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WORLD TRADE

World trade figures show problems

At first glance, world trade figures for 1978 and the first half of 1979 appear as a bright spot among otherwise ominous economic developments. World trade for 1978 was up 16 percent in value, and 6 percent in volume (a closer representation of the increase in trade, after correction for inflation). But available January-August 1979 advanced-sector trade figures admittedly already show a less rosy picture.

Even before Volcker's recent moves, the world trade picture had been showing danger signals. Imports for Western Europe and especially Japan have been increasing faster than the increase of exports—an intolerable situation in a world in which the principal vector of development should take the form of an export surplus from the advanced sector to the underdeveloped sector.

Secondly, even the modest 1978 increase in global trade over the previous year is well below half the trade growth rates characteristic of the period before the 1973-1974 oil crisis. Thus, the Volcker liquidity crunch came at a time in which world trade had already been deteriorating vis-a-vis the halcyon pre-1973 period. Indeed, it is arguable that had it not been for the European Monetary System's stabilizing effect on international currency rates at the end of 1978 and during 1979 to present, the world would already be in an acknowledged recession, even without the new Fed chief's aggressive help.

Growing deficits

As the IMF's latest annual report emphasizes, the industrialized countries will have to foregoe between two-thirds and three-quarters of a percentage point in real economic growth this year owing to the first semester's oil price rises alone. More expensive oil will also add about 1.5 percentage points to world inflation and will cause the reemergence of balance of trade or balance of payments deficits, or both, among the leading exporting countries.

West Germany, the only country that managed to achieve a trade surplus with the OPEC countries last year is now faced with dwindling trade surpluses and the prospect of a sizeable current accounts deficit next year—despite a continued but slower export surge.

While German exports rose by 11.8 percent to DM204.3 billion in the first eight months of this year, Jan-Aug. imports swelled by 18.3 percent to DM187.8 billion. The trade surplus over that period thus amounted to DM16.5 billion, a drop of nearly one-third from the comparable period last year. Meanwhile, West Germany's current account produced a DM4.4 billion deficit over the Jan.-Aug. period, a swing of DM11.8 billion from the DM7.4 billion surplus posted in the Jan.-Aug. 1978 period.

In Japan, rising oil prices and a steep decline in the visible trade balance pushed the country's current account deficit to an all-time high of 1.5 billion in August. "That massive deficit (the August $669 million deficit) was caused by the recent oil price increase and dwindling Japanese exports," a Bank of Japan official commented.

Japanese exports declined by 4.8 percent in the first half of 1979 compared with the same period last year, while imports rose a whopping 18.7 percent. A leading trading company has reportedly forecast that Japan's current account deficit could reach as high as $10 billion during the current fiscal year ending March 31, 1980. In fiscal 1978 Japan had a $12 billion current account surplus and $14 billion surplus in the previous year.

Foreign trade results of other OECD countries like France, Italy and Switzerland provide a similar pattern.

France posted a FF4 billion (about $964 million) trade deficit last August, or, on a seasonally adjusted basis, a deficit of FF3.2 billion (about $771 million). Given the deficit posted in the first eight months of this year (FF3.5 billion, 4.8 billion seasonally adjusted) the French foreign trade deficit could reach some FF15 billion ($3.6 billion) in 1979.

The French Foreign Trade Ministry pointed out tht last June's oil price rise was reflected for the first time (but not fully) in the August results, with oil prices 44 percent higher than last January.

Likewise, Switzerland experienced a trade deficit of $3.4 billion in the first seven months of this year (up from $500 million last year) while Italy's deficit was some $2 billion, to a large extent due to soaring oil costs ($5.4 billion).

The LDCs: further into debt

The economic prospects for the third world countries are "very bleak," warns one of the reports to the Council of UNCTAD which convened Oct. 8 in Geneva. "The terms of exchange of most of the developing countries will further deteriorate in 1979 and 1980, following a sharp deterioration in 1978."

Available statistics show that the LDC's exports dropped by 2.8 percent in the first quarter of this year compared with the fourth quarter 1978. Imports rose a low 0.6 percent—a decline in both cases after discounting for inflation. Current estimates put the LDCs' balance of payments deficit at a staggering $50

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billion this year and $55 billion in 1980, compared with $31 billion in 1978 and $21 billion in 1977. Even more staggering is the expected increase in the net debt of the non oil-exporting developing countries: $82 billion over the years 1979-1980, to a total amount of $358 billion. Worse, an astounding 70 percent of all private loans to the LDCs will fall due by 1982. Not surprisingly, the number of countries "having difficulties" in paying back their debts has grown from three to eighteen between 1974 and 1978, with the latter's total debt representing 12 percent of the overall LDC debt.

The above figures put in proper perspective the 4.9 percent growth rate attributed to all LDCs (major oil producers excluded)—more than a full percentage point above the industrialized countries—as the World Bank reported in its annual report.

In effect, disparities have kept widening between the so-called newly industrialized countries (NICs) like India, Taiwan, Brazil, etc., and the overwhelming majority of the Third World countries, whose situation by and large is worsening.

The pattern of credit flows last year reflected this situation. Two thirds of Eurodollar loans went to ten of the so-called NICs. Similarly, lending by the World Bank and its affiliates ($10.44 billion in fiscal 1979) concentrated on the NICs with India getting $1.2 billion, Indonesia $700 million, Brazil $670 million, and Mexico $550 million.

—*Alain LeMal*

FOREIGN AID

U.S. can meet emergency food needs

Kampuchea (Cambodia) and Nicaragua's emergency food needs can readily be supplied by a tiny fraction of U.S. farm surpluses, much of which would otherwise rot for lack of an outlet.

Kampuchea requires, for subsistence maintenance of the 4 million survivors of Pol Pot's genocidal Maoist regime 16,000 tons of rice per month until production can be restored. This would ensure that each Cambodian at least gets 400 grams of rice—a little under one pound—per day.

Nicaragua requires slightly above 9,000 metric tons per month for eight months of each of the following products: beans (black or red); rice; oil; flour.

Logistics

Transportation of the emergency food supplies in neither case poses any problems for the United States, which has the most developed logistical capacity in history, a capacity wielded in World War II, the Berlin airlift, the Korean War, and Vietnam. It is time to put that capacity to a moral purpose again, as it was during World War II.

The monthly rice requirements of the entire Kampuchean nation can be carried—with room to spare—in the hold of one containerized ship (25,000-30,000 tons) or by one and a half of the smaller, older ships whose "break-bulk" cargo capacity is 10-12,000 tons.

Nicaragua is but several days sailing from New Orleans, a leading U.S. grain port. Sailing time to Kampuchea is considerably longer—about 20 days, depending on the weather. Therefore, the first three weeks of rice shipments should be sent in large cargo planes such as the U.S. Air Force's C-5 cargo plane, which can carry 100 tons of cargo. Only a few days' air shipments would actually be necessary, since grain elsewhere in Southeast Asia or in maritime transit in the region could be rerouted to Kampuchea and replaced by later compensating supplies from the United States.

Transportation problems once the food supplies arrive at destination points are manageable. The Nicaraguan government is prepared to receive air or maritime shipments at Corinto or Puerto Sandino. There is an intact transportation network, the hub of which is the capital city of Managua, from which the food will be distributed throughout the nation.

In Kampuchea, distribution must go through the Heng Samrin government, which controls virtually the entire country.

Marginal Aid Efforts to Date

Only marginal food aid has been received from Western government or private sources by either Nicaragua or Kampuchea to date. In Nicaragua's case, the aid received has been principally supplied by the Agency for International Development—a division of Cyrus Vance's State Department. The AID shipments received in August and September met only about 10 percent of actual needs.

In the case of Kampuchea, the combined UNICEF-Red Cross relief effort has managed to supply but one plane per week of supplies since late July, each planeload bringing in about 40 tons of food—*1 percent* of the country's emergency food aid requirements. Since the campaign for food aid began, the Red Cross has