NICs and the shape of things to come

by David Goldman

Slightly over a year ago, the Royal Institute of International Affairs, or Chatham House, commissioned a study on the economic impact of the growth of the Newly Industrialized Countries (NICs). Funding for the Chatham House study came from the German Marshall Fund of the United States, the same organization sponsoring the December meeting in Washington, D.C. of the Socialist International. The old National Planning Association, an important but low-profile think tank created by the Morgan bank in the 1940s to examine postwar industrial reconversion to civilian production, is in the final stages of producing the report.

The pre-release fanfare for the Chatham House study began last week, when the former president of Italy's central bank, Dr. Guido Carli, reported on a hypothetical "Venice Economic Summit of 1984" before a luncheon meeting of the New York Council on Foreign Relations, the sister organization of the Royal Institute. Carli gave a tongue-in-cheek sketch of a summit of the "Big Seven" industrial countries in the ancient merchant city, excluding the United States and Great Britain. The attendees, he forecast, would include Brazil and Mexico as well as the Japanese, French, Germans, Italians, and Canadians. By this time the NICs would have grabbed so much of the world market in textiles, electronics, auto, steel, shipbuilding, and other "older industry" products that those nations heavily dependent on such older industries, e.g., the U.S., would have fallen from their major industrial-power status.

Carli played the first half of his talk for laughs, but then pointed out the reality of this picture: the share of the NICs in world exports of manufactured goods increased from 2.5 percent in 1963 to 7.1 percent in 1976, a rate of growth much faster than the rise of their share of world output (5.4 percent of world industrial production in 1963 to 8.9 percent). The advance of the NICs since then has been more rapid still. Even the electronics industry of a big exporting country like West Germany is now vulnerable to competition from the Southeast Asian NICs, while the U.S. textile industry stands to lose some 300,000 workers over the next five years. The "Venice in 1984" scenario, Carli concluded, is already more advanced than most of his audience were aware.

Carli's point is accurate in one respect only, that events have moved much quicker than business—let alone elected governments—in the advanced sector are aware. But his futurology is phony. The underlying assumption in his remarks is that cheaper labor costs in the developing sector will naturally draw investment away from the industrialized countries, and that labor in the industrial countries will shift from the old heavy industry sector to the new services sector. This fraudulent assumption pervades economic planning from the Office of Management and Budget to the planning departments of large corporations, and *EIR* has addressed it before. But Carli's decision to start the hype for the Chatham House report early—"he walked Dick Janssen [of the *Wall Street Journal*] through the scenario when he was in town," a Carli spokesman said, and Janssen published it on April 20—makes an early response mandatory.

If a few unpleasant practices are not stopped, something like Carli projects will happen, although not for the reasons he cites. The "Venice in 1984" scenario itself contains a double pun, first, on the George Orwell novel, and secondly, on the Venetian colonial method. Venice organized colonies not principally for loot or cheap labor, but to interdict the trade routes of its European competitors from the 13th century onward. It set up military bases in Crete, Rhodes, Corfu, and other Mediterranean islands; occasionally they produced exploitable wealth locally, but their value to the Queen of the Adriatic lay in the disruption of the trade of Genoa in the earlier period and, after 1492, of Florence.

Lending patterns

A simple grid of major financial flows to the developing sector shows that the bulk of investment in the NICs has nothing whatever to do with industrial productivity, but, instead, furthers the creation of political bases for the Carli-Chatham House policy. Starting with the International Monetary Fund, for which Carli (now a consultant to First Boston Corporation) has played the role of theoretical adviser and senior statesman since the early 1960s, we find that *political* rather than *economic* motives appear to guide lending policy.

During the first quarter of 1981, the International Monetary Fund lent a record amount, or $5.16 billion, three times the $1.44 billion that the IMF lent during the first quarter of 1980. The funds were put out as follows:

Yugoslavia	$2 billion
Morocco	$970 million
China	$450 million
South Korea	$691 million

A number of countries who desperately need funds (e.g., Turkey, Zaire, Sudan, Kenya, and others who can barely pay their oil bills) did not obtain funds. The political distribution of the loans, in the case of Yugoslavia and China, is clear to the extent that those countries are Eastern and Western borders of the Soviet Union. Morocco, for that matter, is the most important North African outlet for the French and Italian oligarchy, and a wild card in Mideast politics.

But the Chinese role is even more important in the context of the Carli scenario. China, after the cancellation of $1.5 billion of industrial projects this year, has become an unwelcome beggar at the doorsteps of finance ministries from Japan to Bonn, although not the Monetary Fund. But where its internal economic development has lapsed miserably, China has compensated by building up its overseas operations, particularly through Hong Kong. China, allied with expatriate overseas Chinese who control some $50 to $100 billion in assets among the "newly industrialized countries" of the region, is a major *trading* power.

What is extraordinary about China's presence in what might well be named "greater Hong Kong" is the direct link between Peking and an emerging Caribbean version of the Hong Kong free port concept: an axis centered in Venezuela and extending to Colombia (and Bolivia) and Jamaica. China and Venezuela have exchanged high-level delegations during the past several months, as well as a trade treaty and a great deal of mutual praise. Former Venezuelan President Rafael Caldera visited Peking while the Chinese vice-minister for foreign affairs arrived in Caracas.

Hong Kong West

The affinities between the two unlikely diplomatic partners are real. China is a major force in the Asian free market, centered in Hong Kong, which is gradually becoming less a British city (with the recent defeat of Keswick family influence in the premier trading house Jardine, Mattheson) and more a Chinese one. A mainstay of this market is a volume of opium and heroin traffic exceeding $10 billion. Venezuela has become the financial center for an illicit market that handles a vast amount of flight capital, including a not much smaller amount of Bolivian-produced and Peruvian-processed cocaine, as well as Colombian and Jamaican marijuana. The big export market for both the Asian and Caribbean illicit products is the United States. Although very little narcotics appear to be produced in Venezuela itself, Caracas has emerged as the financial capital for money-laundering and investment of narcotics-related revenues. 400,000 Venezuelans (out of a population of only 15 million) visit the United States annually, and Venezuelans are reportedly the most important factor in the foreign purchase of Florida real estate.

Since the election earlier this year of Jamaican Prime Minister Edward Seaga, that island nation has been integrated into this "Hong Kong West." Seaga had told a national television audience in the United States that marijuana was such an important part of the Jamaican economy that nothing could be done about it. With this established, he proceeded to return Jamaica to British colonial status, including the return of sugar estates nationalized by the Manley government to the British sugar giant Tate and Lyle, and the reintroduction of British knighthoods among Jamaican citizens.

It is parenthetically of interest that Venezuela will be one of the largest recipients of private-market credits during 1981 among all Third World countries. Its projected borrowing of $10 billion this year will, according to banking sources, only be exceeded by Brazil's projected $16 billion borrowing and Argentina's $15 billion.

In both the Atlantic and Pacific spheres, the major flows of investment have found their way to "free-market" zones which have little to do with industrial investment. On the contrary, Venezuela's growing presence as a Caribbean financial center coincided with 1980's 3.2 percent drop in Gross National Product, which represented an even steeper drop of industrial output under the guidance of the self-described "globalist," President Herrera Campins.

Nor is Venezuela a financial rogue operator. The adviser to its central bank is Geoffrey Bell of Schroeders Bank, the founder of the Group of 30, an advisory committee to the International Monetary Fund.

From Guido Carli's standpoint, the foundation of the NICs' profitability is not so much industrial policy as the advantages of linking a plentiful labor pool to a regulation-free port of the Hong Kong type, where cheaply assembled electronics trade with the same fluidity as narcotics, and unregulated "gray money" is always available for different investment purposes.

The U.S. dimension

That is the most important feature of the entire "Venice 1984" scenario which presently concerns the United States. As Kathy Burdman discusses in this issue (see Banking), the Federal Reserve is taking steps that would hard-wire the United States banking system into the offshore "free banking market." Under the electronic funds transfer system and associated regulatory changes the Fed plans to introduce before the end of this year, American regional banks will have a strong incentive to place spare funds in the Caribbean or in the Singapore money market. They will be able to do this through a terminal attached to a computer in New York, as easily as they presently sell funds to Bankers Trust or Morgan in the domestic U.S. money markets, and same-day clearing.

The mediation for this system, in the Federal Reserve's scheme of things, will be the proposed "International Banking Facilities," or reserve- and tax-free centers for international banking in the United States. The free zones of the United States will meet the free zones of Asia and the Caribbean.

That is the only real "development" to be expected under the regime Carli describes. Brazil might now be the world's tenth largest auto producer, as Guido Carli explained to the *Wall Street Journal*'s Janssen, but Brazilian economics minister Delfim Neto has now accepted cutbacks in automotive and other industrial investment as the price of credit from the international banks. Since the 1979 oil shock and the imposition of a credit regime in the dollar sector characterized by double-digit interest rates, the economic growth prospects of the developing sector have been, if anything, worse than those of the stagnating industrial countries.

If the credit austerity and high oil-price regime persists, then the major growth in the Newly Industrialized Countries will have peaked out even before the big studies appear to hail their ascendancy. What will continue to grow will be isolated runaway shop sectors, built for effective *trade warfare* against the economies of the industrial world. This is even more true in the Asian sphere, where the generation of Chinese immigrants to Southeast Asia that began early in this century with an opium franchise from the British have graduated to manufacturing, shipping, financial services, hotels, and airlines.

The relative distribution of the weight of international trade that Carli foresees would only take place inside the confines of global economic regression. The observer need only ask how it is that Carli expects growing economic dominance from countries that are past bankruptcy (see International Credit).

Capital drain

A hint to the answer to this question appeared in a report circulated last week by West Germany's BHF bank. BHF notes that (from OECD projections) the developing nations' current-account balance of payments deficit will worsen substantially between 1980 and 1981, from negative $50 billion to negative $60 billion. (Morgan estimates $73 billion, while Bank of America's economists not long ago were considering a $100 billion deficit in the ballpark.)

The only means to finance this gigantic deficit, BHF concludes, are to be found not in the thinly capitalized and unsafe Eurocurrency market, but in the home capital markets of the industrial countries. In other words, they project an export of capital to jerry-rig, once more, the balance sheets of the developing sector, at the expense of the capital requirements of the industrial countries! Presumably the events in the banking system that Kathy Burdman warns against in this issue would lubricate such a capital export.

The evidence shows that Dr. Carli's "Venetian" approach to the developing sector comes down to a plan for the industrial countries to organize a trade war against their own economies. For the economists of Chatham House or the National Planning Association, that is what we have come to expect of them. But there is no need to credit this as a forecast.

All the United States need do to prevent Carli's forecast from happening is to reverse the underlying process: suck funds out of the speculative, half-legal free markets in the Caribbean and Hong Kong, and route money instead through the Export-Import Bank of the United States. By channeling capital toward those developing countries who can buy and put to good use our capital goods, *on the Mexican model*, the United States can reserve first place at whatever economic summit takes place in 1984.