India's elite touts Tata's Corus Steel takeover as proof India a "global player"

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Tata Steel's recent $13.2 billion acquisition of the Anglo-Dutch conglomerate Corus Steel has prompted India's corporate and political elite to indulge in much euphoric chest-thumping about "rising India."

The takeover of a company whose corporate ancestry can be traced through British Steel to many of the companies that once symbolized Britain's industrial pre-eminence and by a subsidiary of one of India's first major, family-owned modern capitalist enterprises is being held up as proof that India is now a "world player." Corporate India is giving rise to transnational corporations with global reach.

The boast of Tata Chairman Ratan Tata that the takeover "is the first step in showing that Indian industry can step outside its shores into an international market place as a global player," was echoed by India's Commerce and Industry minister. Said Kamal Nath, "It is a two-way street now. Not only India is seeking foreign investment, but Indian companies are emerging investors in other countries."

But Tata's acquisition of Corus is largely being financed through debt and many investment analysts argue that Tata paid substantially more than the company is worth so as to outbid Brazil's Companhia Siderurgica Nacional (CSN). The 608 British pence per share that Tata paid to acquire Corus is 33.6 percent higher than its first offer, made in October 2005, of 455 pence per share.

Tata has reportedly financed only $4 billion of the Corus purchase from internal company resources, meaning that more than two-thirds of the deal has had to be financed through loans from major banks, including Lloyds Bank, Deutsche Bank and ABN Amro.

Consequently, the Tata business empire, which is comprised of 96 companies with a total revenue of $21.9 billion in fiscal year 2005-6, will be transformed from a largely family-owned enterprise into one that will be under the constant and direct scrutiny of the foreign-controlled banks that financed the Corus takeover.

The formidable challenge confronted by Tata in ultimately making this takeover profitable was reflected in the response of the stock market. The day after the acquisition was announced, Tata Steel's shares fell by 10.7 percent on the Bombay stock market.

Ratan Tata has rejected suggestions that his company paid too much for Corus, but has refused to rule out job cuts. When asked by the *Financial Times* if he would pledge not to layoff workers and close plants, Tata said, "I wouldn't even attempt to do so because it would be wrong of me to give those assurances ... But I would say that we are not a company to look first at jobs."

The threat that hangs over Corus workers' jobs was indicated by Tata Steel's managing director, B. Muthuraman. He said, "The best safeguard for jobs is to make the company competitive. Today Corus is less than competitive."

Meanwhile a financial analyst quoted in the *Financial Times* estimates "fair value" for Corus at 450 pence per share and implied that to make a purchase at a price higher than that financially viable "synergies"—read plant closings, layoffs and wage cuts—will be necessary.

The heavily-leveraged takeover of Corus, which currently employs 47,000 workers in plants in Britain, the Netherlands, Germany, France, Norway and Belgium, will catapult Tata Steel from its current position as the world's 56th largest steel-maker to the world's fifth largest.

Before the merger, Tata Steel had an annual production capacity of 5.3 million tonnes. Now its productive capacity is five-times larger, 25 million tonnes.

Despite its much smaller capacity, Tata Steel was able to almost equal Corus' operating profit last year, earning $840 million on sales of 5.3 million tonnes, while Corus generated $860 million in profits on sales of 18.6 million tonnes.

Tata's much higher rate of return is by no means the result of higher productivity from the use of more advanced technology. Rather it is the result of much lower input costs due to the low wages of Tata's workforce and its access to cheap Indian iron ore.

Tata Steel has two main aims in its leveraged buyout of Corus. One is to gain access

to European and by extension North American steel markets, markets that it could not otherwise hope to penetrate because of it low-end steel products. The other is to acquire the advanced technology that Corus uses in producing highly-processed steel used by automobile and other industries.

Tata also hopes to cut Corus' costs by exporting relatively inexpensive iron-ore and low-grade steel from India for use by Corus in Europe. But for Tata Steel to adequately feed its much large European subsidiary, it is estimated that it will have to triple its current production capacity of 5 million tonnes.

The Tata-Corus takeover caused India's corporate media to go giddy. Under the headline "Five Pence Gives India A Pound of UK", *The Economic Times* exclaimed, "Corus, the erstwhile

British Steel and one of the icons of Her Majesty's Empire will now fly the [Indian] Tricolour." *The Financial Express* reported the merger using the headline "World's No 5, India's No 1," while *The Hindustan Times* used the headline "Signed, steeled." The nationalist chest-thumping was by no means restricted to the Indian media. The Associated Chambers of Commerce and Industry of India (ASSOCHAM) said that Tata had brought "laurels to Indian industry" and urged reforms of the government's mergers and acquisitions policy to provide further fiscal incentives and tax benefits to encourage corporate mergers.

Confederation of Indian Industry (CII) President R Seshasayee said "Tata Steel's successful bid for Corus Group Plc. is a statement on Indian Industry's coming of age and takes our Mergers and Acquisition levels to a different paradigm. This is a testimony of the confidence and competence of Indian Industry." India's Congress-led United Progressive Alliance government joined in the celebration. "Indian industry today has a confidence to bid for businesses abroad," declared Finance Minister Chidambaram. "Our industry is capable of raising resources to acquire enterprises abroad and manage them efficiently." In reality this highly-leveraged acquisition is by no means guaranteed to succeed. Any number of factors beyond Tata Steel's control, such as the global demand for steel, could yet cause Tata and its corporate and government cheerleaders to rue the deal. Moreover to make the leap to "global player" Tata Steel has had to place itself under the firm-scrutiny of the money-sharks of world finance capital.

Tata's dependence on world money markets may well increase in the coming period as the cost of borrowing money in India becomes more costly. To combat rising inflation, the Reserve Bank of India has hiked short-term interest rates four times in the past year to an astronomical 7.75 percent. The tightening money market in India could also impact on the domestic growth rate, further undermining Tata Steel's financial position. Believing the Corus takeover to be a gamble, the credit-rating agency Standard & Poor's has issued a cautionary note stating that it involves financial risks for Tata Steel and that the company will, therefore, now be on "credit watch." According to S&P analyst Anshukant Taneja, "The size of the acquisition and the potential cash outflow in Tata Steel's offer for Corus could have an adverse impact on its financial risk profile." Recent years have seen a rapid increase of foreign investment in India and a sharp increase in the economic growth rate of the manufacturing and the service sectors, but not agriculture upon which some 60 percent of India's population depends for its livelihood.

During the same period overseas acquisitions by Indian companies have increased dramatically. In 2005 there were 100 overseas acquisition worth $2.37 billion and in 2006, 166 acquisitions worth $23.1 billion. This year just two acquisitions—Tata's $13 billion takeover of Corus and the $6 billion acquisition of Canadian aluminium giant Novelis Inc by the Birla Group's Hindalco Industries Ltd.—have been valued at almost $20 billion.

At the same time India has become ever more dependent upon capital inflows to maintain its growth rate and to finance its $7 billion dollar current account deficit.

While the Indian elite celebrates the emergence of a handful of major companies and applauds India's reputed rise the reality is that more than a third of all Indians, some 400 million people, live in abject poverty with an income of less than $1 a day. Under the relentless impact of the neo-liberal policies of various Indian governments over the past 16 years the living conditions of the masses, especially in rural India, have become more precarious.

Moreover, illiteracy and ill-health—the Indian state spends less than 3 percent of GNP on education and health care—and the dilapidated state of public infrastructure ensure that there are definite limits to the current economic expansion.

The social contradictions that beset India came into sharp focus recently as thousands of village poor in West Bengal fought to defend their only means of livelihood against the Stalinist Communist Party of India-Marxist (CPI-M) led Left Front government which seized their farmland so that a Tata Group subsidiary can build a car assembly plant.

Tata Group is one of the pioneering industrial giants of India. Founded in the 1870s, it had by independence grown into one of India's largest companies. Enjoying longstanding connections with the Congress Party, it thrived in the decades following independence, when thanks to the government's program of national regulation and import-substitution, it had protected markets.

Today the Tata Group is a massive conglomerate, with subsidiaries in such widely disparate sectors as automobiles and information technology.

Nonetheless, the claim that Tata's acquisition of Corus heralds the arrival of Indian capitalism is a gross exaggeration. India, home to more than 15 percent of the world's population, accounts for about 1 percent of all world trade and has a per capita Purchasing Parity Power GNP that is one-tenth that of the advanced capitalist countries.

As for Tata Steel, it is now firmly encumbered with a large long-term and potentially debilitating debt. There is no doubt that the workers of Tatas—in India and Europe—will be made to pay the price for the company's overstretched ambitions in the form of layoffs and "plant consolidations."