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## POLITICAL ECONOMY

# Third World Debt Crushes World Trade

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NEW YORK, May 21 (IPS) — Without an immediate moratorium on servicing of the underdeveloped world's $140 billion debt, and the creation of new financial arrangements such as the proposed International Development Bank (IDB), international trade will grind to a virtual standstill within weeks.

Like epidemic disease, the breakdown of world trade has started with the raw-materials producers of the Third World, and spread outwards to the underdeveloped sector. During the past year, the export prices of commodities shipped by this sector have collapsed by about half, destroying these countries' ability to import essential items and pay debt service. Depression production levels within the advanced sector have forced a general liquidation of corporations' raw materials stockpiles. This has overwhelmed new demand for industrial raw materials. Copper prices fell from $1.30 a pound in mid-1973 to 55 cents a pound this week; tin from $4.20 to $3.20; cocoa from $1.20 to less than 70 cents; cotton from 60 cents to 35 cents.

In turn, international banks and collaborating Third World governments have taken emergency triage measures to shut out "unnecessary" imports, producing chaos at the trading level. Turkish grain-importing companies, operating under government license, last week could not produce the cash needed to take delivery of 17 million bushels of wheat. A Brazilian manufacturer recently reneged on a contract to import copper from one of the world's largest metal trading houses, because the debt-strapped Brazilian government refused to grant a license for costly imports. South Korea, the Philippines and Taiwan are unable to pay for cotton contracted for shipment last year, and the cotton lobby in the United States is desperately trying to arrange government credits to finance the purchases.

The proliferation of these incidents has put the entire structure of international trade at risk. "This is the nightmare we live with every day," a trader for the affected copper firm said. "We're big enough to take the loss. But no one knows who to trust anymore."

### Trade Mechanisms Shot

The entire network of trading connections is now based on tens of thousands of individual deals conducted through commodity exchanges, such as the Chicago Mercantile Exchange, the largest agricultural handler, and the London Metal Exchange, which sets world prices for most industrial metals. Apart from planned trade between members of the Soviet-led Council for Mutual Economic Assistance, and a limited volume of bilateral deals between nations, all trade depends on the following process:

An importing firm obtains credit to purchase goods from abroad through a bank in his country, which guarantees payment to the exporter. A contract is arranged, after which a discountable bill of exchange (an agreement to pay at a future date which may be sold for ready cash) is presented to the exporter by the importer. In the case of most commodities, such contracts are themselves bought and sold on an open market.

This entire process has broken down, and a glance at the financial position of the countries where the break has come first shows why:

- Brazil has almost $20 billion in outstanding debt. Cut-off of its export markets in the advanced industrial sector has lowered its exports to a level almost $4 billion a year less than its imports. Emergency trade restrictions — of the type that forced the copper cancellation noted above — have "reduced" Brazil's external borrowing needs to an estimated $4 billion this year, from $6.9 billion last year.
- South Korea, which cancelled cotton imports, staved off national bankruptcy earlier this year with a $200 million emergency loan from its creditor, First National City Bank. During the first quarter, its exports amounted to half its imports. Western banks will no longer trust South Korean financial institutions for the value of an import contract, forcing a shutdown of its trade.
- Taiwan's credit standing has collapsed; during the first quarter of this year, its balance of trade deficit ran at an annual rate of $1.6 billion.

### ICLC Study Documents Whole Sector

According to a soon-to-be-published study by the International Caucus of Labor Committees, this picture applies to the entire range of underdeveloped countries. International banks are refusing to provide import credits — or even accept the credit guarantee of banks in third world countries. The desperation of the situation is indicated by the fact that even Algeria, with about $7 billion annually in oil revenues, is behind in payments to French firms for its industrial imports.

During 1972 and 1973, speculation in commodities drove prices to their record mid-1973 levels. On this basis, raw materials producers contracted upwards of $40 billion of new debt obligations from the private, mainly Eurodollar, banking sector. With the bursting of the commodity bubble last summer — the start of the industrial downturn in the advanced sector — most of the Third World went into the first stages of bankruptcy.

During the past few weeks, the breakdown of commodity prices has pushed trading companies, primarily from the sectors most affected by the price drop, to throw away international trading contracts, pushing the commodity markets still deeper into disarray.

Rockefeller policy towards the commodity producers involves a large-scale replay of the triage of New York City. At the annual meeting of the Inter-American Development Bank this week, U.S. Treasury Secretary William Simon informed the assembled Latin American finance



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ministers that the United States would provide funds for the Bank this year on condition that no new loans go to Mexico, Argentina, Brazil or Peru. These countries have the largest outstanding debt needs. To get through 1975 without these loans, and turned away by private bankers, these countries will be forced to impose a level of import-austerity sufficient to wipe out large portions of their population. At present, 30 million Mexicans now exist at the brink of starvation. A cutoff of funds will destroy 30 million Mexican lives.

As in the case of New York City, the objective from Wall Street and Washington is not to avoid Third World bankruptcies — this is impossible — but to force these countries through the sort of "orderly" bankruptcy proceedings which European Jews were subjected to during the 1940s. Secretary of State Kissinger announced that the United States would engage in "case-by-case" negotiations with groups of commodity producers to prevent individual situations from getting out of hand.

In tandem, the International Monetary Fund (IMF) and World Bank are attempting to moderate the explosion. Last week the World Bank lent $6 million to Bolivia to finance its contribution to a tin stockpile scheme designed to give the commodity a "floor price." The IMF lent $56 million to Zaire, central Africa's near-bankrupt copper producer, to satisfy the country's creditors.

But the actual effect of the Kissinger-World Bank austerity demands will be to detonate the world trade structure in general, an explosion which is already underway. Immediately, the effect of this explosion will be to shut down essential imports of food and other vital shipments to moneyless underdeveloped countries, putting hundreds of millions of lives in jeopardy — apart from wrecking the trade and industry of the advanced sector.

Apart from mere sane economics, the interest of the human race demands the scrapping of the teetering dollar monetary system, and immediate public discussions between advanced sector governments and industrial firms with leading Third World countries such as Algeria, Iraq, and India, toward the formation of an International Development Bank.