In the latest of his exclusive refractory analyses, P. Carlo Ratto talks to AG about how hammered economies are shaping a new profile of surviving companies and professionals offering innovative products and services to a troubled clientele.

As 2013 rolls on, the overall economic scenario evolves with different levels of control in different macro-economic and geo-political zones, with the unique blend of global connections and local independence (that is the very complexion of our globalization) in a continuously re-arranged and re-phased way to handle the economies.

The same way glass industry (at least the high-volume portion of it) is directly depending on building and automotive (for float glass) and on the general spending capacity (for containers), the refractory (van-glass industry is directly depending on the glass industry.

In this case, however, a great deal of delay is introduced since furnaces for glass are indeed some durable goods, with an increasingly longer life time, now being close to ten years for containers, and to fifteen years for a modern float line.

So, when a furnace is running, at half life, is shut down, the refractory industry will lose the potential of a business in a five years from now.

Overturning this effect, there is the immediate tendency to delay a major repair on a financial calling, at the early stages of a financial/ economical downturn. This is the short term effect, that hit the refractory industry years ago.

During several years of the largest crisis ever experienced in a globalized world, different systems and geographies have and are being hit in very different ways to find, adjust, survive.

Following a well trained way to subdivide our geo-economics, we must consider two western worlds (Europe, North America), just-emerged economies (South Africa, Turkey, some South East) and just-emerged planned economies (China).

With a first global simplification, we can consider three major global engines: North America (mostly USA and E.R.C.);

Europe stuck in neutral
Europe is the most complex engine: here the response to the initial financial crisis has been strictly financial, driven by the extreme rigor of Germany that mostly protected the European banking system, at the detriment of its industrial assets, particularly in the weakest south-European economies, introducing increasing levels of taxation, where gross result has been draining width out of citizen pockets, cutting the spending capacity and bringing severe recession cycles and unemployment of which it is hard to realistically see an end.

Under this grey hood, glass industry has been immersed, emerging, down-sizing, avoiding worklesses, in other words using the classic survival maneuvers of a capitalistic system under stress.

The refractory industry has been hit in two different ways, in a massively passive approach, waiting for external forces to bring them back on track.

Also the major global refractory producers, being headquartered in the old continent, are mostly eyeing extra-European markets, when looking for opportunities of growth.

Europe stuck in neutral
North America, mostly USA, was the first to hit (we should remember that the origin of the landslide was the sub-prime collapse) and the first to apply the mentioned anti-capitalist counter-measures.

Fortunately for the American citizen, though, USA is a single nation and the financial measures could be applied with a speed and determination incomparable with the European labouredness and detentions coming from internal competition.

In addition, the recourse to the citizens’ resources to fix system’s financial problems was very minor, partially because there is less to drain out of American pockets, partially because the rigor toward financial parameters has been much less obsessive than in Europe.

America has been always of the economic crisis, but even more often the place where dirty laundry has been cleaned, wounds healed, engines fixed. USA is, once more, hardly trying to honor its ancient role of world’s locomotive.

In this scenario, I believe China will have no options but expanding again the internal market (which has still immense potential of growth), and therefore boosting again the labor cost, driving China progressively toward the role of a “regular” economic super-power and far from the position of the low-cost manufacturing hub for the west.

China: under the costs?
People’s Republic of China, for the last twenty years, has carved for itself the role of the global factory for goods. Initially it was mostly for cheap, low-tech commodities, competitiveness progressively, with the mass movement from emerging to recently-emerged economy, the role of China extended deeper into electronics, high-tech manufacturing and a place for multi-national global industry to outsource manufacturing units.

Now, the long-term trend of globalization is, and far and away, by far, the biggest remaining problem of the refractory industry, the world’s workhorse.

In some case, new products for old applications are being made, new products for new applications are being marketed in the western world, the more its growth rate increased together with its dependence on western economies, which represented China’s testies best customer base, beside a growing internal market.

The planned and controlled economy of China was cleverly driven through constraining forces, where the damage to western economies through low-cost competition was compensated by the need to keep alive its own customers, where the expansion of their initially depressed internal market was carried by the need to control the labor cost inflation, which is the main (if not the sole) driver of Chinese competitiveness.

Tools for such a control have been fiscal and export policies, as well as currency “hedging”.

In spite of an undoubted capacity of driving the economy, the solo-party’s management could not prevent China of becoming more dependent on its customer base: the west.

When the big crisis came, and not because of the Chinese competition, they could not do anything but boosting the internal market to compensate the imported export. Putting more money in the Chinese people’s pockets worked out in the short term, but with the side effect of decreasing the labor competitiveness that, as before, meant China’s cost advantage.

Today, the combined effect of a long lasting western slowdown and the domestic economic policy of “saving” the day has made, in some way, possible the GDP growth pace year-down into single digit highs.

While western world is used to manage downturns and people, particularly in Europe, almost yelling to the concept of worsening their own wealth, China young generation has grown in an almost constantly improving economical scenario, with highest expectations than what we will inevitably become true.

In this scenario, I believe China will have no options but expanding again the internal market (which has still immense potential of growth), and therefore boosting again the labor cost, driving China progressively toward the role of a “regular” economic super-power and far from the position of the low-cost manufacturing hub for the west.

This evolution has huge implications in our field of refractories for glass, and particularly in the fused-cast-market. Becoming increasingly a “normal” player, Chinese refractory industry will have to learn competing globally not only on price but also on quality and service or, more simply, on the ratio advantage.

In the area of my expertise, in the last decade, Chinese manufacturers have been investing huge to improve quality and almost nil in developing services, being too much confident in their outstanding cost advantage.

As described, far east refractory industry has a long way to go, to become a regular player for business, to introduce its own innovation and essentially be ready to fight emerging next group of low-cost regional players.

Meanwhile, western refractory industry, under constant attack of the crisis and the low-cost competition, has, at least part of it, pretty well learnt to survive, increasing the value of products through combined services, packaging different traditional products and innovative services together, competing on price and cost.

In some case, new products for old applications are being made available by selected western players, for example more and more fused cast refractories for superstructure in soda-lime furnaces are being replaced with a new class of pre-cast large shapes showing technological advantages over the most commoditized A2-Z fused-cast, increasingly sourced from low-cost manufacturers.

The same way nature adapt itself to a modified environment, the refractory industry, stressed by multiple threats is learning different ways to survive, adapt, succeed.

At the end of this epochal crisis, together with changed social equilibriums in our globalized world, a new glass and refractory industry will emerge.

We still do not know how far this will go, but will be for sure an existing run, for our small world of glass and refractories.