World Trade Plummets 9%

Trade in the industrialized countries plummeted 9 percent in the third quarter of 1977 as virtually every advanced sector except Japan registered a sharp decline in both exports and imports.

As the balance sheets were tallied for the quarter ending in September, exports from Belgium and France fell 19.2 and 17.7 percent, respectively, representing a collective loss of $4.5 billion as compared to the first three quarters of 1976; U.S. exports plunged 12.3 percent or $4 billion; and West Germany's exports declined 7.4 percent, according to the November issue of the *International Monetary Fund's Financial Statistics.*

WORLD TRADE

Imports fared no better: Belgium recorded an astounding 27.5 percent drop; Canada and France registered an 18.1 and 15.1 percent decline, respectively; Italy's imports took a dive of nearly 15 percent; and imports to the Netherlands and Britain were both down 10 percent (see graph 1).

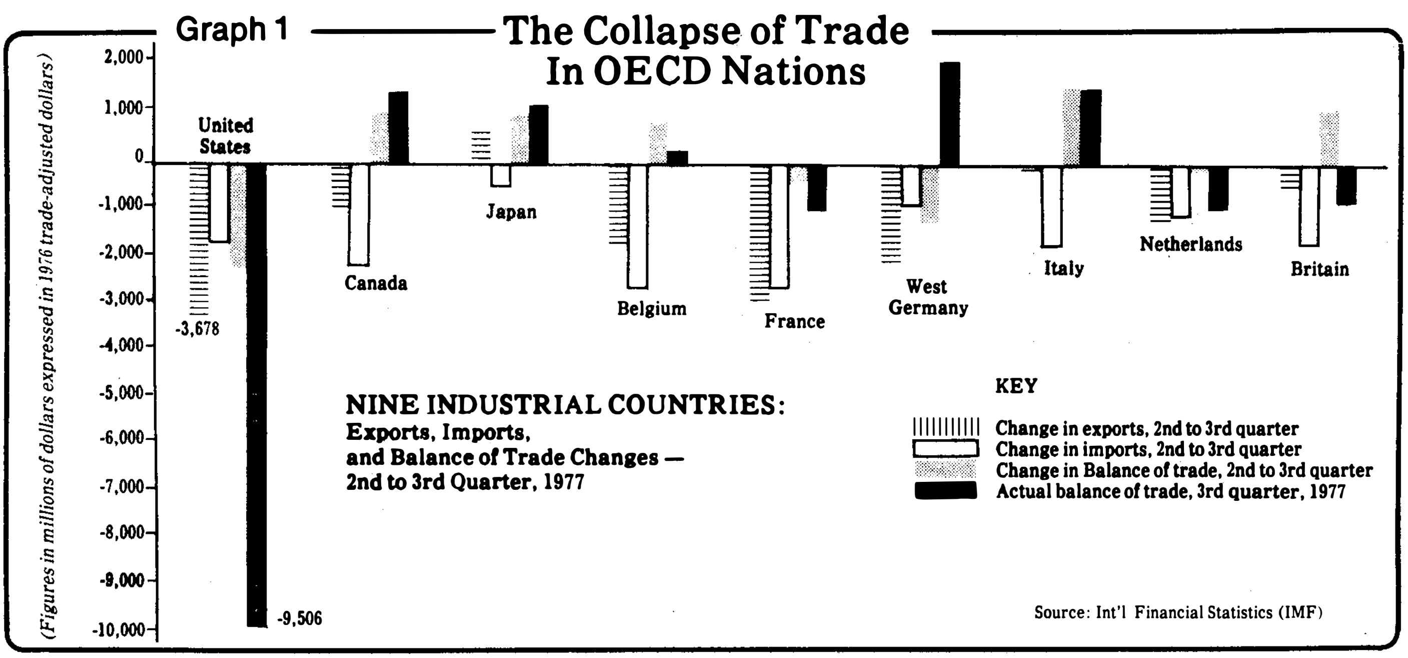
This collapse is far worse than the normal third quarter seasonal decline. Considering that economic growth has generally been better this year than last and that a 5 percent yearly rate of increase is regarded as minimally healthy, a comparison of trade in the third quarter of 1977 with that of 1976 shows at best stagnation and more generally, *negative growth* (see graph 3). Volume of exports for all industrialized countries grew only $500 million, or .4 percent, and imports fell $500 million.

Most interesting is that exports for France, Belgium, Britain, Canada, Italy, and the Netherlands — a group of weaker European economies — *grew* by $2.5 billion (4 percent), while exports for both West Germany and the United States together *fell* over $1 billion (3 percent). Conversely, imports for all of the six grouped countries dropped $3.5 billion (5 percent), as imports for the U.S. and West Germany increased over $3 billion (3 percent). The three nations that showed increases in exports of around 10 percent — Canada, Britain, and Italy — did so on the basis of large currency depreciations, which have only temporarily lifted their export goods from abysmal lows.

Of more importance is that West Germany, Japan, and the U.S. — the "locomotives" of the OECD — are now decelerating their rates of growth, absorbing export losses and balance of trade deficits as a very short-term — and ultimately exacerbating — measure to prevent total economic collapse in Europe.

An Incompetent Solution

The collapse of world trade is absolutely not the result of oil price increases or gluttonous energy consumption by OECD nations. As the *Executive Intelligence Review* recently documented, U.S. balance of payments with the Middle East oil-producing countries is nearly even, due to petrodollar investments and deposits in the U.S. The problem of trade is the problem of useless speculation by London and Wall Street in "hot money" at the expense of



productive investment in global industrial development. It is the fruition of the British method of colonial economics applied to the advanced sector.

For the last year, monetarist policy emanating from the City of London and enforced by the IMF and World Bank dictated that less developed countries (LDCs) remedy their chronic balance of payments deficit and increasingly precarious indebtedness by slashing imports to the bone, intensifying austerity, and increasing exports of particularly raw materials and cash crops.

The result has been a $12 billion cut in LDC imports, a sharp increase in exports, and corresponding reductions in balance of payments deficits.

For example, Mexican trade and balance of payments deficits declined by 80 and 68 percent respectively, during the first two quarters of this year as compared to the same period last year. Exports were forced up by 30 percent; imports were cut a drastic 20 percent — including a 20 percent drop in capital goods and machinery purchases. In Argentina, the military junta has bled the population to get a huge 60 percent increase in exports this year, and estimates a nearly $1.5 billion increase in reserves which will go straight to debt service.

The rationale for these measures is that the "richer" advanced sector nations could, and must, absorb the imports and suffer the export losses. The strategy worked so well that within one year Europe's economies were faced with the same deficit problems as the LDCs. To replicate the success of the Third World solution, the City of London and its confreres have ordered that the advanced sector be put through the same wringer — this time, with "richer" West Germany, Japan, and especially the United States to absorb the losses. The difference now is that these forces aim only to cut imports — as they dismantle industry across the board.

Therefore, in the face of a resounding trade collapse, the third quarter shows a $500 million increase from the second quarter in the balance of trade for industrial countries (see graph 2, column 1) and $1 billion increase from the third quarter of 1976 to the second quarter of 1977. Nations with the most drastic import cuts, like Italy and Belgium, moved into a balance of trade surplus. Canada moved ahead of Japan with a nearly 500 percent increase over the second quarter in its balance of trade surplus. Britain increased its surplus by 60 percent through import cuts. The nine countries surveyed reduced their deficit by $2 billion.

The United States and West Germany are, however, rapidly approaching the status of the poorer OECD countries. The U.S. trade deficit increased 30 percent in the third quarter, by $2 billion, to a record $9.5 billion because of its enormous loss of exports. Similarly, West Germany's surplus was cut 33 percent. Only Japan's modernized economy, which enables cheaper production of goods, has been able to expand in this climate, but at a sharply reduced rate, axing its imports by $500 million.

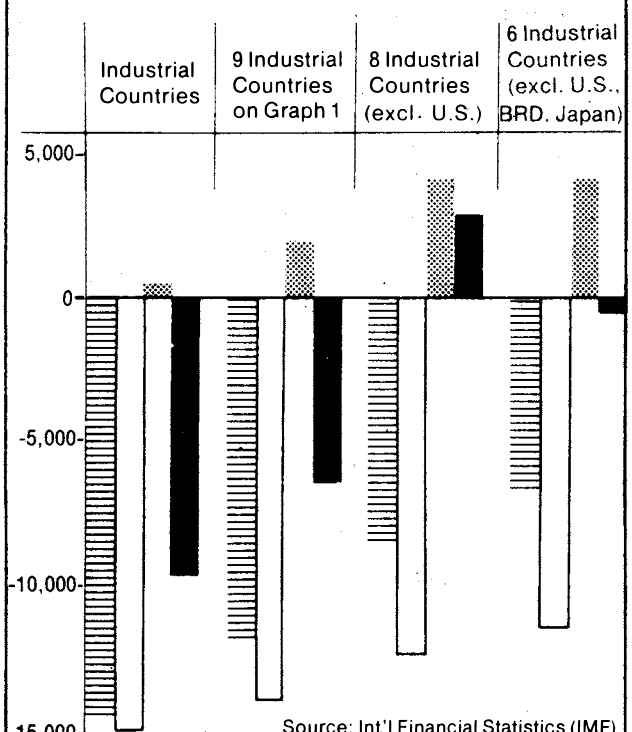
As Otmar Emminger, President of the West German Bundesbank, stated last week at the National Foreign Trade Council Convention in New York: "There have

Graph 2

Collapse of Trade — Industrial Countries

(Figures in $millions expressed in 1976 trade-adjusted dollars)

Note: See Graph 3 for key

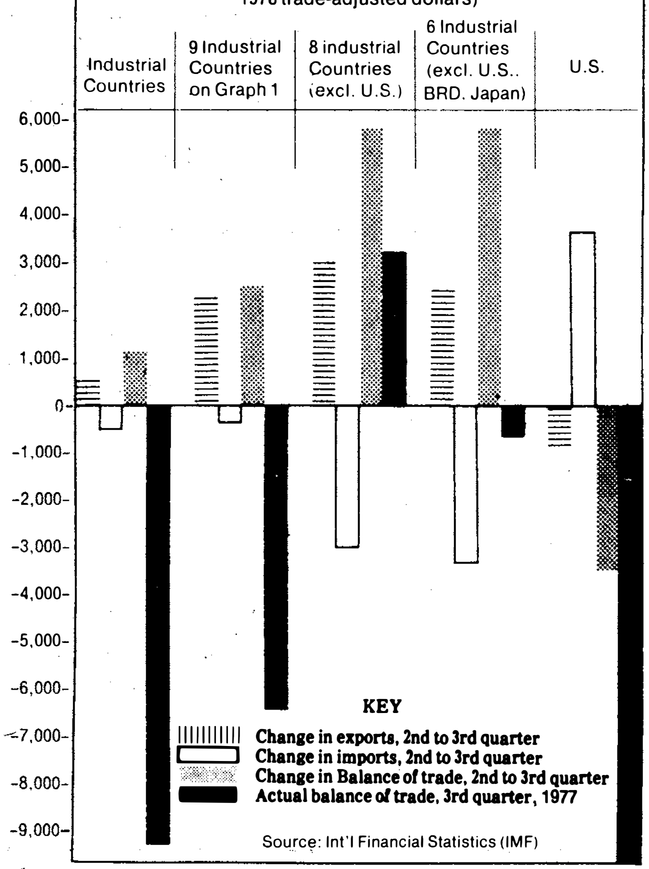


Source: Int'l Financial Statistics (IMF)

Graph 3

Collapse of Trade — 3rd Quarter 1976 Vs 3rd Quarter 1977

(Figures in $millions expressed in 1976 trade-adjusted dollars)



Source: Int'l Financial Statistics (IMF) been surprising changes in the international payments scene over the last twelve months," said Emminger. "Distinct progress has been made in Europe...France, Britain, and Italy together...Last year the spotlight was mainly on Europe and on the group of LDCs with their massive external indebtedness. *Now the spotlight is more on the United States and Japan* (emphasis added —ed)."

Why the U.S. Deficit

Accompanied by a downturn in U.S. corporate earnings, contraction of new investment and bank loans, and chaos on the currency markets, the trade collapse signals the onset of an undisguised depression in the United States.

*Both domestic and foreign lending is falling. With interest rates edging up, the bond market is in the doldrums, as corporations refrain from expanding or investing in capital goods, preferring to stay liquid for contingencies. U.S. capital outflows — i.e., U.S. capital invested abroad — for the first six months of 1977 was *half* that of the same period last year.

*Both long and short-term claims on foreign-held assets is flat over the first three quarters of 1977. There has been zero growth — and in real dollar terms *negative* growth — in U.S. investments abroad, compared with a modest $20 billion increase in 1976.

*U.S. bank loans to foreigners fell $1.7 billion in the third quarter, versus a $5.4 billion increase in the second.

*Production of manufactured goods fell 28 percent in the first three quarters of 1977.

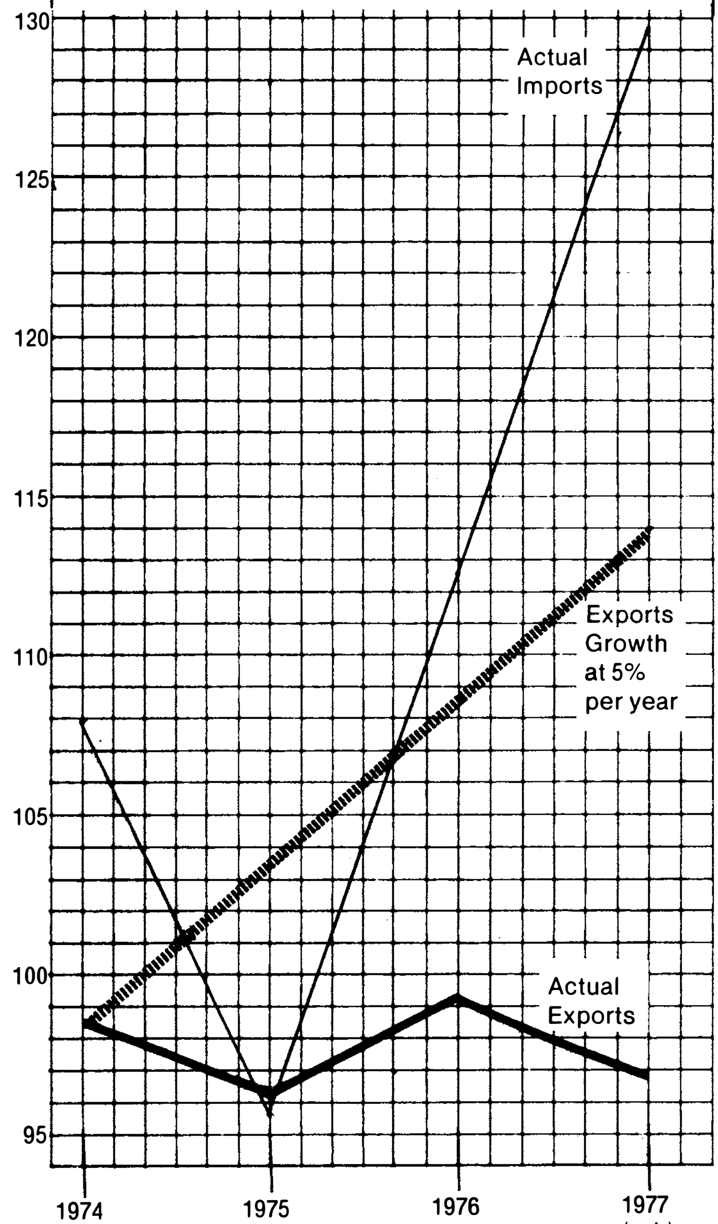
*Exports are now 15 percent below a minimally healthy yearly growth rate of 5 percent, using 1974 as a base year (graph 4).

*Capital goods exports are down by 6 percent this year and by nearly 12 percent from a minimally healthy growth rate of 5 percent per year (graph 5).

Graph 4

U.S. Exports and Imports 1974-77

(in billions of U.S. dollars expressed in 1974 trade-adjusted dollars)

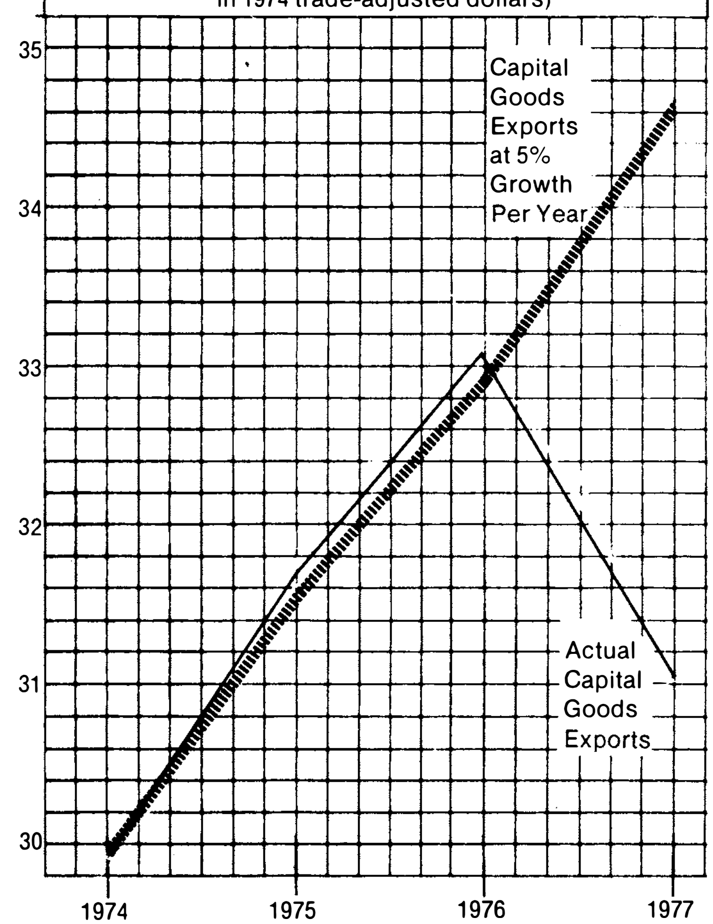


Source: Int'l Financial Statistics (IMF)

Graph 5

U.S. Capital Goods Exports (except automobiles)

(billions of U.S. dollars, in 1974 trade-adjusted dollars)



Source: Int'l Financial Statistics (IMF)

U.S. Balance of Trade and Current Account by World Area

1975 - AUGUST, 1977
(Billions of Current U.S. Dollars)

		TOTAL	CANADA	LATIN AMERICA	WESTERN EUROPE	(OF WHICH) EEC	EASTERN EUROPE	JAPAN	NEAR EAST	OTHER(a) LDCs
BALANCE, MERCHANDISE TRADE-FAS(b)	1975	11.6	N.M.	1.1	9.2	6.3	2.1	(1.7)	2.9	(2.6)
	1976	(5.6)	(2.1)	(0.1)	9.6	7.5	2.6	(5.3)	0.2	(10.9)
Jan-Aug	1976	(2.5)	(1.1)	0.2	5.5	4.5	1.9	(3.4)	0.4	(6.5)
Jan-Aug	1977	(17.9)	(2.0)	(3.1)	4.4	3.2	1.1	(5.0)	(2.1)	(11.4)
a. Balance, Agricultural Trade	1975	12.4	0.8	(1.4)	5.6	4.5	1.5	3.0	1.0	1.2
	1976	11.8	0.9	(2.4)	6.0	4.4	2.2	3.5	0.8	0.6
Jan-Aug	1976	7.4	0.6	(1.6)	3.4	2.9	1.6	2.2	0.5	0.4
Jan-Aug	1977	6.3	0.6	(2.7)	4.2	3.5	N.M.	2.5	0.7	(0.1)
b. Balance, Fuels Trade(c)	1975	(22.0)	(3.9)	(7.2)	0.7	0.5	(0.2)	1.6	(4.9)	(8.2)
	1976	(29.8)	(3.5)	(6.8)	0.5	0.5	(0.2)	1.2	(8.4)	(12.6)
Jan-Aug	1976	(19.1)	(2.4)	(4.5)	0.4	0.4	(0.1)	0.8	(5.3)	(8.1)
Jan-Aug	1977	(27.3)	(2.1)	(6.0)	(0.5)	(0.3)	(0.1)	0.7	(8.2)	(11.2)
c. Balance, Manufactures Trade	1975	20.6	5.3	10.0	0.5	(0.6)	0.7	(7.7)	5.1	3.6
	1976	12.7	3.7	10.2	0.6	N.M.	0.8	(11.5)	6.2	0.7
Jan-Aug	1976	9.5	2.8	6.5	0.3	(0.1)	0.4	(7.4)	4.3	0.8
Jan-Aug	1977	3.3	1.8	6.0	(1.0)	(1.4)	0.2	(9.3)	4.0	(0.6)

Note: (a) Includes Indonesia, Algeria, Libya, Nigeria, and the non-OPEC LDCs of Asia and Africa. (b) Basic Merchandize trade balance. Does not include transport and service charges; includes re-exports and "exports not classified by area." (c) Including fuel and petroleum products.

Source: U.S. Department of Commerce

Exclusive Report On The N.Y. Maritime Regulation Conference

Trade War Brewing In The Shipping Industry

The governments of maritime nations Britain and the United States are verging on adoption of protectionist measures that will prevent cheaper, more efficient Japanese and Soviet carriers from biting into a shrunken world maritime trade, and block "creeping competition" from Third World nations trying to develop their own carrying trades. This emerging policy stance was highlighted at a Nov. 15-16 conference on International Regulation of Maritime Transportation sponsored by the Fordham University's Corporate Law Institute in New York City.

Over the past year threats have been made by the United States and Great Britain to respond to the worsening collapse of world trade, reflected in decreasing shipping tonnages, by erecting restrictive maritime barriers. Paralleling moves limiting Japanese imports of steel and other finished and semifinished products, maritime protectionist moves by the U.S. have included the introduction to Congress of a cargo preference bill stipulating that a certain percentage of imported petroleum be carried on U.S. flag ships.

At the same time, Great Britain has charged the Soviet Union with "dumping" practices in international maritime trade. A June 18 article in the London Economist *charged the Soviets with "encroaching" on British trade through "swashbuckling price-cutting." The article, however, admitted that the Soviet fleet accounts for less than 2 percent of total world shipping tonnage.*

Following are excerpts from speeches given by the conference participants during a session titled "Regulation of the Maritime Industry Abroad." Included are private comments made by various speakers following their formal presentations.

GREAT BRITAIN

F.J.J. Cadwallader, Institute of Science and Technology of Wales School of Marine Law and Policy:

"The government and entire shipping community of the United Kingdom are firmly against the adoption by any country of discriminatory regulations against foreign flags. This should not lead outsiders, however, to think that the UK lies unprotected in this area. The Merchant Shipping Act of 1974 provides for the invoking of very stern measures in such an event. So wide-ranging indeed are these provisions that at the time of their passing, promises were given in relation to the conditions under which they would be invoked... Those who believe in the total freedom of shipping at a national level must continue to hope that this will remain the case and that no change in the mood of internal politics will see a more sinister operation of the powers."

Prof. Cadwallader then departed from his prepared remarks to state that at the recent Brussels meeting of the European Economic Community, Britain made three alternative proposals to regulate Soviet trade. These included the possible restriction of EEC export credits to the Soviets, unilateral sanctions, or changes in specific bilateral agreements. The EEC decided that these measures were "too harsh" and in fact might very well boomerang, so no action was taken. Prof. Cadwallader remarked that Britain may unfortunately have to "enforce the 1974 protectionist laws."

FRANCE

Pierre G. Bonassies, Professor of Law, University of Aix-Marseilles:

Shipping representatives from France and Sweden