



Dr Bruno G. Rüttimann, engineer and economist, has been working for more than 20 years in the aluminium industry in various assignments for multinational companies. Today he is a business consultant and university lecturer at Swiss Federal Institute of Technology ETH in Zurich. He is a well known invited key note speaker at industry and academics congresses with topics related to globalization and industry dynamics.

“Aluminium has been growing with 5% CAGR over the last decades, i.e. above the GDP growth; this was mainly driven by China. Both NF metals belong to the basic industry and especially the semi-finished products industry, such as rolling, extrusions, or castings, is of vital importance for every fast growing economy” says **Dr. Bruno G. Rüttimann**, European Economist in an exclusive interview with **Metalworld**. Excerpts...

Asia will become the Center of Economic Power for the Next Decade

- Dr. Bruno G. Rüttimann, European Economist

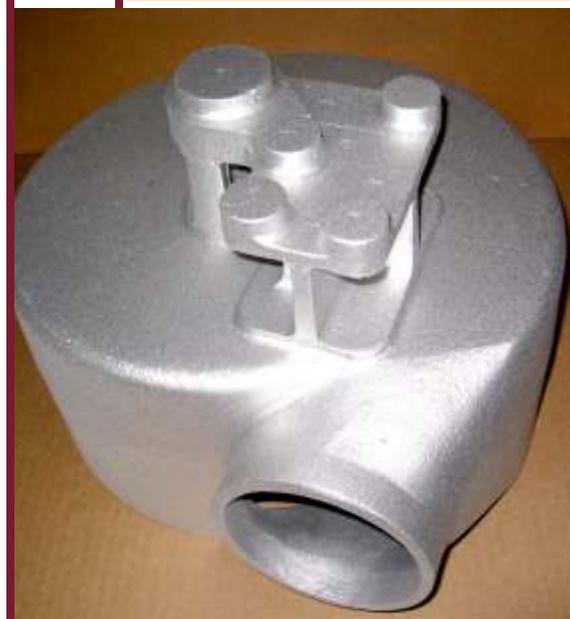
You are a well known globalization and strategy expert - what is the status of the global non ferrous metal industry?

- World economy is constantly growing with a pace of approximate 3% per year, during the last decade mainly given by a demand-pull of emerging economies and supported by a technology-push of advanced economies. This seems to become a consolidated situation, but only apparently. The aluminium industry is the most important sector of the non ferrous metal industry, followed by copper. Aluminium has been growing with 5% CAGR over the last decades, i.e. above the GDP growth; this was mainly driven by China. Both NF metals belong to the basic industry and especially the semi-finished products industry, such as rolling, extrusions, or castings, is of vital

importance for every fast growing economy. This is given by its natural business fragmentation in order to supply the local industry; all that to the contrary of ore extraction linked to the deposit availability, production step of the value-add chain which is mainly in the hands of influential multinational mining companies. Especially for very large countries such as China and India, to have access to commodities will become a strategic factor to be able to support internal growth.

You stated “only apparently” - why? Why an only apparently consolidated situation?

- Only apparently because the large emerging economies, such as China and India but also others, will change the established present “world order” of western dominance. Economic growth is of fundamental





importance for an economic system. An economy which is not growing any more gets into trouble, specifically into a socio-economic disaster. Instead of saying the advanced economies we should talk about the mature economies, mature not only from economics maturity degree but also from population profile.

As soon as internal economic growth is weakening, exports are becoming vital to compensate lack of internal demand, especially exports of technology. But the so-called emerging economies will catch-up, you understand what I mean? Europe needed 100 years to become world leader in e.g. aluminium processing technology and aluminium application - the emerging economies will for sure not need another 100 years to attain a similar level.

Indeed, it will become harder for western companies to maintain technological leadership and therefore the consolidated situation may change.

How do you see the Asian market generally and India specifically?

- Asia will increase further its economic importance and become the center of economic power for the next decades; this is given by the combined factors of a large population and a high differential to catch-up western standard. We will experience a significant shift in business volume and GDP generation to the Asiatic area; this tendency is driven by a young population being eager to attain the living standard of western economies. China alone produces more than 40% of world primary aluminium and consumes even more; India has the same potential but still lags behind.

Compared to China, India needs also to improve processing technology to be internationally competitive.

Nevertheless, the huge internal market is very important for the emerging economies; big countries such as China and India are advantaged, because the possibility exists to favor, to some extent, also local technology which may be sufficient for internal applications, being quality requirements not yet on the very demanding level of western countries, for the time being. But apart of this huge economic perspective, Asia with its nearly 4 billion people population will also have a big ecologic responsibility to preserve a sustainable growth. It is the responsibility of the governments to combine in a sustainable way economic growth and ecology to avoid the foreseeable world collapse; the big emerging economies have a much higher responsibility than had entrepreneurs of western economies 100 years ago.

Not only recycling will become more important and attractive in the future, but also reduction of industry emissions will be of vital importance for world ecology balance – we have only one world for future generations.

You are stressing on ecological importance. The western economies 100 years ago did not stress this issue.

- You are right. But 100 years ago the world population was 2 billion; the population today has multiplied and economic wealth allows today everybody do have a polluting car. I am not a green ecologist, I am a declared progress-oriented engineer as well as economist, i.e. I am a realist not an idealist. Nevertheless, we

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To have access to commodities will become a strategic factor

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have to be aware: today, governments and industry managers have imperatively to optimize two objective functions: maximizing economic wealth AND minimizing pollution; sustainable growth is the Pareto-optimal function.

How do you judge the effects of global slow down on non ferrous metals industry?

- Frankly speaking, for the next years, a globally pronounced slowdown may only be triggered by an exogenous event, remember the American subprime crisis which evolved into a financial crisis, pulling the whole world economy and with that the world industry into a deep recession. Whereas America and Europe suffered, China and India hardly perceived the crisis; they had the big internal growing market to compensate lacking exports. We see here again the different fragility of mature and emerging economies. Regional differences and weaker internal demand of the advanced economies, but also China, will slow growth, but not stop it. Even if we should experience a most probable slowdown, e.g. China will grow in the next years with only 5% instead of 10%, but 5% on a much larger volume – we have to see the relations.

In addition, for the next decades to come, world growth will further be fuelled by emerging economies in different stages of maturity: today China, tomorrow India, after tomorrow Russia, CIS, South America, Middle East, South Africa and then the rest of Africa. The question will rather be: how much growth will support the planet. But let's coming back to your question how an economic slowdown, not a crisis, will affect the NF metal industries. Ferrous metal industries in general, i.e. commodities in general, are at the beginning of the value chain. They suffer the “pipeline filling” effect, i.e. an exaggeration of order volume during the upswing, which leads

during the downswing of economy first to empty the pipeline with consequent reduced activity. This volatility is reflected by price notations at the LME and other commodity exchanges.

Therefore, a limited change of GDP growth is translated immediately into a multiple change of the NF metal industries. This may lead to overestimate demand and bears a potential to create overcapacities. In emerging economies overcapacities will be absorbed by a growing demand; this situation is different in mature economies, where overcapacities are existing in the aluminium processing industry.

What is the present profile of non ferrous metals application ?

- Here we have to distinguish between mature and emerging economies. Emerging economies experience the main growth of non ferrous metal application aligned to the big infrastructure projects, also pushed by governments. Building construction and mass transportation are therefore the main

“ China and India will change the established world order ”

aluminium applications. In mature economies the infrastructure industry is weakening; main application is therefore in transportation, i.e. the automotive sector where aluminium is combining light weight design with fuel efficiency, one of the most attractive drivers. But we experience also the progress in the machine construction industry.

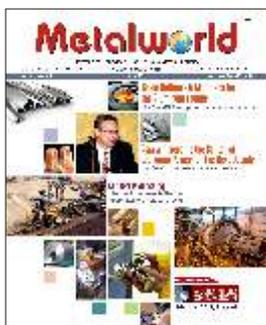
How will competition change in the NF metals industries ?

- Competition has already changed. Take the example of the aluminium industry. 20 years ago it was dominated by big vertically integrated western MNE, also state-owned, groups. This industry has experienced a deep transformation by M&A now organized rather horizontally. This is the course of the maturity life cycle of an industry. In the emerging economies we will find most probably a

paradigmatic approach, indeed we have big integrated groups such as Chalco or Hindalu which makes sense to push a certain technology. The availability of cheap energy and the access to raw materials will determine significantly the competition equation.

A last question, what do you think are presently the most challenging topics ?

- This is a very interesting and complex topic which is impossible to answer in a nutshell. Let me stress two factors: Generally we have to mention the high influence of financial operators in the commodities market which have a significant impact on the price notations and the volatility of commodities prices not reflecting any more the real value of the resource. The second factor is the competition distorting premium paid on ingots in different markets. This is especially a problem for mature economies, less for emerging ones. Nevertheless to conclude, the future is bright for the NF metal industries, at least seen as a whole.



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