# Glory Days of Chinese Steel Leave Behind Abandoned Mills

A billboard on the motorway into China's steel capital evokes the golden era of the country's blistering economic rise. "Gathering great wealth!" it boasts. "Business wins the future!"

But at the Fufeng steel plant on the outskirts of Tangshan, a once booming industrial hub about 200km south-east of Beijing, there is scant sign of those glory days.

Since Fufeng's owners declared bankruptcy early last year laying off about 2,000 workers and sparking protests in the process weeds and rust have begun to consume the steel mill's industrial ruins.

"There's nobody here just us," said one of three security guards braving snow and sub-zero temperatures to watch over the dilapidated facility, which, like many others in the region, has been forced out of business by massive over-capacity and plummeting demand.

Tangshan, a city of about seven million inhabitants in Hebei, China's steel-making heartlands, was levelled by a devastating 1976 earthquake that is said to have claimed 250,000 lives.

But it rose from the ashes to become a heavy-industry powerhouse, propping up a massive Chinese construction boom and churning out more steel in 2014 than the United States.

Those days now appear over, as concerns mount over the health of China's economy and its possible impact on the rest of the world, and Beijing fights to reinvent the world's second-largest economy and clear its smog-choked skies, in turn piling the pressure on heavily polluting steel plants.

Since China began ramping up efforts to slash steel over-capacity and transition to a more sustainable, consumption-led economic model, some corners of Tangshan's once bustling industrial sprawl have taken on the appearance of ghost towns.

Near the Fufeng plant, homes vacated by laid-off workers have been sealed up with metal sheets, snowflakes fall on eerily deserted streets, and those steelworkers who still have jobs complain their salaries have been cut as steel prices fall, government support is withdrawn, and their employers struggle to stay afloat.

A few hundred metres beyond the shuttered Fufeng complex, the premises of another company, China Metallurgical Hengtong Cold Rolled Technology, also lies abandoned, electricity cables drooping on to a corrugated iron fence blocking its unused entrance.

# China Plans to Shut Down Junk Companies

Indian steel manufacturers, which were under pressure due to overcapacity in the Chinese market, may find some relief. The government of China, which is the largest steel producer and consumer in the world, has laid out a reform plan to improve the high supply issue by shutting down the junk companies. In addition, major Chinese steel players have increased prices of finished steel.

Slowdown in the Indian steel industry begun after demand in China peaked out in 2011 resulting in excess supply. China accounts for around 50 percent of the total global steel consumption and production as well. Several companies in China now are highly indebted and selling steel at huge losses just to recover the fixed costs.

According to media reports, the Chinese government has announced a special fund to support capacity cuts by providing shut down incentives, employee compensation and covering other related expenses. Analysts with Morgan Stanley expect a capacity cut of 6 percent to 9 percent in 2016. In 2015, around 4 percent of the Chinese steel capacity was shut down. This may help in restoring the balance between demand and supply. Industry leader Baosteel raised prices in January for the first time in two years.

What this means for Indian steel players? Excess supply in China was finding its way to Indian market, creating pricing pressure on local steel players. The reduction in Chinese capacity would reduce it to some extent thereby benefiting Indian steel producers such as JSW Steel, Tata Steel and SAIL. Also, the much awaited minimum import price for steel landed in India, if implemented, would further help. However, the process may be gradual. Investors may do well waiting for the economic turnaround to be actually reflected in the company's financial numbers. In the first half, each of the three steel companies reported loss. In the last three months, the benchmark indices Nifty and Sensex are down 12 percent, whereas JSW Steel is up 16 percent, Tata Steel is down by 2 percent and SAIL is down by 24 percent.