A Study of the Linkages Between the Global Recession of 2008, Protectionism, and Indian Steel Export

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ABSTRACT

Purpose: This paper examines the linkages between the global recession of 2008, protectionist policies, and the Indian steel trade. The study analyzes the dimensions of the global recession and protectionism, highlighting factors such as credit booms, housing bubbles, risk-taking behavior of financial institutions, lax regulatory oversight, loose monetary policy, global imbalances, and the failure of credit rating agencies. It also explores different types of protectionism, including intentional, incidental, and instrumental protectionism, and discusses the rise in protectionist measures since the 2008 recession. The paper further investigates the impact of the global recession and protectionism on the steel sector, with a specific focus on the Indian steel industry. It examines the trends and performance of the global steel production, import, and export, showing a dip in 2008 but consistent growth thereafter.

Design/ Approach/ Methodology: The study follows a descriptive approach based on literature and data collected from secondary sources.

Findings: The paper highlights the complex factors behind the 2008 recession and the role of protectionist policies. It emphasizes the need to address issues related to raw material availability, price volatility, cheap imports, environmental concerns, and lack of demand in the steel industry.

Originality/Value: The study provides insights into the impact of the global recession and protectionism on the Indian steel trade and offers valuable information for policymakers and industry stakeholders.

Paper Type: View Point.

KEYWORDS: Global Recession | Protectionism | Linkage | Steel Export | Crisis

Introduction:

The international integration of trade, capital and markets through globalisation has not just caused a rise in trade and profits but has also exposed the countries to be at risk of global economic recessions. Recessions are a time of economic loss and uncertainty. The financial crisis of 2008 period had an adverse impact on the economic fortunes of many countries resulting in what is known as 'Great Recession'. It was the worst economic disaster since the Great Depression of 1929. It occurred despite Federal Reserve and Treasury Department efforts to prevent it. Towards the end of 2008, the global economy shrank by 0.3 percent and housing prices fell 31.8 percent (Amadeo, 2019). However, early observers noted the first clue in October 2006 itself, when the orders for durable goods were lower than they had been in 2005. Though the crisis started as an isolated turbulence in the sub-prime segment of the US housing market, it soon grew into a full-blown recession by the beginning of 2008.Following US, the economies in the European Union and Japan went collectively into recession by mid-2008. Overall, 2009 was the first year since World War II that the world was in recession, a calamitous turn around on the boom years of 2002-2007.

Following global recessions, world economies primarily developed countries adopted foreign trade policies and anti-dumping measures, in view of considerations regarding unfair competition, led to an increase of the protectionist stance as many countries resorted to dumping of various products including steel produced in their countries in the world markets.

In such situations, usually governments pursue policies to ameliorate the effects of the economic downturn by adopting trade protectionism, or by raising the trade barriers that provide a defence against competition from foreign goods and that secure advantageous market access for domestic firms. During recessions, there is also a political pressure to undertake protectionism in order to save domestic firms, to provide stability of access to the internal market in the short-term. Besides, countries are fearful of economic loss to domestic trade and markets and subsequently choosing to take a protectionist stand that affects the global trade in turn. Likewise, protectionism also shields them against fluctuating prices and international competition. However, various negative effects of protectionism affect businesses across borders. These impacts not just vary for different industries but also upon the scale of the industry and business dependence.

Strong policies as one taken by the US President Donald Trump, i.e. "America First" has significantly affected global trade. There have been instances of significant economic and political changes after the election of President Trump and imposition of steep tariffs on the amount of goods imported from EU, Canada, Mexico and China have slowed down the global trade (BBC News, 10 May 2019). This instance has further led to more such policies worldwide.

During recent years, there has been a loss of growth momentum in world trade due to increasing protectionist tendencies in both the developing and the developed countries. As a result, the liberalisation process of the global trade under the aegis of WTO has suffered a great setback. A stagnation of global integration processes was observed particularly after the Post 2008 Financial crisis with protectionism turning into a dominant trend all over the world, particularly after China emerged as a leading player worldwide. Many countries including china, japan etc. resorted to dumping of various products including Steel produced in their countries.

Following the 2008 crisis, international organisations such as the World Bank, IMF, and others sought to support the global recovery by reducing the protectionist practices in foreign trade. However, none of the efforts aiming to prevent imposition of new trade restrictions and to reduce the existing ones, managed to generate the desired outcomes. Based on the studies conducted by WTO and UNCTAD observed that there has been growth in sharp decline in world trade Post 2008 Financial crisis period in comparison with the average annual growth rate in the Pre-2008 Financial Crisis

However, it was noted that in contrast to the global trend of weak economic growth until 2016, the Indian steel industry entered into a new development stage, post de-regulation, riding high on the resurgent economy and rising demand for steel. Rapid rise in production resulted in India becoming the third largest producer of crude steel in 2015. India also became the largest producer of sponge iron or DRI in the world during the period 2003-2015 and emerged as the second largest global producer of DRI in 2016 (after Iran).

The pre-crisis period of economic boom of 2002-2007 had one of the historically high rates of growth, especially for developing countries. The global financial crisis brought about an underlying truth that, contrary to the widely held perception, the world economy was by no means stable and equitable. There were complex factors that were behind the emergence of the crisis such as loose monetary policy, global imbalances, interdependence of global financial institutions ,misperception of risk and lax financial regulations, all of which came to fore only after the crisis, and these brought out the vulnerabilities of economies and the role of government policies in mitigating the downturn.

The main objective of this paper is to understand the linkages between the global recession of 2008, protectionist policies, and Indian steel trade. The study follows a descriptive approach based on literature and data collected from secondary sources. The paper consists of three sections – section-1 deals with key dimensions of recession of 2008 and protectionism, section -2 discusses trends and performance of Indian steel trade in the context of the global recession of 2008 and protectionism; Section 3; provides summary and conclusions.

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Dimensions of Global Recession of 2008 and Protectionism:

- **The Dimensions of Global Recession:** The dimensions of global recession have been extensively studied in various studies. Globalisation and interconnectedness of the global economy emerged as one of the prime drivers for the spread of worldwide recession of 2008. According to Acharya and Richardson (2009), the main causes of the economic crisis of 2008-2009 were the combination of credit boom and housing bubble started in the U.S.A in part caused by loose monetary policy and lax regulatory mechanisms. The collapse of investment banks and decline in the lending capacity of the commercial banks further contributed to the spread and severity of the recession. Research has also focused on why banks created and purchased risky mortgage-backed securities (MBSs) and collateralized debt obligations (CDOs) in the first place. It has been reported that financial institutions pursued high-risk mortgage loans in pursuit of profits from high-yielding securities such as an MBS (Mortgage Backed Security) or CDO (Collateralized Debt Obligation) and to do so, held onto high-risk investments (Coghlan, McCorkell and Hinkley, 2018).

Thus, the main dimensions of the 2008-09 recession were risk-taking behaviour of financial institutions, lax regulatory oversight, and loose monetary policy besides other dimensions include global imbalances caused by the emergence of China, creation of excess capacities, and the failure of credit rating agencies to properly assess the risks involved in such risky transactions ignoring the verification of KYC details of consumers.

- **Dimensions of Protectionism:** Protectionism refers to economic policies that impose restrictions on trade between countries to promote fair competition. In its conventional meaning, protectionism refers to governmental measures designed to safeguard domestic industries from the full market effects of failing to achieve and maintain cost competitiveness. Trade protectionism is a type of policy that limits unfair competition from foreign industries. It is a defensive measure on the part of a country, which may work in the short-run but is destructive in the long term, as it makes the country and its companies less competitive in international commerce. It stems from the fear from losing profits and aims to boost or strengthen domestic manufacturing. There are arguments for both pro and against protectionism. partners. It is established that protectionism is harmful in the long-term as the costs far outweigh benefits if not controlled. Based on the above, the main dimensions of protectionism are level of import penetration, concern for unemployment, concern for balance of payments problem, protection of domestic industry and political factors etc.

Types of Protectionism

Levy (2009), identified three distinct categories of protectionism. These include:

- **Intentional Protectionism:** It is the most widely used and transparent form of protectionism applied in the form of tariffs or quotas etc.

- **Incidental Protectionism:** Incidental protectionism works indirectly but has the same impact as intentional protectionism. It includes a well-crafted policy that does not directly discriminate between domestic and foreign products but has the same effect as intentional protectionism.

- **Instrumental Protectionism:** Instrumental protectionism is applied to achieve or support a foreign policy goal. trade sanctions is one of them which is non-violent and for which support can be gathered.

Anti-dumping duty is the major form of protectionism being followed in the aftermath of the WTO.

The global downturn that has been seen since financial crisis of 2008 has resulted in countries resorting to protectionism and most advanced countries in the times of financial uncertainty

have been seen to have applied import tariff as high as their upward limits on their bound tariff legal commitments under WTO and it seems incapable of preventing the protectionist

measures taken by the countries. Different types of protectionist measures can be broadly classified into tariff and non-tariff measures.

There has indeed been a significant rise in protectionist measures in the new millennium across the world. The gap is significant and widening when the growth of protectionist measures is compared with that of the liberalising measures post 2008 recession time (Kommer, 2016, p.16). The study notes that more than 80 percent of the trade restrictions by

G20 was imposed after the 2008 recession and these measures continue to grow over the period of time (Fig. 1).
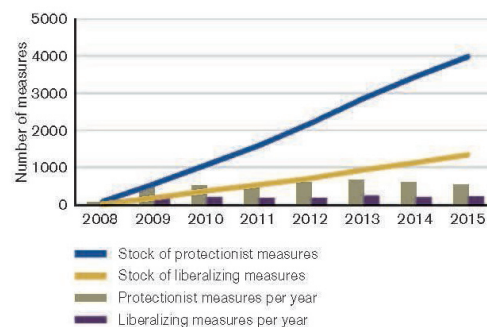

Fig. 1: Growth in Protectionist and Liberalizing measures (2008-2015)

Source: GTA as cited in Kommerskollegium, 2016, p.16.

Baldwin and Evenett, (2009) assessed the collapse in global trade and emergent protectionism that came rather as a consequence than a cause but they also warn the subsequent impact.

Impact on Indian Steel Sector

The Indian steel industry has entered into a new development stage, post de-regulation, riding high on the resurgent economy and rising demand for steel. Rapid rise
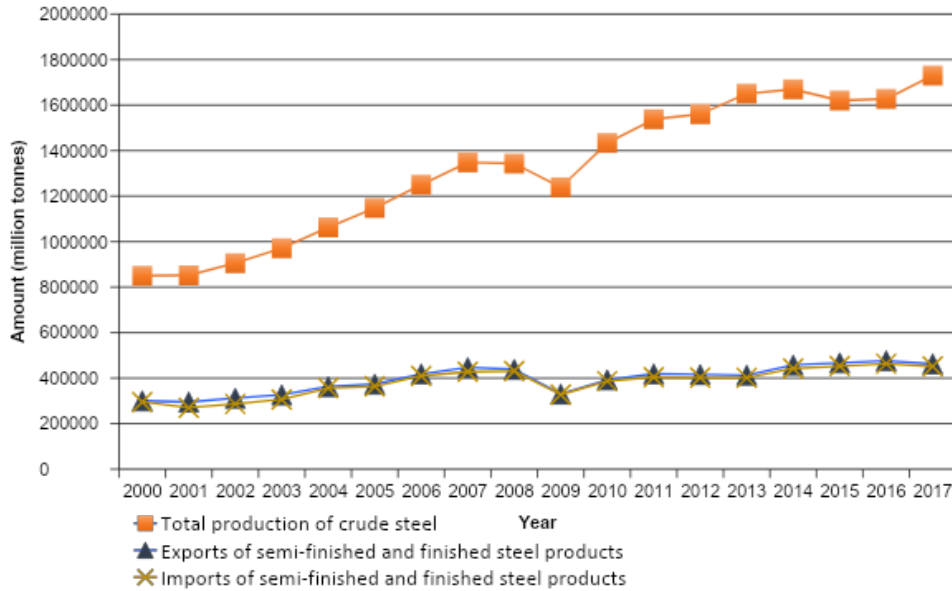
Fig. 2: Global Recession of 2008, Protectionism and Post- Recession Performance of the Steel Sector

Source: www.worldsteel.org

At the global level, the production as well as import and export of steel show a clear dip in 2008, however, since then there has been a consistent growth (see figure 2).

In 2016, the world crude steel production reached 1630 million tons (mt) and showed a growth of 0.6% over 2015. China remained the world's largest crude steel producer in 2016 (808 mt) followed by Japan (105 mt), India (96 mt) and the USA (79 mt). The World Steel Association has projected Indian steel demand to grow by 6.1% in 2017 and by 7.1% in 2018 while globally, steel demand has been projected to grow by 1.3% in 2017 and by 0.9% in 2018.

in production has resulted in India becoming the 3rd largest producer of crude steel in 2015 as well as in 2016. The country was the largest producer of sponge iron or DRI in the world during the period 2003-2015 and emerged as the 2nd largest global producer of DRI in 2016 (after Iran). India is also the 3rd largest finished steel consumer in the world and maintained this status in 2017. The overall production of crude steel in India was 101.455 million tonnes(2017) and the overall scenario of this production along with exports and imports of the semi-finished steel products from India, show a very slight movement during and post-recession period (see fig. 3).

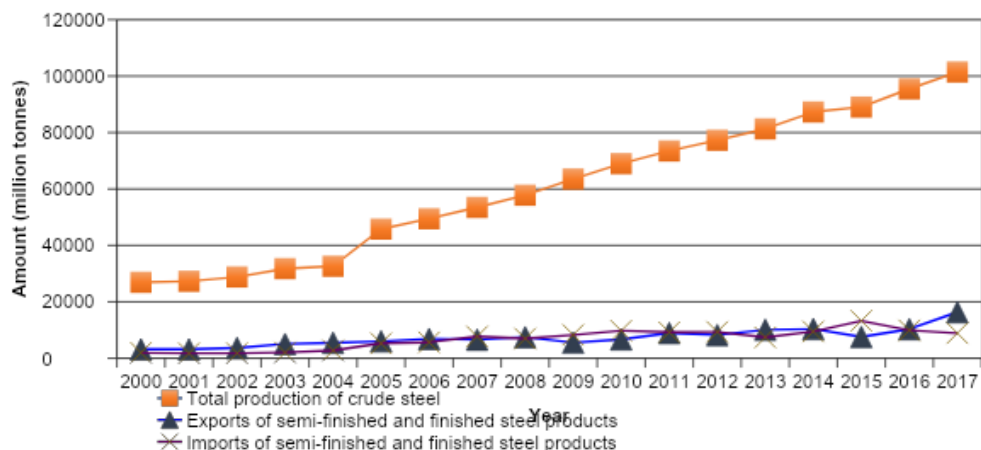An important cause of this can be attributed to rising demand as well as government policy.

Fig. 3: Total Production of Crude Steel, Export and Import of Semi-Finished Steel Products in India (2000-2017)

Source: www.worldsteel.org

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Since the Chinese economy is passing through a rebalancing phase, the prospects of growth in consumption and production in India are very bright in the context of the new initiatives the government has taken. However, the efficiency of production of per unit steel in India is lower compared to a number of other developed countries. Improvements can obviously be possible by better housekeeping and appropriate mechanisation. This will be a challenge that will have to be faced particularly because of the market forces.

Pal (2013) examined the performance of the industry in terms of production, consumption and foreign trade and to exhibit the trend of the industry for a period of twenty years since 1991-92 to 2010-11. The study reconfirms that the performance of the Indian steel industry registered an impressive growth as it got all the essential ingredients required for dynamic growth like strong domestic demand, infrastructural development, demand from automotive sector, etc. The Indian steel industry succeeded in recording a positive growth rate even during the period of recession.

Numerous studies on the Indian steel sector by Government of India (2003), Bagchi (2005), Banerjee (2005), Muthuraman (2006), Burang and Yamini (2010) and Pal (2013) brings forth that until 2008 the Indian steel industry registered spectacular growth in crude as well as finished steel production due to strong demand of steel from infrastructure, construction, automobile and power sector. However ,the worldwide recession in 2008 hit the industry to some extent and Indian steel producers were forced to cut down the production to keep the steel price unaffected. Problem of capacity creation, high price of raw materials and demand-supply mismatch in the steel market affected the profit margin severely.

According to the Export-Import Bank of India (2015) the trend in growth rate in domestic steel consumption in the five year periods, preceding (2003-04 and 2007-08) and post (2009-10 to 2013-14) recession, indicates clearly the dampening effect of the twin effects of recession of 2008 and slowdown in domestic economy in the post-recession period. The paper concludes that infrastructure, auto and consumer durables are the main drivers of growth of the steel industry. The issues confronting the industry need to be addressed in areas of non-availability of raw materials, high price volatility, growing raw materials prices, cheap imports, environmental issues and lack of demand. (Export-Import Bank of India, 2015).

Conclusion

Though the housing bubble in the USA and collapse of a few major banks started the recession, which further spread to Europe and Japan etc and in no time engulfed most countries of the world, a review of findings suggests that while economic recessions are not new; their causes may vary from time to time. A majority of studies agree to that the loose monetary policies, globalisation and interconnectedness of economies, global imbalances and misperception of risks were the main factors behind the economic recession of 2008-2009.There is a clear evidence of increase in the protectionism measures as the way to deal with the economic recession, however, most of it don't agree that it should be promoted. Although there has been an improvement in the overall global market, the steel Industry in India is facing a tough time due to decline in the demand while the production continues.

As countries and businesses become increasingly interdependent through trade, investment and financial systems across the world, the risks and opportunities in the steel business are getting larger in scale and impact, with their sources becoming more diverse and global. The global recession of 2008 and subsequent slowdown in global economic growth was a wakeup call for the Indian steel industry in this context. With lower levels of productivity compared to global counterparts, and over capacity, the steel industry faced strong competition from cheap foreign imports post the global recession. Higher tariffs on imports helped to reduce imports for a brief period, however, imports have risen thereafter affecting the profitability of several major steel producers. The main conclusion that emerges from this study is that to survive and thrive under uncertain market conditions Indian steel makers need to transform themselves, and the government needs to play a key role in this context. The government needs to implement the National Steel Policy in a comprehensive manner and address issues related to adequate funding, securing raw materials, developing logistics etc.if to achieve the target of 300 million tons of steel by 2030 and protectionism cannot be the solution to long-term challenges faced by the industry.

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Annexure 15.2.5

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Reviewers Memorandum

Reviewer's Comment 1: The article effectively covers the linkages between the global recession of 2008, protectionist policies, and Indian steel trade. The article emphasizes that economic recessions are not new, and their causes can vary over time. It reiterates that loose monetary policies, globalization, global imbalances, and misperception of risks were key factors behind the 2008 recession. The article highlights the increase in protectionist measures following the recession and acknowledges the negative impact of protectionism on global trade. It presents a well-structured analysis, supported by relevant data and examples.

Reviewer's Comment 2: the article discusses the stagnation of global integration processes and the setback suffered by the liberalization process of global trade after the 2008 financial crisis. It mentions international organizations' efforts to reduce protectionist practices but notes that these efforts failed to achieve the desired outcomes. By citing studies conducted by the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD), the article substantiates the claim of a decline in world trade growth after the crisis.

Reviewer's Comment 3: The article provides a comprehensive analysis of the global recession of 2008, its impact on the adoption of protectionist policies, and the subsequent effects on Indian steel trade. The author effectively presents the key dimensions of the recession and highlights the adverse consequences it had on various economies worldwide.

Editorial Excerpt

The article has 0% of plagiarism which is the accepted percentage as per the norms and standards of the journal for publication. As per the editorial board's observations and blind reviewers' remarks the paper had some minor revisions which were communicated on a timely basis to the authors (Ved, Afaq and Raj), and accordingly, all the corrections had been incorporated as and when directed and required to do so. The comments related to this manuscript are noticeably related to the theme "**A study of the linkages between the global recession of 2008, protectionism, and Indian steel Export**" both subject-wise and research-wise. The article provides a comprehensive review of the global recession of 2008, protectionism, and their implications for the Indian steel trade. It presents relevant information and data to support its arguments and offers insights into the challenges and opportunities faced by the steel industry in the aftermath of the recession. After comprehensive reviews and the editorial board's remarks, the manuscript has been categorized and decided to publish under the "**View Point**" category.

Acknowledgement

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