes respectively but shows their combined. Therefore, the actual quantity of H/R coil for pipes will be a little lower than 752,729 tons). If an average unit price of H/R coil is applied to the quantity of 752,729 tons, the amount of import

substitution will amount to U\$260 million in an initial stage. As Mega's quality improves, the substitution will be enlarged.

4) The start-up of H/R coil factory , Mega Steel, will promote downstream manufacturing because small and medium factories will be more active in business. As small order can be delivered easily to users by truck , more companies are expected to involve themselves in the down stream steel business related to H/R coil.

The seven respondents pointed out only the positive factors as explained above. They did not consider negative factors. If the new mill, Mega Steel, is not protected by the imposition of the custom duty on foreign suppliers, the mill will lose its competitiveness. If the protection is given, Mega Steel may charge higher price than international prices. Mega Steel, will try to maximize its profit with the protection of the Government. Then the increase in price will go down to the downstream manufacturers as extra cost of production for them."

Meanwhile, the remaining two respondents, one pipe manufacturer and one C/R coil manufacturer, did not respond positively for upstream policy because of two reasons.

1) They had no problem in getting the raw materials at cheaper prices until now.

They have kept good and long term relation with overseas suppliers. They were worried about losing the freedom to choose the suppliers. They might have to depend on only one local mill when the new mill launches production. It means that there is no more bargaining power for them.

2) They were worried about an increase in price after H/R mill starts to operate.

They expect that the price of H/R coil to be increased. It will result in the higher cost of production. One of two mills is an export-oriented company which is sensitive to the price of materials. They were worried about losing their competitiveness in international markets.

5.5.2 Response on the Factors of Competitiveness

Six interviewees answered this question; they are manufacturers and MIDA officer. The manufacturers are two pipe manufacturers, one C/R manufacturer, one galvanized sheet manufacturers, one H/R producers.

However, the other interviewees (one trader, one coil center, and MISIF) could not reply because they had no idea on this matter.

1) All the respondents pointed out that the critical factor responsible for their success was the price of raw materials like H/R, C/R, and scrap. Any changes in the prices of raw material would influence directly their production costs.

For example, the managing director of the galvanized sheet manufacturer commented. " We have invested in high technology and so we are confident in competing with local mills. However, it is quite difficult for us to compete in the international market because our purchase price of raw material is higher than our competitors."

Why are the purchasing prices of this company higher than their competitors? This galvanized sheet manufacturer imports most raw materials, that is C/R coil, from overseas. However, its competitors like the mills in Japan, Korea, and Taiwan purchase raw materials from their local markets or from their own factories as they are usually vertical integrated mills.

2) The other important factor the respondents emphasized is the adoption of new technology.

They mentioned the importance of technology. The manufacturers have imported the raw materials for their products from overseas especially from

Japan, Korea, and Taiwan. They know how strong the major suppliers are in terms of production volume and cost.

How can the Malaysian steel industry differentiate its competitiveness from other countries? Japan, Korea, and Taiwan are giants and first runner mills. They possess competitive advantages in term of economy of scale, either in production volume or market size. Should Malaysian steel mills invest huge amount to be giant mills such as 6 million or 10 million ton blast furnace as a way to compete with world-class mills?

It is not necessary for the Malaysian steel industry to follow same path as Japan, Korea, and Taiwan. The reason is because giant mills need huge investment. Investment does not ensure success. It will take a long time for a Malaysian mill to reach such a big capacity as 6 or 10 million ton.

Furthermore, as long as Malaysia tries to fight for capacity expansion, Malaysia will always follow behind major competitors because its competitors are already in front.

In future, the market will be changed to be more customer-oriented. So, it will be more important for a mill to meet customers' needs than to focus on mass production. Future market will require small factories which can produce a variety of products efficiently.

Accordingly, the Malaysian steel industry has to look for another way, different from the way major players as Japan and Korea had pursued. The way is to adjust the Malaysian steel factories to newer technology.

5.6: Summary on the Responses

- 1) Malaysian steel consumption has been increasing continuously. Local supply has not been sufficient to meet the demand, especially, the demand of flat products. Malaysia make up the shortage by importing from abroad. As Malaysian mills have depended on imports for their critical raw materials, they feel unsure about the reliability of raw materials supply. although they keep good relations with foreign suppliers.
- 2) Therefore, most of respondents prefer a national mill for flat items. It can be said that the vision for the Malaysian steel mill should be the upstream policy for flat products.
- 3) However, the companies. which are involved in export, worried about the increase of prices. It will increase their production cost.
- 4) Malaysia is far behind world class suppliers in terms of production capacity. It is not proper way for Malaysia to fight only for capacity expansion. Future market will change to be customer-oriented. Therefore, the Malaysian steel industry should try to find out another way, that is to adopt newer technology boldly. Newer technology will give " high productivity with low investment ".