Outlook for the Global Economy

HANS-ULRICH GRIMM, Union Bank of Switzerland, Bahnhofstrasse 45, 8021 Zurich, Switzerland

ABSTRACT

The end of the 1970s also brought to a close a growth phase of the world economy which had lasted more than 20 years and been interrupted only by relatively mild reverses. Although, after a recession of somewhat longer than 2 years, the preconditions have now improved for a return to the path of economic recovery, at least in most industrial countries, there is no cause for an excessive measure of optimism. Due to their high mountains of debt to other nations, a majority of the large newly emerging industrial countries (the so-called threshold nations) and of the developing countries will be forced to assign first priority to an improvement in their balances of payments over the next few years and will therefore largely fail to act as additional customers for foreign goods. In many industrial countries – again as a result of voluminous indebtedness – narrow limits have been placed on an expansive economic policy course. Besides, the markets served by these nations exhibit a high degree of saturation. In such an environment, the best growth prospects are held by those industries which succeed in creating new requirements and demands on their traditional markets. This is one of the principal reasons why innovation will play an even more important part in the future than it has already played in the past. It can be fairly estimated that the consumer goods industries and the service sector will develop more favorably within the span of the next 12-18 months than the capital goods industries. From a geographic viewpoint it can be assumed on the basis of the existing evidence that during this period economic performance will be stronger in the USA and Japan than in Western Europe. Prospects for an economic comeback in Europe are best in Great Britain, the Federal Republic of Germany and in Italy.

INTRODUCTION

The end of the 1970s spelt the end of a growth era in the world economy which had lasted more than 20 years and was interrupted by only relatively modest reverses. The positive characteristics of the growth phase were an average annual increase in global industrial production by 4.8% in the years from 1961 to 1979 and average annual growth in agricultural production by 2.4%. The volume of world trade expanded by close to 7.5%/year during this time span – an impressive achievement. This boost in the international division of labor, which promotes overall growth, was made possible not only by the dismantling of customs barriers and other trade policy obstacles but, above all, by lifting controls on capital movements and the forceful development and maturation of the international banking system. For example, the recycling of capital after the 1973 oil shock – so vital for continued growth in world trade – would hardly have been feasible without the substantial expansion of the financial network which began in the 1960s and culminated in the Euromarkets as its best known creation.

But since there is a dark side to everything, the vigorous rise in worldwide demand for goods of all kinds reinforced by a mostly generous money supply policy caused inflationary trends to strengthen. Whereas in the 1960s the average annual rate of inflation worldwide remained at a relatively modest 4.1%, the same figure had already mounted to 8.5% in the 1970-74 period and averaged a fearsome 11.4% in the years from 1975 to 1979. The escalation in the rate of inflation prompted the Federal Reserve Board in the USA and the central banks of several other industrial nations to embark on a heavily restrictive economic policy course in 1979. Due to the fact that the borrowing needs of the governments for deficit financing continued to increase at the same time, interest rates in short order began to skyrocket. The chief victim of this evolution was the private sector of the economy. What began with pronounced fixed investment weakness quickly developed into worldwide recession accompanied by a rapid upsurge in unemployment.

By all accounts, the lowest point of the sharp recession of the last 2 years appears to have been reached last year when the real gross national product of all industrial countries declined by 0.3% and the real output of the non-oil-exporting developing countries gained by a mere 1.4%. Economic activity in the USA has been rebounding clearly since the first quarter of 1983 and the economic climate has been improving in other industrialized countries as well. The question can be asked if these recovery trends generated by the steep interest rate drop in 1982 signify that we are already at the threshold of a new and vigorous growth phase or if they merely constitute a flash in the pan. Or else, are we facing a lengthy problematical period paved with difficulties and holding out limited growth prospects at best?

NEED FOR A CORRECTIVE PROCESS

Although representatives of credit institutions have to be optimists by profession, I consider the last-mentioned scenario to be more likely. The latest recession being experienced by the global economy can undoubtedly be attributed in great measure to the oil price explosion which preceded it and the interest rate runup produced by a restrictive monetary policy, but its root causes extend much deeper. We must note today that many individuals, companies and, chiefly, public authorities in the industrial and nonindustrial countries of the West and the East have lived beyond their means during the past 10-20 years. Let me cite a few examples to illustrate this claim:

—In the Federal Republic of Germany, the outstanding instalment credit total of all banks to employed private persons has soared from DM 24.9 billion at the end of 1970 to DM 72.4 billion at the end of 1982. This means that consumer loan indebtedness in Germany has increased by 187% to DM 1170 per capita of the population within 12 years, although the consumer price index went up by only just under 90% during that period.

—In the same time span, the Federal debt in the USA more than tripled from just under 400 billion dollars to more than 1.2 trillion dollars.

—The combined external debt of the non-oil-exporting developing countries actually rose more than 6-fold during these same 12 years. At the end of 1982, the foreign indebtedness amounted to more than 600 billion dollars, or almost twice the revenues received by these countries from the export of goods in 1982.

I could add any number of examples to this list. One need only remember the frequent complaints about inadequate self-financing in the corporate sector, the exaggerated development and refinement of social institutions in most industrial countries and, last but not least, the enormous balance of payment problems of a number of newly industrializing and developing countries. There can be no doubt that the limit of what is tolerable has already been reached or even exceeded in many cases.

The admission that the expansion of one's own activities has been financed to a large extent by outside borrowing can only mean the recognition of the necessity to assign first priority to a corrective process. It must be the objective of such a policy to restore relations and ratios in the individual sectors which are acceptable for the individual, the business organization, the state and the economy of a country as a whole. Our concern must therefore not be to reestablish a state of balance in the various sectors of the economy. It is sufficient if we can take a few essential steps in this direction. The task that remains to be done is in any case so large that winning this battle will undoubtedly require several years.

DEVELOPING COUNTRIES WITH LITTLE ECONOMIC GROWTH OVER THE MEDIUM TERM

From any standpoint, the threshold and developing countries, confronted as they are by acute balance of payments problems, face the greatest obstacles on the road to restoring economic and financial health. They have no choice but to assign highest priority to the improvement of their payments balance – both today and in the next few years. This implies that they must limit their imports in the near future in essence to those goods which are either needed for supplying their population with vital products, will serve as substitutes for other imports in the future or are qualified to improve the country's own export possibilities. Investment activity should also be centered on projects which serve these targets. In addition to this, many countries would be well advised to ease their exceedingly restrictive rules and regulations concerning direct foreign investments. More direct investment by foreign enterprises will not only lighten the burden of debt service but provide better protection today against prestige installations and facilities with poor prospects of success which tend to be established as the pet projects of local business.

A look at the league table of the countries with the highest foreign debt shows that, with the large majority of the Latin American countries and the ASEAN states, with Algeria, Morocco and Nigeria as well as most COMECON member nations, this group includes almost all of those regions which until recently ranked among the markets exhibiting the strongest growth. The export-oriented companies of the industrial countries will therefore have to get accustomed to the idea that the overall demand for foreign products from the threshold and developing countries will increase only very slowly in the coming years. This applies particularly to the manufacturers of consumer goods. But especially the producers of consumer goods are offered the opportunity by the current unsatisfactory situation to build up a favorable starting position for later trading success. In view of the substantial long-term growth potential which undoubtedly exists in many of these markets, above all in Latin America and Southeast Asia, the direct investments to be realized in these areas in the near future could prove most rewarding in subsequent years. Naturally, here as elsewhere, the extremely careful and detailed investigations of the market opportunities that exist in the individual case, as well as of all legal and financing conditions influencing the project, form prime prerequisites for any exposure.

IMPROVED ENVIRONMENT IN THE INDUSTRIAL COUNTRIES

The fact that the newly industralizing and developing countries will be largely absent from the market as additional buyers of the products manufactured by the industrial nations means that the economic development of North America, Western Europe, Japan and a few other national economies in the next few years will be determined for the most part by the impulses generated within these countries and areas themselves. What does the picture regarding these trends look like?

Evidence suggests that the growth prospects for most industrial countries are decidedly better today than they were only a year ago, despite the fact that the mountainous debts of the public authorities in many places still represent a burden which should not be underestimated. The public sector deficits which in many instances have surged massively in past years and the indebtedness created by these shortfalls today force the governments of numerous industrialized nations to exercise restraint in regard to their spending policy. This places relatively narrow limits on a stimulatory financial policy. The extensive borrowings by government authorities or agencies at all levels on the money and capital markets to obtain the necessary funds for debt servicing also drives interest rates to higher levels than would be the case without the substantial financial requirements of the public sector.

To put it differently, without this debt burden interest levels would be somewhat lower in most industrial countries and thereby more favorable for the realization of fixed investments. But this qualification does not alter the fact – and this brings me to the positive elements of the present economic environment – that the substantial decline in interest rates produced by the weak credit demand of the private-sector economy and more generous money supply policies have considerably improved the climate for a cyclical recovery. I do not believe that the current interest rate level will undergo any major change either in the USA or in a majority of the other industrialized nations over the next 12 months. The achievements scored in the fight against inflation should enable the monetary authorities in the United States – in view of the approaching presidential elections—to supply the business sector with funds so amply in the near future that interest rates will not move up significantly even if private-sector loan demand were to strengthen. The central banks of most of the other industrial countries will see little cause, in view of their economic posture and, above all, the existing dependency of their financial markets on those of the USA, to pursue a different monetary policy course.

A second material improvement in the economic environment is a consequence of the drop in the oil price by close to 20%. Given the sizable idle production capacities of most oil-producing countries, it can be assumed that the threat of a renewed price rise is negligible over the medium term. Of course, the change in the oil picture from a sellers' to a buyers' market and the cutback in interest rates tends to benefit most threshold and developing countries as much as the industrial nations.

Two other factors which are likely to contribute to an economic rebound should be added. Inventory cutbacks have progressed to such an extent in many places by now that even a minor increase in demand necessitates at least some replenishing of stocks. In some industrial sectors the restraint exercised by manufacturers in response to the latest recession has actually generated substantial pent-up demand. The entire housing sector and the automobile market are outstanding, but by no means exclusive, examples of this recession – induced demand accumulation.

LIMITED MEDIUM–TERM GROWTH CHANGES

The improvement in several important aspects of the economic scenario makes the outlook for most industrial countries appear somewhat more auspicious again. I will deal with the perspectives for the individual regions in greater detail later. But even in the light of the improved background there is no reason for abundant optimism since the prospects differ widely from are industry sector to another. Generally speaking, residential construction, the consumer goods industries and the service sector will most likely stage the best recovery over the next 12-18 months. Most of the capital goods industries will not benefit from the cyclical pickup until the order books of their customers have filled so much that capacity utilization and earning power will permit an extension of investment activity again. In view of the low figures currently registered in this respect, it is likely to take considerably more time for fixed investment to increase again than after earlier recessionary phases.

Another negative factor which could affect the capital goods industries is that the further growth prospects for the industrial countries are generally severely restricted due to the absence – by and large -- of the threshold and developing countries as additional customers. In my opinion, most industrial and service industries of the industrialized countries must direct their efforts in the next few years at maintaining their positions and shares in markets where the population grows only at a slow rate, and the point of market saturation has already been reached in many cases. These industries must also be aware that competition will become steadily more intense, especially from the highly indebted countries in Latin America and Southeast Asia which urgently need export proceeds to survive. It must be considered that the arrival of the microprocessor has not only basically altered a number of manufacuring processes in the industrial countries but at the same time also offers the developing countries an opportunity to link up with modern technology much more rapidly than in former years.

Under these circumstances, the best growth opportunities will be enjoyed by those industries and sectors which succeed in creating new needs on their traditional markets. This simply means that innovation will play an even far bigger role in future than it did in the past. Looking at the technical program of this Congress convinces me that the oleochemical industry occupies an excellent position in this regard. The various subjects that will be discussed in the course of this week highlight that you assign as much importance to innovation at the marketing level as in the technical realm. The significance of this aspect has been impressively, if painfully, demonstrated to the Swiss banks recently by the Swiss watch industry, whose production has not been consistent with market requirements. To "rewind" this former showpiece of the Swiss exporting industries, the banks have spent the impressive amount of some 500 million dollars so far in a joint rescue action. Before concluding, let me now glance briefly at the anticipated economic development of the world's three major industrial regions next year – namely, North America, Japan and Western Europe.

CONTINUING RECOVERY IN THE UNITED STATES

The gratifying business recovery which emerged in the USA during 1983 can be expected to continue, and private consumption should remain the principal support for growth in 1984 as well. In addition to housing construction – although the rate of increase will be down somewhat in 1984 from 1983 – and a noticeable inventory buildup, investment activity is likely to pick up again in industry. Capital spending can be expected to turn up most in the equipment sector, whereas the trade balance is unlikely to undergo any improvement. The substantial differential in interest levels which is certain to continue in existence between the dollar and leading international investment currencies such as the Deutsche mark, the Swiss franc and the yen will help the dollar remain one of the most sought-after currencies in 1984. Even the fact that the high exchange rate of the dollar seriously impairs the export possibilities of America's industry and at the same time promotes the competition producěd by imports at home will most probably not change this situation. Conditions on the labor market will remain unsatisfactory despite the more vigorous pace of economic activities. Averaging at least 9%, the unemployment rate can be seen to remain at a level in 1984 which is high even by American standards. Consumer prices must be expected to rise again at a stronger rate as a result of heavier consumer demand.

The economic recovery in the USA will most likely radiate positive effects on Canada's economy in the course of the coming year. However, the economic pickup in Canada is likely to be much less pronounced than in the world's leading industrial nation.

EXPORTS AS MAINSTAY IN JAPAN

In contrast to Canada, Japan is already benefiting from the cyclical recovery in progress in the USA. Since March of this year, Japan's exports have again been topping the figures of previous years and in the first 6 months of 1983, Japan posted the largest merchandise trade surplus of all times of close to 7.1 billion dollars. After some 18 months of declining exports, Japan's industry managed to increase its total exports modestly again in the second quarter of 1983. In the meantime, export activities are again making a decisive contribution to the growth of the economy as a whole. This statement is likely to apply to 1984 as well, although the Japanese government agreed at the economic summit in Williamsburg to the demands of the other industrial nations that it should reach its growth targets by stimulating its domestic economy. But the brisk investment activity of Japanese corporations in high technology fields during recent years may well have the result that the electronics industry will take the place of the automobile industry as the leading export sector. On the other hand, recent developments have clearly shown that Japan will hardly be in a position to achieve economic growth on the scale of earlier years unless its export industries score a noteworthy success on world markets. Today, Japan's domestic market is already heavily saturated in many product areas and the public sector, due to its extraordinarily high degree of indebtedness, is forced to apply a fairly restrained spending policy. There can be little doubt that this constellation could create more serious problems for Japan if the protectionism introduced by other industrial countries as a defense against Japanese competition becomes more severe or if Japan encounters serious competition from countries in Southeast Asia.

MODEST RECOVERY IN WESTERN EUROPE

In contrast to this, it seems unlikely that Japan's export industries will be seriously threatened on world markets by manufacturers located in Western Europe. These companies as a whole will, most likely, have to pay the penalty for not having paid sufficient attention to research and development in promising areas during recent years, either because they lacked adequate earning power or because of misquided investment activity. I hasten to add that there are, of course, many enterprises in all industry sectors throughout Europe which form an exception to this rule. Their successful performance is proof that nothing would be more inappropriate during the present difficult phase than to call for government protection in the form of protectionist measures. What is needed instead is to concentrate one's efforts on finding the most effective and promising path to take in a global economy characterized by the growing international division of labor.

The Commission of the European Communities, however, forecasts that the exports of goods and services of the EC will rise by ca. 3% in real terms again despite these structural weaknesses. Together with the increase in fixed investments estimated at slightly more than 2 %, they would therefore provide the foundation for overall economic growth of ca. 1.5%. This figure results from the view of the Commission that private-sector consumption throughout the EC will go up only by little more than 1% and public-sector consumption by considerably less than 1%. Development in the individual member countries will display a very mixed picture in 1984, as it already has done in 1983. Real growth in the gross domestic product (GDP) is placed at somewhat more than 2% for the Federal Republic of Germany, the United Kingdom and Italy. As a result of badly needed adjustment measures, France, the Netherlands and Belgium will have to be satisfied with nothing more than a fractional gain in their GDP. The consequence of this trend will be an increase in the unemployment rate in the European Community next year to more than 11% due to unfavorable demographic conditions. On a brighter note, I might mention that the average rate of inflation within the Community could decline to less than 6%.

INNOVATION AS DECISIVE FACTOR

The world economy as a whole will most likely develop along somewhat more favorable lines next year than it is evolving in the current one. The outlook is most positive for the US economy, where the recovery which emerged in the first quarter of 1983 will stay on course. The prospects for Japan are also quite satisfactory – the only major industrial nation to weather the latest recession without a contraction of its gross national product. In Western Europe, the economic situation will continue to differ widely from country to country and improve only very slowly for the region as a whole. In a parallel development to the current year, the companies active in the service sector and the consumer goods industries can look forward to a somewhat better business year than the companies in the capital goods sector. Over the medium term, the outlook is best for those industries and companies which through innovative capabilities succeed in helping new technologies to achieve a breakthrough in the capital goods sector and generate new consumer demand and requirements by manufacturing trend-setting products. It is my firm belief that the oleochemical industry belongs to this group.

Challenges to a Mature Industry: Marketing and Economics of Oleochemicals in Western Europe

H.J. RICHTLER and **J. KNAUT**, Henkel KGaA, Oleochemicals Division, Postfach 1100, D-4000 Düsseldorf 1, West Germany

ABSTRACT

Basic oleochemicals are produced by splitting and further reactions of oils and fats: fatty acids, glycerine, fatty acid methyl esters, fatty alcohols and amines. The last two are included in the list of oleochemical raw materials, primarily because of their importance in the preparations of further derivatives. The wide range of derivatives of oleochemical raw materials such as fatty alcohol ethoxylates, fatty alcohol sulfates, fatty alcohol ether sulfates, quaternary ammonium compounds and soaps are summarized. Oleochemicals such as fatty alcohols and glycerine from oils and fats have equivalents on the basis of petrochemicals. Using the customary terminology, petrochemical products are referred to as "synthetics." They are included in the present discussion because in the application of oleochemical raw materials the origin of the material is often less important than the structure. Oleochemistry can be regarded as a mature branch of chemistry, with many applications for its products, but with few completely new fields. The challenge and the opportunities for oleochemistry today lie in the changing economic and ecological conditions. Availability and price development of oils and fats are discussed with particular reference to European conditions, for these are the prerequisites if oleochemicals are to be competitive and are to improve their chances in the marketplace. The importance and development of the oleochemical raw material fatty acids, fatty acid methyl esters, glycerine, fatty alcohols and amines are considered on the basis of historical data. In considering future developments of oleochemicals, the capacity, demand and the possible influence of petrochemistry or crude oil is discussed. The highly developed oleochemical raw materials industry is a flexible supplier of medium- to long-chain fatty alkyl groups. These facts, together with the well organized supply lines for raw materials and the considerable potential of these renewable raw materials, could provide the necessary conditions for the oleochemical raw materials industry to fulfil its future tasks on a larger scale. This could arise, for example, due to the partial substitution of petrochemical surfactants, if this should become necessary as a result of developments in the price and availability of crude oil, or on grounds of ecological factors.

Abbreviations: AE = fatty alcohol ethoxylate; AES = fatty alcohol ether sulfate; AS = alkyl sulfate; AOS = α-olefin sulfonate; DOP = dioctyl phthalate; ES = ester sulfonate; ESO = epoxidized soybean oil; LAB = linear alkylbenzene; LAS = linear alkylbenzene sulfonate; NPE = nonylphenol ethoxylate; SAS = secondary alkane sulfonate.

INTRODUCTION

Oleochemistry is a very old branch of chemistry. Some applications reach far back into history. Of course, soap made from fat and applied was the first cleansing agent in cosmetics. It is a well founded and well developed branch of chemistry in nonspeculative markets with a long tradition of exchange between supplier and user. Is there also sufficient scope for oleochemistry in the future? Most important, are new fields recognizable, are there new products or applications going beyond the traditional? And maybe even innovations? The competitiveness of oleochemistry and its greatest opportunities are doubtless determined by the economics. Availability and price of raw materials essentially determine oleochemistry's future. How will oleochemicals develop in an economic world of changing crude oil prices, ecological questions and surfactant alternatives? This is a new challenge for oleochemistry and this paper is an attempt to determine oleochemistry's position in Western Europe under these changing conditions.

Definition of Oleochemicals

"Basic oleochemicals" are produced by splitting and further reactions of oils and fats: fatty acids, glycerine, fatty acid