Debt Threatens World Trade

July 16 (IPS) — French President Giscard's proposal for an international monetary conference next September and West German Christian Democrat Todenhoefer's call for a development conference in the same month contain a deadly blunder: by September there will be no monetary system or world economy left to discuss. Not, that is, unless underdeveloped countries join the trading nations of the industrial world in immediate debt moratoria against the dollar debt of Rockefeller banks and their enforcers, the World Bank and International Monetary Fund.

Within the next three months, the international trade of Third World countries — almost a quarter of a trillion dollars in goods per year — will be cut in half by the debt crisis exploding throughout this sector. The leading industrial nations of Western Europe and Japan will watch their exports drop by roughly a quarter from their present depressed levels, already down by a quarter of their previous year's value.

The International Caucus of Labor Committees will present a set of measures for debt moratoria and convening of an International Development Bank to key Third World and advanced sector governments, in preparation for next month's meeting of 104 Third World countries in Lima, Peru. Among those countries whose lives are at stake, there are no illusions left about their ability to survive the next quarter of this year under Rockefeller rule. In every case there is one question: "What do we do to stop this?"

Refinancing Comes First

Behind the trade collapse is about $30 billion in short-term "trade" credits extended to Third World countries and certain advanced sector basket-cases like Great Britain and Italy. This credit, issued by U.S. banks and their subsidiaries in the Eurodollar market, has nothing whatsoever to do with trade. Every penny went towards short-term refinancing of the Third World's $140 billion debt burden, using the exports of these countries as mere collateral. Without the formation of the IDB, Third World demand for imports from the advanced sector will dry up completely. The economies of Western Europe, heavily dependent on export trade, cannot long survive without Third World markets.

Previously, the central bank of an underdeveloped country provided the dollars needed to purchase food, fertilizer, or technology abroad. But at the beginning of 1974, foreign banks stepped in to finance trade — graciously permitting the central bank to exhaust its last penny on debt service.

Between Feb. 1974 and Feb. 1975, U.S. banks tripled their payments to this refinancing pool to a total of $15 billion, mostly in 90-day paper. The following examples (see table below) show the magnitude of this operation.

All of the wave of credit default which began around the June 30 international payments bottleneck is concentrated on this area of trade financing. Bluntly, this means that every dollar of unpaid debt comes directly out of trade. Unpayable debt of this category includes $6 billion for Mexico; $800 million for South Korea; $1.3 billion for Argentina; $2 billion for Indonesia; $900 million for India; $500 million for Egypt; and $1 billion for Zaire.

Great Britain's short-term debt on trade account amounts to $3 billion, which cannot be refinanced, authoritative financial sources state.

Model: Chile and Brazil

In sum, the $30 billion in short-term trade credits now in jeopardy, which account for $120 billion of Third World trade on an annual basis, will obliterate half of this sector's imports within the next three months. By staking all short-term refinancing to trade flows, the Rockefeller banks are in position to punish a defaulting country with an immediate cutoff of essential imports. The model for this brand of mass murder is Chile, which failed to pay its debts at the beginning of this year. Since then, the shutdown of import credits has cut food imports into the country by more than half, reducing the population's diet to a per capita daily average of 1500 calories, less than required to maintain biological functions.

Brazil's plagues, bred by starvation, will begin to breed throughout the entire underdeveloped sector starting now, as long as the Rockefeller banking apparatus keeps its stranglehold on Third World imports.

Since New York banks wrote off Argentina's $3.5 billion in debt service as a dead loss last week (see p. 16), prices of food staples in that country tripled.

Chain-Reaction

Aggravating the crisis, nonpayment of debt by bankrupt countries is having a chain-reaction effect on the international banking network. "We're in real trouble," complained the top economist for a large international bank, who asked not to be identified.

U.S. Bank's Short-Term Trade Credits

	Feb. 1974	Feb. 1975
Brazil	$ 900 million	$ 1.5 billion
Mexico	$ 1.373 billion	$ 2.1 billion
Korea	$ 403 million	$ 1.6 billion
Africa	$ 388 million	$ 875 million

"There's no solution." Already, the 25 per cent attrition in international trade since last year has wrecked the shipping market, putting $30 to $40 billion in short-term shipping finance loans into the "bad debt" category. One New York bank is now reviewing every maritime loan in its portfolio, a procedure normally reserved for floods, earthquakes, and revolutions.

The combined effect of these loan defaults will blow the unstable Eurodollar market out of the water, forcing banks to pull in short-term loans rather than rolling them over.

There are two alternatives open to the Third World: stop debt payments to the Rockefeller stranglers or die. Debt moratoria must be made on a simple political condition: stop payment to Rockefeller institutions and immediately make the necessary arrangements to continue trade with the Soviets, their allies in the non-aligned group, and those sections of advanced-sector industry willing to collaborate. There is no more time to muddle over which direction to choose.