

Shocks on export markets show world economy collapsing

by Lothar Komp

Editor's note: *This article was written in January 1999 as part of a German-language EIR Special Report by our Wiesbaden bureau, and has been translated by George Gregory. The report documents the dramatic contraction of the global economy during the second half of 1998. Since then, things have become even worse, in particular in Brazil and in western Europe.*

The global financial system is breaking apart and it is hurtling ever more national economies into the abyss with it. Once the currencies of countries are in the cross-hairs of international currency speculators, the usual chain reaction takes effect: The foreign debt of the governments and industries becomes unpayable due to the sudden devaluation of the currency, followed by capital flight; credit lines are cut; imports collapse; in order to earn foreign exchange, the economies are forced to dump the rest of their production onto the shrinking world markets at bargain-basement prices. That is why the average prices of raw materials are currently at their lowest levels since the mid-1970s. Propagandistically, this effect is sold to the public as a beneficial side-effect of the global economic crisis. But it was not only the prices for raw materials that collapsed; collapsing prices and reduced demand have also hit trade in automobiles, ships, chemical products, and computer chips. Now it is hitting the core of the Western industrial countries, which are heavily export dependent (see **Table 1**).

Looking at world economic developments from the west European point of view, the gale warnings are up. East Asia, which had accounted for more than half of the additional worldwide demand for industrial goods of all kinds since the beginning of the 1990s, has largely dropped away as an importer. One example of the dramatic collapse of real economic activity in this region is the recent development in what was previously the tenth largest economy of the world: South Korea. In the third quarter of 1998, South Korea's industrial production dropped by 7.9%, following a 10.0% drop in the previous quarter. In the third quarter, the construction



The Blount Island Terminal at the Port Authority in Jacksonville, Florida. The insane policy of “globalization” is now hitting the core of the Western industrial economies, which are heavily export dependent. Even the market in computer chips is collapsing—while the economic pundits still proclaim that the U.S. economy never had it so good.

sector reported a collapse of 12.9%; expenditures of private households dropped by 12% in the same period, those of the government fell by 11.1%. Investments for modernization of productive capacities, infrastructure, and home-building fared even worse: Construction investments dropped by 15.8%, equipment investments went through the floor at -46.3%, in each case with respect to the previous year. South Korea reduced its imports accordingly in the third quarter of 1998 by 20.9%.

Shrinking economic activity goes hand in hand with the explosive growth of unemployment and poverty. According to a report of the International Labor Organization (ILO) published in December 1998, the social consequences of the financial crisis in Southeast Asia have far surpassed all the predictions, and could “dramatically deteriorate” further. The number of unemployed people has tripled in one year. From the outbreak of the crisis to the fall of 1998, the rates of unemployment in Indonesia increased from 4.9% to 15.0%, in Thailand from 2.2% to 6.0%, in South Korea from 2.3% to 8.4%, in Malaysia from 2.6% to 5.2%, in Hong Kong from 2.4% to 5.0%, and in Singapore from 1.8% to 4.5%. In some cases the rate of actual unemployment may be much higher than the official figures indicate. With the exception of South Korea, there is no appreciable unemployment insurance in any of the cited countries. (See **Figure 1**.)

In Japan, the official rate of unemployment reached 2.95 million in September 1998 (**Figure 2**), which is 560,000 more than in the previous year. While employment in the service

TABLE 1

Commodity trade in the leading industrial countries in 1997

(billions \$)

Country	Exports	Imports	Balance
U.S.A.	689	899	-210
Germany	512	442	+70
Japan	421	339	+82
France	290	268	+22
Great Britain	282	308	-26
Italy	238	208	+30
Canada	214	201	+13
Netherlands	194	177	+17
China	183	142	+41
Belgium	168	156	+12

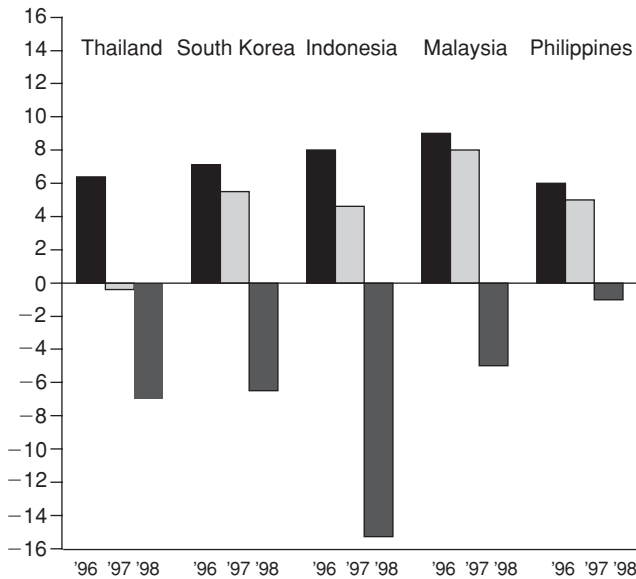
Source: WTO Annual Report 1998.

sector actually increased in these 12 months by 740,000, the productive sector lost 740,000 jobs and the construction industry another 450,000. In addition to flattened economic activity domestically, Japanese firms are also facing a collapse of exports to their Asian neighbors. Japanese exports to Thailand, for example, dropped from April to September 1998 by 20.0%, to South Korea by 34.0%, and to Indonesia by 55.2%. The investments of Japanese firms in the five mem-

FIGURE 1

Southeast Asia: real GDP growth 1996–98

(in %)

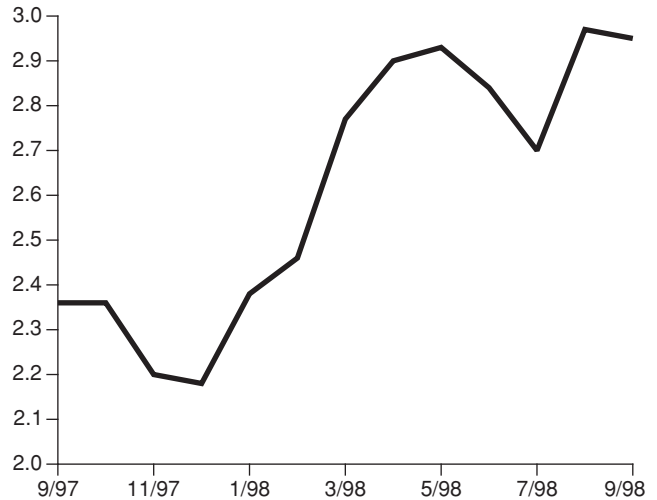


Source: World Bank

FIGURE 2

Japan: official unemployment, September 1997–September 1998

(in millions)



bers of the Association of Southeast Asian Nations (ASEAN) plus Singapore collapsed in the first nine months of 1998 by 59.5%.

Even China, which had withstood direct attacks on its currency and taught a severe lesson to the speculators in the “Battle of Hong Kong” in the fall of 1998, is not cordoned off from the economic consequences of the global financial crisis. In October 1998, there was a drop in China’s foreign trade surplus of 38.1%. Exports, which were already below the level of the previous year in August 1998, then plunged by 17.3%, while imports fell by 9.2%.

Russia and the other successor states of the Soviet Union, which were once among the most important German trading partners, were, for the most part, broken off as a market for German investment goods already at the beginning of the 1990s. Following the devaluation of the ruble in August 1998, the German-Russian trade relationship is facing a new shock. The entirety of Russian foreign trade dwindled in August 1998 by an estimated 50-65% with respect to the previous month. Within the same month, industrial production collapsed by 14.5%. Even the German Federal Office for Foreign Trade Information wrote in the December issue of its newsletter: “How great the reduction of German exports will be following the beginning of the crisis, still cannot be determined. The darker prognoses assume a reduction of 60-80%.” In October 1998, German exports to Russia also fell by 63%.

This concerns especially the exports of the food industry, but also of machinery and chemicals. Over 1998 as a whole, Russian exports to countries outside the Commonwealth of Independent States (CIS) collapsed to a level of 57.7 billion deutschemarks (about \$33.6 billion), compared with DM 88.9 billion in the previous year. Imports fell from DM 71.3 billion to DM 53.5 billion.

All of the economies in eastern Europe are in an extremely shaky condition and any one of them could become the victim of international financial speculators at any time. The Czech Republic is no exception. The largest banks of the country are on the brink of collapse, although the government has intervened to save them several times, which has contributed significantly to the budget deficit of the government. A chain reaction of bankruptcies threatens the over-indebted industrial sector. In November 1998, industrial production dropped by 7.6%, construction by 9.3%. For 1999, explosive growth of unemployment is expected. Registered unemployment rose over the course of 1998 from 269,000 to 387,000 persons. Head of State Zeman, the president of the Parliament Klaus, the head of the Central Bank Tosovsky, and trade union leader Falbr met for an emergency summit in December 1998. The subjects discussed included re-nationalizing privatized firms. The Vice Prime Minister for Legal Issues, Rychetsky, warned of a “total collapse of the economy.”

The oil producers of the Middle East are gasping over the effects of the fall in the price of oil, which, at about \$10/barrel in December, reached the lowest level since the summer of

1986. Compared with \$19/barrel at the end of 1997, this is a drop of 50% in 12 months. If the current price is corrected for inflation, then the price of oil is at its lowest level in 25 years. Over the course of 1998, crude oil production by members of the Organization of Petroleum Exporting Countries (OPEC) was reduced by 2.6 million barrels per day in order to take account of reduced demand worldwide. According to figures from the director of the Arab Institute for Petroleum Studies in Paris, the income of the Arab states from sales of petroleum in 1998 has not been this low since 1973. Corrected for inflation, that income dropped \$40 with respect to the previous year. Most of the Gulf states drastically reduced their government expenditures (by 35%) as a result, and that led to a fall in imports of investment goods. In order to defend market shares and exchange earnings, some Gulf states sold their oil at \$5-7/barrel in December 1998. If the payments problems, which have already hit Iran and Saudi Arabia, escalate further, the world economy and, especially, the financial markets of the Group of Seven countries, are threatened with the withdrawal of an estimated \$800 billion in foreign deposits by the Gulf states.

Developments in non-ferrous metals are similar to that of petroleum. The price of copper collapsed in one year by 40% to \$1,500/ton (December 1998), the lowest level in 12 years. The stock-reserves at the London Metals Exchange (LME) rose over that year's time by more than 50% to 600,000 tons. Aluminum prices dropped in 12 months by 20% and had reached their lowest levels in five years at the end of 1998. Nickel prices fell 35% over the same period, and are now at their lowest level in 11 years. The prices of agricultural produce have also fallen markedly over the course of the year: sugar, for example, from \$320/ton to \$200/ton (-38%). Grain prices dropped in September 1998, at some points to levels not reached for 30 years, and they had reached a 20-year low by the end of 1998. The renowned Commodity Research Bureau raw materials price index, which is calculated from a basket of 17 of the most important metals, energy sources, and agricultural produce, reached its lowest level since 1977 at the end of 1998. The export of raw materials is by far the most important source of foreign exchange earnings for a large share of the developing countries. In the case of Africa, raw materials exports account for 80% of total income from exports, and that share is still 50% for the nations of Ibero-America.

Were Brazil to fulfill the conditionalities dictated by the International Monetary Fund, it would cease to be a customer for the products of European firms. The conditionalities announced by the IMF on Dec. 2, 1998 require a foreign trade surplus for 1999 of \$2.8 billion, although Brazil had recorded a record deficit on its foreign trade balance for each month of 1998. The direction of IMF policy is clear: a dramatic reduction of imports, either by tightening the strangulation of Brazilian economic performance—not least by means of the

TABLE 2
U.S. exports to Asia
(billions \$)

Country	Dec. 97	Sept. 98	% Change
Taiwan	2.2356	1.326	-40.7
South Korea	1.680	1.213	-27.8
Singapore	1.443	1.316	-8.8
Hong Kong	1.317	0.990	-24.8
Malaysia	0.851	0.582	-31.6
Philippines	0.601	0.543	-10.8
Thailand	0.538	0.335	-37.8
Indonesia	0.478	0.133	-67.5
Japan	5.265	4.755	-9.5
China	1.235	0.888	-28.1
Total	15.643	12.096	-22.7

high-interest-rate policy demand by the IMF—or by means of a shock-devaluation of the national currency, the real, along the lines of what happened in Indonesia and South Korea, or, a combination of both. The floating of the exchange rate of the real in January 1999—following the complete collapse of the so-called “preventive” IMF rescue package—now threatens to unleash a chain reaction of currency devaluation, financial collapses, and depression of the real economies throughout Ibero-America, a pattern which was unleashed in the Far East following the floating of the Thai baht in the summer of 1997.

The supposed land of economic miracles of the past year, the United States, which increased its imports from Germany in 1997 by 30%, is finally showing the traces of the global economic collapse (Table 2). On Nov. 8, 1998, representatives of the U.S. government gathered at the meeting of the Transatlantic Business Dialogue in Charlotte, North Carolina, to threaten the European Union with trade war. Vice-President Al Gore, Commerce Secretary William Daley, Trade Representative Charlene Barshefsky, as well as Deputy Secretary of the Treasury Lawrence Summers, warned that a “protectionist fire” would take hold in the United States if the Europeans were not willing to massively reduce their trade surplus (see Table 1). U.S. representatives had made similar threats against Japan one year before. The backdrop of these threats is, of course, the explosive growth of the U.S. balance of payments deficit, which will reach \$236 billion this year, according to IMF estimates, and will reach \$290 billion next year, double the deficit of 1996.

While the foreign trade balance deteriorated progressively, the U.S. domestic market also went into a tailspin. This is particularly evident in aviation and aerospace, one of the key industrial sectors of the U.S. economy. On Dec. 2, 1998, Boeing, the largest exporter in the United States, an-

nounced an additional 20,000 layoffs in the coming two years. In August 1998, Boeing announced 28,000 layoffs as a result of cancelled orders from Asia, as well as the restructuring of the firm following the merger with McDonnell Douglas. That amounts to a reduction of about one-fifth of the jobs at Boeing. Production is to be wound down from 51 aircraft per month to 38.5 aircraft by the end of 2000. Production of the 747 jumbo jet is to be reduced to one-fifth of previous rates of production. Boeing's order books are still full, but the firm expects a radical collapse of demand worldwide in the year 2000.

The layoffs and drop in production at Boeing will also hit other industrial sectors of the American economy, leading to a marked increase of unemployment, especially in the states of Washington and California. Since two-thirds of the value added in the products which Boeing delivers actually accrues to the firm's suppliers, there will be another 100,000 layoffs among the supplier firms as a consequence of Boeing's own layoffs.

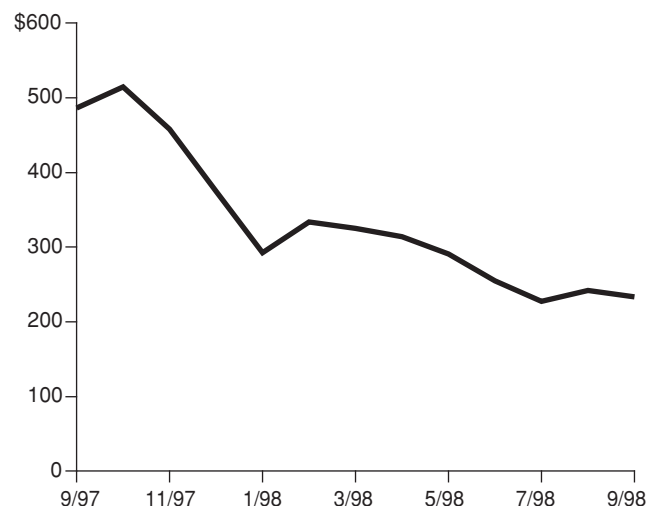
According to reports of the U.S. Bureau of Labor Statistics (BLS), 240,000 industrial jobs were lost in the United States in the first 11 months of 1998. In November 1998 alone, 47,000 industrial jobs dropped away, which indicates an acceleration in the general pattern. In the entire U.S. economy, 216,000 people became unemployed in the three-month period of September–November 1998, a rate of increase like that of seven years ago.

Surveys among firms indicate a dramatic reduction of planned new investments in plant and equipment for the beginning of 1999. One particularly marked warning signal was the fall of new orders for non-military investment goods in September 1998 by about 7.2%. Moreover, the banks reduced credit issuance for private and commercial construction in the wake of the shocks on the financial markets, so that construction in the American economy may be expected to fall markedly over the course of 1999.

All of this is occurring in a situation in which the motor of the American economy over the last months has been in the area of private consumption. The illusion of ever-rising stock markets, to which the majority of American households have succumbed, led to a combined consumer- and stock-market bubble, fed by infusions of pumped-in money, while the rate of savings fell to the lowest since the Great Depression. As a consequence, both consumer-debt as well as the foreign trade deficit exploded, since domestic production lagged far behind private consumption. It is only a question of time until the credit-financed bubble on Wall Street collapses and U.S. households will be hit with the horrible consequences.

In the German economy, the alarm signals are too loud to be ignored any longer. In September 1998, German exports fell below the level of the previous year for the first time since 1996. The first half-year still evidenced growth impulses in exports of 15-20% and in imports by 10-15%. But in the first

FIGURE 3
South Korea: imports from Germany
September 1997–September 1998
 (millions \$)



Source: Bank of Korea

three quarters of 1998, exports to South Korea fell by 46%, to Thailand by 35%, and to Indonesia by 29%. (See **Figure 3.**) In the fall of 1998, German trade with Russia and Brazil collapsed. By the end of the year, there was also a marked drop in demand from European neighboring countries. The grand export offensive of German foreign trade will reach an abrupt end in this year, which is already foreseeable in the development of incoming foreign orders. The German capital-goods sector recorded a drop in incoming foreign orders in November 1998 of 5.6%. German industry, which is most dependent on the export of high-quality capital goods, is being pulled into the worst financial and economic crisis since the end of the war.

We shall now provide a sketch of the situation in the most important industrial sectors, which exemplify the potential for dangers arising out of coming shocks on the export markets.

Automobile industry

The German automobile industry underwent a boom phase in recent years, which contributed significantly to high capacity-utilization in other German industrial sectors, from machine tools to steel production and metals processing. But the storms clouds have been gathering in these areas as well since the fall of 1998. Two-thirds of the automobiles and commercial vehicles produced in Germany are marked for export. The onslaught of depression in large parts of the world economy is making itself felt. In October 1998, foreign orders for light commercial vehicles dropped for the first time below

TABLE 3

Automobile sales in the Asia-Pacific region

(units)

Country	1997	1998	% Change
China	1,567,500	1,325,000	-15.5
India	766,500	615,000	-19.8
Indonesia	378,500	80,000	-78.8
Malaysia	404,800	190,000	-53.1
Pakistan	52,500	42,600	-18.8
Philippines	144,400	63,000	-56.4
South Korea	1,532,900	635,000	-59.6
Taiwan	473,800	440,000	-7.1
Thailand	363,200	155,000	-57.3
Others	96,000	72,800	-24.2
Total	5,780,700	3,618,400	-37.4

Source: EIU.

the levels of the previous year.

A London Economist Intelligence Unit (EIU) study, *World Car Forecasts 1998*, predicted a recession for the worldwide automobile market. Sales levels of 1997 will only be achieved in the year 2001, at the earliest. Over the long term, China, India, Thailand, Vietnam, and the Philippines are among the most important growth markets for the automobile industry. Over the short term, the economic collapse in the Asia-Pacific region will bring a reduction of automobile sales of about 37%, whereby the drop in Thailand, Indonesia, and South Korea will reach the dramatic proportions of 60-70%. Sales in Malaysia, Vietnam, the Philippines, and also in Brazil, will initially fall markedly. This would mean that a production capacity of 71 million new automobiles and commercial vehicles annually faces a reality of only 40 million in sales (Tables 3-4).

The unprecedented collapse of automobile demand in Asia naturally hits the Japanese producers particularly hard. Japanese automobile exports to Asia collapsed in the first 10 months of 1998 by 61%, followed by Ibero-America, which fell by 32%. In Japan itself, automobile sales dropped drastically. According to reports of the Japanese Auto Dealers Association, domestic sales in December 1998 were 23.5% below the previous year's levels, which breaks down to a fall in automobile sales of 22.7% and trucks by 26.0%. All leading Japanese producers reported drastic reductions in sales. Toyota reported reduced sales of 23.6%, Nissan reported -24.9%, and Honda reported -34.9%. Mitsubishi's sales dropped 24.9%. On the whole, 1998 was the worst year for Japanese auto-makers in 12 years. The drop of annual turnover by 15.2% was the largest since the 1974 oil crisis.

Japanese producers were already winding their production down drastically over 1998, including more than 10% at Toyota, Nissan, and Mitsubishi. In November 1998, Mitsubi-

TABLE 4

Automobile sector under IMF rule: new purchases in Thailand

(% change year on year)

1st Quarter 1996	+11.3
2nd Quarter 1996	+3.1
3rd Quarter 1996	+3.6
4th Quarter 1996	-1.8
1st Quarter 1997	-8.8
2nd Quarter 1997	-19.9
3rd Quarter 1997	-48.7
4th Quarter 1997	-73.5
1st Quarter 1998	-70.7

Source: World Bank.

shi Motors announced that it would reduce its production capacities worldwide; the number of employees in U.S. facilities would be reduced by 1,000 (out of 5,400) and in Thailand by 1,200 (out of 4,000), and two assembly plants in Japan are to be closed entirely. This policy is also reflected in auto imports. In October 1998, Japanese auto imports dropped by 25.4% with respect to the previous year, 23.1% for automobiles and 57.2% for trucks. The hardest hit were Ford (-69.5%), Chrysler (-53.7%), Opel (-28.6%), as well as Swedish firms (-37.5%) and the British (-40.9%).

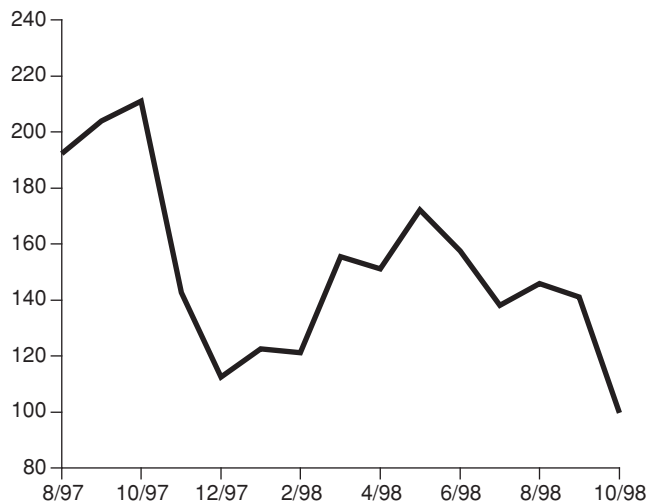
In Brazil, the talk is of the worst crisis in the history of the Brazilian auto industry, which is traditionally the motor of the entire industrial sector. Mass layoffs are inevitable. According to a report of the president of the Association of the Automobile Industry, Butori, some 30,000 jobs will be cut among the supplier industries alone in the first months of 1999. In the first three quarters of 1998, automobile sales in Brazil fell by 25%. In October 1998, the financial crisis with the interest-rate shock assured a collapse of demand for automobiles by 50% of the previous year's levels, and the lowest level since 1990. While price inflation was less than 3%, the central bank's interest rates went to 50% levels. The government, under President Cardoso, wanted to use this high-interest-rate policy to keep foreign capital in the country. As is well known, the policy was a resounding failure.

Brazilian economic activity was strangled. Like dominos, the producers, including VW and Mercedes, announced "forced vacations" at unprecedented levels. At Mercedes, which employs 11,000 people in Brazil and which sells three-fourths of the produced vehicles—mostly busses and trucks—on the domestic market, turnover dropped in October 1998 by 59%. The situation for the Brazilian economy deteriorated further with the conditionalities imposed by the IMF in the context of the international "rescue" package (rescuing the credits of foreign banks). The Brazilian automobile association reported a drop in production for 1998 of 24%, the

FIGURE 4

Brazil: automobile production, August 1997–October 1998

(in thousands)



Source: Banco Central do Brasil

lowest level in five years. Brazil, along with China, used to be seen as the most important auto market of the future. Once assembly plants for the new Daimler-Chrysler, Renault, and VW/Audi are completed in 1999, Brazil's capacity will increase to 3.3 million units annually. Under current conditions, the highest level of achievable sales will peak at 1.5 million units, at best (**Figure 4**).

In the United States, Chrysler Corp. reported a drop in exports of 23% for the month of October 1998. Sales to the Asia-Pacific region collapsed by 51%, followed by Ibero-America at 25%, and the Mideast/Africa by 42%.

In western Europe, as well, where the auto industry is a crucial pillar of domestic economic activity, the period of prosperous growth in newly registered vehicles belongs to the past. According to a study by EIU, the European auto market faces several years of recession. Sales of new automobiles did reach a record of 14.2 million in 1998, but in the following years this is expected to drop, in steps, to 12.7 million in the year 2001. The first warning indications have been visible for some time. The European Association of Auto Dealers (ACEA), to which 17 European countries belong, reported a rise in newly registered vehicles of only 1.1% for October 1998 with respect to the previous year, which is far below the usual rates of 5-10%.

Sales of new automobiles in Italy dropped by a full 23.5% following the government's decision to put a stop to tax benefits.

The market research firm Marketing Systems, in Essen, Germany, pointed out that there would be a radical drop in

new registrations in Germany in 1999, by approximately 9%, were it not for the fact that a considerable portion of the orders booked in 1998 will be carried forward into 1999 due to delivery bottlenecks. In May 1999, at the latest, the sharp drop in new orders will make itself felt on the production side, and that will boomerang into the employment situation. The IG-Metall trade union chairman, Zwickel, warned at the beginning of 1998 that the next downturn in the German auto industry could cost 200,000 of the current 720,000 jobs.

Machinery

The German machinery industry reported an alarming drop in foreign orders by about one-third, 35%, for September 1998, with respect to the previous year. Prior to that, developments had been negative for two months running (-15% in July, -4% in August). On the whole, foreign orders in the third quarter were 21% below the levels of the previous year. In particular, exports to Asia had collapsed by 30%, but the downturn had just begun in Ibero-America and in the OPEC region. Business with the European neighbors and the United States, which had been the most important pillar of the German machinery sector, which has an export dependency of 60%, had cooled down strongly and ultimately stagnated. In October 1998, foreign orders were 10% below the levels of the previous year; in November 1998 they had dropped by 24%. In November 1998, orders from European Union countries dropped for the first time, which, with a share of 45%, is the most important export market for German machinery. Incoming orders from Thailand, the Philippines, Indonesia, and Malaysia were 50-80% below the levels of the previous year.

The Swiss machinery industry, which is among the five leading producers in the world in some areas—such as the vital machine-tool sector—took a drop in orders of 12.1% in the third quarter of 1998, whereby domestic orders fell by 24.2% with respect to the previous year. As a direct consequence of the financial crises in Asia and Russia, foreign orders fell by 7.9%. Asian exports fell in the first three quarters of 1998 dramatically: South Korea -66.2%, Malaysia -48.9%, Indonesia -44.9%, Thailand -37.6%, Hong Kong -28.7%, Singapore -23.6%, Japan -9.7%, and China -8.4%.

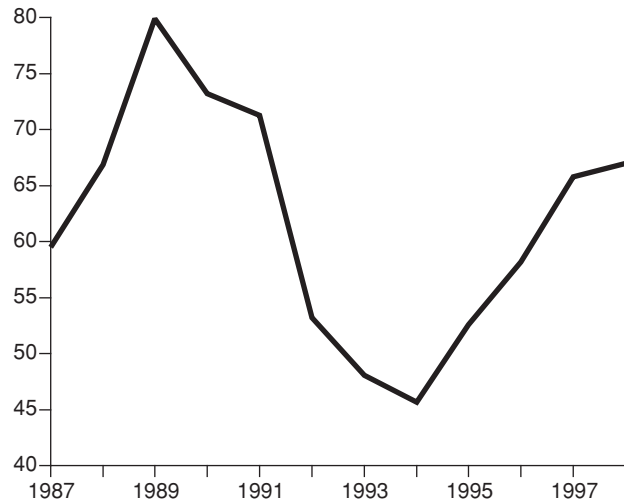
The machine-tool sector—the most important technological motor of the productive world economy—went through its worst collapse in postwar history in 1992-93 (**Figure 5**), when investment activity in the territory of the former Soviet Union came to a near standstill, and the economic crisis in large parts of the Western industrial countries led to a doubling the unemployment rate in Germany. In 1989, worldwide trade in machine tools reached a volume of DM 80 billion. In 1993 and 1994, it was only DM 48 billion and DM 46 billion, respectively, or a drop of DM 40 billion.

In Germany—the second most important producer of machine tools worldwide, following Japan—the number of employees in this area dropped from 100,000 in 1990 to 64,000

FIGURE 5

Worldwide machine tool production, 1987–98

(in DM billions)



Source: VDW

in 1997. The worldwide market for machine tools has not recovered from this shock. Although there was a gradual upturn, the volume of production in Germany rose from DM 10.4 billion in 1994 to DM 13.7 billion in 1997, far below the DM 17.4 billion achieved in 1991. And now the next shock is just around the bend. Over the course of 1997, there was a strong decline of exports of German machine tools to some of the leading customer-countries of Asia and Ibero-America, for example to China by 49%, South Korea 44% (see **Figure 6**), India 23%, and Brazil 45%. The order books of German machine-tool producers were indeed filled up somewhat in the first half of 1998, but should the remaining pillars of the export market crumble, i.e., the United States, China, and western Europe, the prospects for German machine tools are indeed dark. Incoming orders registered since November 1998 show negative growth.

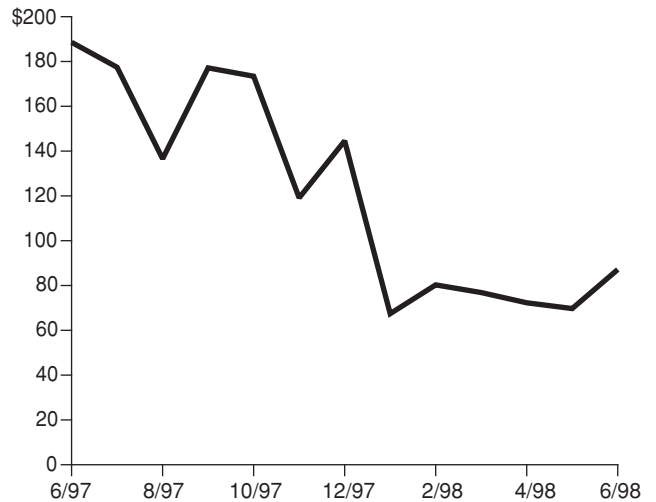
The Japanese machine-tool industry, number one in the world ahead of Germany since 1981, has been gripped by a continuous decline in orders. In February 1998, growth rates turned negative for the first time. In the first eight months of 1998, incoming orders were 20% below the levels of the previous year. While exports to China still rose by about 68% in the first eight months, exports to South Korea, Taiwan, and Hong Kong dropped by 36%, and to the Southeast Asian countries by 47%. In September 1998, the decline in orders had already reached 35%, in October 30%, in November 26%. Domestic orders dropped at the same time to half of the levels of the previous year.

In mid-December 1998, the U.S. Association for Manu-

FIGURE 6

South Korea: machine-tool imports, June 1997–June 1998

(millions \$)



Source: Bank of Korea

facturing Technology and the American Machine Tool Distributors' Association reported an alarming decline in consumption of machine tools by U.S. industry. Machine tool purchases of American firms had dropped 23% with respect to the previous month and were 21% below the level of the previous year. At the same time, U.S. machine-tool exports dropped by 35% with respect to October 1997.

In the area of large plant construction, the world market leader in the construction of foundries and rolling mills, the SMS firm of Düsseldorf, reports an abrupt decline in business since mid-year on account of crisis developments in Asia, which was then followed by a "dam-break" in August with the Russian debt moratorium. The Asian market, according to SMS, has all but ceased to exist; the worldwide market volume will drop this year by 30-40%. The firm announced in December 1998 that it was merging with Mannesmann Demag AG as a reaction to the shrinking world market.

Linde AG in Wiesbaden announced a decline of incoming orders from Southeast Asia, China, and Japan for 1998 in the conveyor technology segment of 25%. In November 1998, Linde did land a larger contract for the construction of a turnkey cracker-plant in Malaysia, with an annual capacity of 600,000 tons of ethylene and 85,000 tons of propylene. This will be part of a large petrochemical complex on the east coast of Malaysia, with which Malaysia will rise to the status of the leading petrochemical supplier in Southeast Asia. But this was the only large contract booked by Linde plant construction for 1998, while in past years Linde's turnover in South-

east Asia accounted for about 25% of its total plant construction turnover.

The German branch of Asea Brown Boveri AB (ABB), headquartered in Mannheim, one of the market leaders in energy production plants, suffered a collapse of incoming orders from Asia in 1998, because infrastructure projects where either given up or postponed. The decline here was about one-third. Domestic orders declined at the same time by 10%, so that the total volume of new orders was 20% below the levels of the previous year.

Steel industry

The world's largest steel producers are currently China, Japan, and the United States, with 100 million tons/year, followed by Russia, Germany, and South Korea, with an annual production of 40-50 million tons. Worldwide, some 750 million tons of steel are consumed in construction in the transportation sector, homes, factories, machines, vehicles, and other industrial goods. Per-capita consumption of steel is an important measure of real economic activity, and even a measure, in a certain sense, of the standard of living of the population in the respective national economies. In the past ten years, annual per-capita consumption of finished steel rose rapidly in some Asian countries, by about 470% in Malaysia, 240% in South Korea, and 80% in China. According to recent statistics, per-capita consumption of steel was 635 kilograms in Japan, 979 kg in Taiwan, and, leading the list, 830 kg in South Korea, while in North America it was 420 kg on average, in Europe 340 kg, and in Africa only 17 kg.

On account of its ambitious investment activity in the recent past, Southeast Asia became the most important market for steel in the whole world, and the region absorbed 75 million of tons of steel from abroad, in addition to its own production. In consequence of the financial collapse in the region, worsened by the IMF-dictated austerity measures targeting infrastructure investments, almost nothing is left of these imports. The most important market for steel in the world disappeared, practically overnight. At the same time, the most important industrial customers of the steel industry, machinery, and the automobile industry, went into a tailspin worldwide. The president of the Düsseldorf Steel Association, Ruprecht Vondran, thus speaks of a "weather catastrophe in the world steel market" since mid-1998. Steel prices are dropping through the floor everywhere. Over the course of 1998, prices in Asia fell by a third.

Since September 1998, this development is reflected in a global decline in steel production, and, according to reports of the International Iron and Steel Institute, to the extent of 6.3% worldwide with respect to the previous year. In November 1998, the decline had accelerated to annualized rates of 9.3%. The picture is the same wherever one looks: In the European Union, production declined by 10.3% (Germany -14.6%, Italy -11.6%, France -7.1%, Great Britain -13.4%, Spain -8.7%). The East European steel industry was hit even

harder. Production dropped there by 19.1% below the previous year's level (Czech Republic -16.4%, Slovakia -9.1%, Poland -30.9%, Romania -18.5%, Bulgaria -17.5%, Turkey -10.9%). In the CIS states, production dropped 15.9% (Russia -14.8%, Kazakstan -32.8%, Ukraine -15.3%). In North and Central America, production declined by 12.3% (United States -14.0%, Canada -7.4%, Mexico -4.3%), and in South America the decline was 6.0% (Brazil -4.6%, Argentina -3.8%, Venezuela -13.8%). In Asia, production rose in Taiwan (+1.7%) and in China (+4.4%), but even these rates reflect a dramatic downturn in comparison to the double- and triple-digit growth rates of the recent past years. South Korea (-12.0%), Japan (-13.6%), and India (-4.2%) recorded considerable declines. In Australia, steel production dropped by 12.2%, and in Africa by 5.2%.

The five leading steel producers in Japan—Nippon Steel, Kobe, NKK, Sumitoma, and Kawasaki—reported the worst declines in orders in postwar history for the first fiscal half-year (April-September 1998-99). The world's largest steel producer, Nippon Steel, cut production by 12.3% to 12.04 million tons, the lowest rate of production since the firm was established in 1970.

The case of South Korea demonstrates the boomerang effect on the steel producers in America and Europe: Production declined in Europe in 1998 by 13%, steel consumption fell by 33%, and steel imports dropped by 60%. But to save its own industries and to earn urgently needed foreign exchange at the same time—particularly to service immense private foreign debts—South Korea boosted its steel exports over the course of 1998 by 46%, and profited handsomely from the devaluation of the national currency, the won, in the process. Many other threshold countries followed suit. But since the world market is shrinking, the scream of protest by the Western producers is understandably loud.

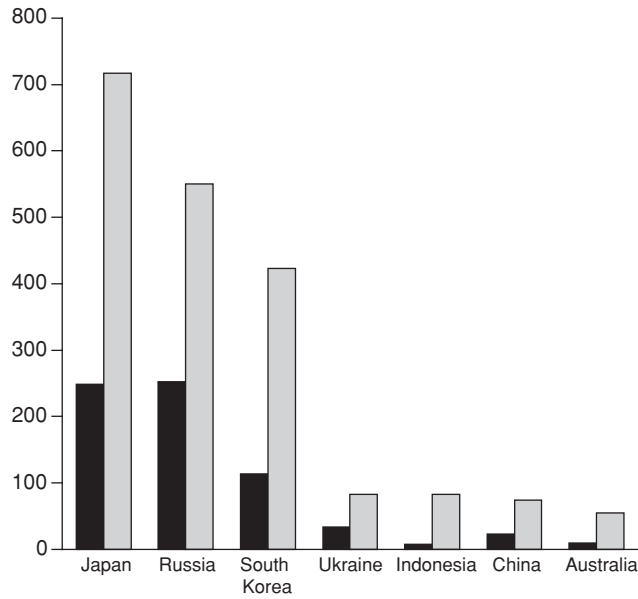
On Nov. 5, 1998, representatives of the U.S. steel industry stormed the American President, demanding immediate action against the "invasion" of cheap steel from Russia, Japan, South Korea, and Brazil. Otherwise, mass layoffs in the United States would follow. In the third quarter of 1998, U.S. imports of steel had risen 56% above the levels of the previous year, or 27% for the first three quarters of 1998. In the first nine months of the year (see **Figure 7**), Japan increased its exports to the United States by 148% to 4.6 million tons, and Russia boosted its exports by 37% to 3.8 million tons, South Korea followed with a hike of 112% to 2.6 million tons, Australia by 171% to 704,000 tons, and Indonesia went for broke, increasing the rate of its exports by 458% to 346,000 tons.

On Nov. 23, 1998, the umbrella organization of the European steel industry, Eurofer, launched a legal suit at the EU Commission against the dumping of wide rolled steel from Bulgaria, India, Iran, South Africa, Taiwan, and Yugoslavia. These countries stand accused of selling their steel below the cost of production, and up to 30% below the usual price levels in the EU. Steel imports of the EU increased in 1998 by 55%.

FIGURE 7

U.S. steel imports from CIS and Asia/Pacific explode, September 1997–September 1998

(in 1,000 tons)



Source: AISA

That makes the EU a net steel importer for the first time in its history.

Computer chips

Information technology is also no safe haven in the world economic crisis. According to a report of the U.S. Semiconductor Industry Association (SIA), worldwide sales of semiconductors declined in September 1998 by 13.5% with respect to the previous year, to 11.8 billion units. Sales in America dropped by 12.7%, in Europe by 0.4%, in the Asia-Pacific region by 11.4%, and in Japan by a full 27.9%. The SIA expects a worldwide decline in the chip industry of 10.9% for 1998, the first negative record for the industry since 1985. The market for memory chips collapsed in 1998 by 25.7%, not least due to the pattern of falling prices, which began at the beginning of 1996. The turnover in microprocessors stagnated in 1998.

The association is indeed announcing a return to double-digit growth rates in the coming years, but the relevant firms seem to believe that that is a dubious perspective. In November 1998, Siemens announced that it would lay off 60,000 people worldwide, i.e., 15% of its international employment, and that it would get rid of the entire semiconductor segment of its business, as well as parts of its electronic components business, as a reaction to the collapse of world market prices for computer chips. Siemens chief Pierer said that the reason

for the firm's action was the catastrophic situation on the worldwide semiconductor market. Siemens suffered losses of DM 1.2 billion in these areas in 1998. The company had announced just a few weeks before that it was closing its new computer chip plant in Newcastle, Great Britain, which began production in 1977. The question now is, what will happen with the model plant in Saxony, and with its Microelectronics Center (Simec) plant in Dresden, co-financed by the German government to the tune of DM 800 million, and employing 2,700 people. Since the fall of 1995, some 100 million 16-MB memory chips are produced there annually, whereby the unit prices have collapsed in the meantime by 95%.

The Dutch electronics firm Phillips will close about one-third of its 244 plants worldwide in the next four years. Phillips will shut down 43 plants at home and abroad this year alone. These steps are being taken, despite the fact that the European semiconductor industry made it through 1998 better than many of its competitors in Asia and America. Texas Instruments reported a drop in turnover of 18.4%, Motorola 14.2%, Toshiba (Japan) 16.5%, Fujitsu (Japan) 16.4%, and Hitachi (Japan) a hefty 26.2%. Japanese producers are speaking of the worst collapse ever in the semiconductor branch. At the beginning of 1999, the South Korean firm LG announced that it was withdrawing entirely from its semiconductor business.

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