WORLD TRADE

What's happened to U.S. exports... and what hasn't

This year's trimming of the U.S. trade deficit has been a source of complacency to liberal outlets like *Newsweek* magazine, which otherwise have nothing good to say for the Carter administration. A Sept. 25 *New York Times* editorial not only praised the export results of a cheaper dollar, but called for more of the same: "this country needs an even lower-value dollar to earn the foreign exchange with which to buy oil."

In fact, the classical currency-depreciation formula for boosting exports has proven no substitute for an actual export program equipped with appropriate external credit policies and domestic capital investment.

What has happened over recent months is that Europe and Japan have absorbed more U.S. manufactures. This was in fact partly influence by the effect on export prices of dollar depreciation. More important, however, was the combination of armtwisted Japanese imports and Europe's industrial expansion, to the extent the latter has boosted demand for U.S. goods. Ironically—the West German case is the key—this demand was primed by Europe's own export growth under European Monetary System policies of financing members' own exports to the Mediterranean rim and the Third World.

Thus, instead of opening its own export boom, the U.S. derived some relatively marginal advantages vis-à-vis the deficit. Third World markets—the tremendous potential growth area—were in the main neglected, as shown by the agricultural, much less industrial, export results described below.

The U.S. trade deficit for the first half of this year has diminished by $7 billion by comparison with corresponding figures for January to July 1978. The projected trade deficit for calendar year 1979 still ranges from a whopping $22 billion (on an f.a.s. basis) to over $30 billion (on an f.a.s. exports and c.i.f. imports basis, the system used by the Europeans).

The principal increases in U.S. exports during the January to July 1979 period (by comparison with January-July 1978) were to the advanced sector nations, notably Japan and Western Europe. U.S. exports to the advanced sector during this period increased from $46 billion to $61 billion, a jump of 33 percent. Most noteworthy within this category were the EEC nations, whose imports from the U.S. jumped from $17 billion to $23 billion (an increase of 34 percent), for a $6 billion improvement; Japan, whose imports from the U.S. jumped from almost $7 billion to almost $10 billion, a 47 percent increase.

EMS responsible, not weak dollar

What made the U.S. export increases possible was the relative stability of major world currencies afforded by the inauguration of the European Monetary System during the January-July 1979 period following successful European pressure on the U.S. in November 1978 to halt the erosion of the dollar by the creation of a massively upgraded U.S. Treasury currency intervention fund. Had it not been for these dirigist interventions on the part of the Europeans, international trade circumstances would have deteriorated and the U.S. simply would not have had the customers for its exports.

Contrary to prevailing impressions, the U.S. export improvement came in the area of relatively high-technology industrial products, not farm products. U.S. food and live animals exports during the January-July 1979 period increased from $10.5 to $11.5 billion, a 9.5 percent increase, contributing a mere $1 billion in new exports. Not only is this figure less than the rate of inflation during the same period—so that farm exports actually shrank in real value terms—but in fact food exports comprised the category of smallest contribution to U.S. exports of the ten major categories used in U.S. Commerce Department export statistics. Indeed, the second poorest showing in the Commerce Department figures comes from the farm-related "Beverages and Tobacco" sector (beverages are principally sugar), which measures a mere inflation-straddling increase from $1.2 to $1.4 billion of 14.8 percent, a minimal contribution of $0.2 billion to the U.S. export picture.

In reality, the major contribution to U.S. exports comes the U.S.'s heavy and high-technology industrial sector, badly battered from the administration's environmental, human rights and antinuclear adventures. There was a $7.5 billion improvement in U.S. machinery and transport exports (from $32.2 to $39.7 billion, a 23 percent increase from the first half of 1978 to first-half 1979), and a $2.5 billion increase in chemicals exports (up 38 percent).

Sins of commission

More important, however, than what happened in the way of U.S. export improvement—for reasons largely despite the administration rather than because of it—are the exports that didn't take place because of administration policy:

• First, there are the exports that didn't take place to the underdeveloped sector. U.S. exports to the underdeveloped nations during the indicated period increased 17.5 percent from $29.2 billion to $34.4—after inflation, more like 7 percent, including armaments. It has been U.S. Treasury and State Department policy to sabotage high-technology exports to these regions. With a sane administration in Washington, this sector would be targeted for multi-billion-dollar expansion of U.S. sales.

• Second, there are the tens of billions of exports to the Soviet bloc that didn't take place. Commerce Department figures show a piddling $800 million improvement in U.S. exports to "Communist areas in Europe and Asia," with exports increasing from $2.8 to $3.6 billion in the indicated period. The increase is almost entirely accounted for by U.S. exports to the People's Republic of China. Trade with the Soviet Union during the indicated period went from $1.7 to $1.8 billion, a 6 percent decline after correction for inflation.

• Third, the administration immediately lost $1.6 billion in exports to Iran through covert State Department support for the toppling of the Shah. U.S. exports to Iran had been $2.3 billion in the first half of 1978, but thanks to Cyrus Vance's protégé Warren Christopher, January-July 1979 U.S. exports to Iran plunged to $693 million and may plunge further. Other billions (and ultimately tens of billions) have been lost to the U.S. through oil import price increases, that used the Iran destabilization as pretext. (The loss to U.S. exports from the State Department supported destabilization of Iran is even greater if one adds to this the $20 billiion nuclear reactor order the Shah had tried to interest the U.S. in accepting, which Cyrus Vance blocked in line with his policy of preventing the "Third World" from getting nuclear power.)

It is on the basis of these cumulative policies that the administration is now seeking congressional support for its trade-bureaucracy reorganization proposal, which would give vastly enhanced powers to the newly nominated Special Trade Negotiator Reuben Askew, Carter's pro-environmentalist "New South" protégé from Florida.

—*Richard Schulman*

INTERNATIONAL CREDIT

Dead ducks and new initiatives

In preparation for Foreign Minister Hans-Dietrich Genscher's upcoming trip to Cuba, the West German ambassador has held "intimate" talks with Premier Fidel Castro, according to the Sept. 24 *Handelsblatt*.

The lead editorial in the business daily reviewed a recent speech in which Castro said, "We shouldn't let all Western nations be thrown into one pot, there are different elements among them. We need friends in industrialized Western Europe. ... In short, the two "North" and "South" leaders are pursuing alternatives to the International Monetary Fund's credit blackmail against underdeveloped nations. The IMF policy was openly challenged under Cuban leadership at this month's summit of the Nonaligned movement in Havana.

Meanwhile West German and French Eurocurrency lending to the Third World, which has accelerated over the past year and a half, continues to free most borrowers from the need to submit to further IMF conditionality. As columnist Alain Vernay commented in the Sept. 24 *Le Figaro*: "Third World countries are increasingly attacking the IMF. ... The IMF has broken down."

An executive at Commerzbank, one of West Germany's leading international lenders, agreed in a Sept. 25 interview from Frankfurt that "Third World nations are becoming too proud to go to the IMF because that entails surrendering their national sovereignty. ... We strongly oppose restrictions on the Euromarkets; we have to continue our Third World lending; without it people there will starve."

During an international banking symposium in West Berlin Sept. 24, the issue of Eurolending restrictions came up again. Citibank senior vice president and African specialist Irving Friedman insisted that "more lending facilities to help underdeveloped countries cover their balance of payment difficulties ... must go through the IMF," not private banks. Deutsche Bank chief Wilfried Guth upheld the IMF in principle but insisted that "strangulation of the international financial system and excessive difficulties for oil importing countries" cannot be tolerated. He further stated, "as far as I'm concerned, reserve requirements [to inhibit bank lending] are a dead duck; it doesn't pay to talk about them any more." "Fixing appropriate ratios to be applied to consolidated balance sheet figures," a second proposal for crimping loans, Guth termed "walking a tightrope."

At the symposium, Crédit Lyonnais president Pierre Brossolette, interestingly, called on the Group of Five leading industrialized nations to work out a set of principles on lending to the Third World. It is in fact clear that the ad hoc current system of Euroloans does not adequately meet either the Third World's need for long-term development funds or the advanced sector's need for high-technology export orders. As we elaborate elsewhere in this section, the question of Arab oil producers' orientation toward a new monetary system is integral to this problem. Commerzbank commented in the interview cited above that there are two ways the European Monetary System can strengthen its ties with the Arab world: 1) continuing to build up OPEC deposits with German and French banks, and 2) formal inclusion of Arab deposits in the EMS itself. At bottom, said the official, "what is needed is an international institution that can handle long-term credit to the Third World on a non-interest basis."

—*Susan Johnson*