Based on recent data, Prof. Kawabata, an expert on the steel industry in general and Vietnam's steel industry in particular, evaluated the Chinese situation as it impacted Vietnam's steel market. Since late 2003, due to Chinese economic boom, the global steel market has experienced high prices and shortages, leading to the disruption of steel and construction industries in Vietnam.

In the last few years, China has been responsible for 70-80% of the increase in global steel consumption. Domestic steel prices in China rose dramatically, causing a sharp turn-around in global steel markets after several years of weakness. In recent months, the global steel prices reached a very high level.

In close examination, China's shortage concentrated in flat steel products, while the demand and supply of long products in China were roughly in balance. Many new factories, including hot strip mills (HSMs), cold rolling mills (CRMs), and galvanizing lines are being constructed, with participation of foreigners in high-end products. Whether capacity expansion in flat steel can catch up with demand increase is the key in predicting China's steel market. As to pig iron, China is constructing many small-size blast furnaces. But the production of iron ore and coke capacity are difficult because of the obsolete technology and environmental problem.

In total, the bottlenecks include obsolete technology and improper operation in upstream processes, lack of high range downstream processes, and difficulty in SOE reform.

In the opinion of Prof. Kawabata, China's steel boom is overheated. According to the forecast by China Iron and Steel Association (CISA), there is a risk of overcapacity in pig iron, crude steel and certain kinds of steel in China, although shortage of cold rolled products is expected to continue.

Vietnam has reacted to the recent steel crisis by (1) reducing all steel tariffs to zero temporarily; (2) decision to compensate construction industry for price hike; and (3) deregulation of scrap importation. While the market of long products is calming down, the shortage of flat products still continues. Prof. Kawabata suggested that the shortage in Vietnam was a short-term problem in 2004 and the long-term steel strategy should not be changed for this. He noted the following key points. First, the Vietnam Steel Corporation (VSC) should operate the new CRM and EAF plants in Phu My.
Corporation (VSC) should operate the new CRM and EAF plants in Phu My successfully, since its future critically depends on them. Second, local private enterprises have emerged strongly to undermine VSC’s dominance. Third, cooperation with foreign partners is essential for producing quality items.

In the discussion that followed, recent global price trends and product-specific market conditions were discussed further. Situations in China, Japan, Vietnam, US, etc. were evaluated. VSC’s second expansion plan of Thai Nguyen Iron and Steel Corporation (TISCO) was critically reviewed. The tendency of steel markets to experience booms and busts periodically was noted, and the desirability of market selection of Vietnam's long product mills through such a process was discussed. Now that Vietnam has some dynamic private players, overcapacity should be solved by a tough but inevitable shakeout of inefficient producers. The possibility of using cold rolled sheets by Phu My CRM, expected to start operation in 2005, was discussed among participants.

The workshop was attended by representatives of steel industries, officials of MOI and MPI, and researchers of VDF and NEU.