International Trade Set for October Slump

by David Goldman

Sept. 17 (IPS) — International trade will slump from its present 10 per cent annual rate of contraction to a more than 20 per cent rate of collapse by mid-October, according to an IPS survey. The only positive feature of international commerce picture is the present expansion of East-West trade, and expansion of trade between the socialist countries and the Third World.

The survey — which focused on capacity-utilization in dry-cargo shipping, shipping rates, and the issuance of short-term credits in international commerce — shows that current orders and available short-term credits will sustain the present low levels of international trade for the next 30 to 60 days. But the "pipeline" of international trade is drying up rapidly, due to chaotic conditions in the dollar credit sector, on which 60 per cent of international trade depends.

Down, Down, Down

Generally, commercial orders for international delivery reflect the state of industrial orders, and anticipate industrial output. In a pattern identical to the fall-off in anticipated industrial output in the U.S. sector, current indicators show a downward slide appearing between four and six weeks from now.

*Long-term credit issuances to major importing countries collapsed during July and August, and European governments have been forced to take emergency measures to prop up national reserves of their trading partners. National reserves are held by central banks as a pool of claims on other nations to pay for imports. Bond issues on the international market, a major source of financing for advanced-sector countries with a wide gap between imports and exports, fell to near zero during August, and market sources indicate that the main international pool of funds will be moribund through June. Lack of funds to purchase international bonds has driven up interest rates by more than 1 per cent this month, a record rise to 11.5 per cent for top borrowers. The international market's benchmark of creditworthiness, the European Investment Bank, has had to withdraw from the market due to "unstable market conditions," the bank's underwriters say.

*The main demand on trade financing during the last few months, large-ticket items being shipped to oil-producing countries, will dry up within the next few weeks, according to bankers, since the backlog of orders has thinned down, due to the $20 billion drop in oil revenues during the past year.

Apart from the continuing Mideast orders, bankers say, other sectors of trade financing are shrinking rapidly. European demand for trade financing has dropped sharply, the survey shows, while Japanese borrowing for commercial uses in New York has dropped by 40 per cent since January, mainly due to a collapse in the country's imports of industrial raw materials. Japanese demand makes up 33.33 per cent of the New York market in bankers' acceptances, a much used form of trade paper.

*Dry cargo rates in international shipping have stabilized, according to a consensus of experts, only because recent Soviet grain purchases have given the sagging market a temporary boost. Once these shipments are concluded, or if they are interrupted by the State Department for economic warfare purposes, the shipping market will continue to collapse. Other commodities, such as coal, iron ore, and industrial raw materials, have fallen off sharply in international deliveries. One result of the market collapse is frantic lobbying by U.S. shippers to persuade Washington to exclude Soviet and other carriers from part of the U.S. market.

The single trade channel that is undergoing expansion is based on European extensions of credit to the Soviet bloc, which will borrow about $1.5 billion to pay for imports during 1975. Although American banks have refused to participate in most loans to the Soviets, European bankers have made lending for East-West trade top priority. This has only secondarily to do with banking criteria. According to Ludwig Poullain, the chief of West Germany's third largest bank, the Westdeutsche Landesbank, the Soviets demand, and get, price discounts in their imports to compensate for inflationary Western interest rates. The extent of lending indicates that European bankers are already anticipating a political agreement between their countries and the Soviets to create transferable ruble financing arrangements for trade, bypassing the dollar credit sector.