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World trade in the 1980s: the emergence of blocs?

by David Goldman

Speaking before the annual conference of the West German League of Savings Banks last week, Club of Rome founder Aurelio Peccei predicted that nation-states would yield place to "interregional blocs" under the supervision of supranational institutions. Denouncing the nation-state as we have known it from the 15th-century reign of France's Louis XI down through the American Revolution, Peccei characterized the present mode of government as "archaic," and claimed that it led to "balkanization." What is most disturbing about Peccei's remarks is the extent to which the underlying patterns of world trade have in fact shifted into actual, if subtly defined, "interregional blocs" during the past four years. The implication of the trend is devolution, not growth, for the world economy in the context of the first decline in world trade since 1974. In fact, the main point of guidance for the development of world trade is now the deindustrialization of the leading Western economies, or what is popularly called in the United States the "sunrise industry" strategy.

Since 1977, three trading blocs in formation have become visible: the United States/Latin America, Asia, and Europe. I will sketch out the proportions of this shift below, but what is most important is the underlying policy direction that defines their importance for the future. The breakdown of normal national controls over the money markets and the emergence of a private-sector initiative on behalf of the goals of the "Brandt Commission," the World Bank-sponsored group promoting an onerous kind of "development" in the Third World, have created conditions in which what were previously marginal trends can come to dominate the sphere of international trade.

The subject of the trade shift is what the Organization for Economic Cooperation and Development and a dozen satellite private think tanks call "the newly industrialized countries (NICs) strategy." More than anywhere else, it is pronounced in Asia, where Asian-Asian trade is rapidly replacing Asian trade with the industrial West (excluding Japan). South Korea, for example, sent 76 percent of its exports to the OECD countries (the 20 Western industrial nations) in 1978, but only 56 percent in 1979, and (judging from incomplete 1980 data) even less during the previous year. Japan's absorption of Korea's exports fell between 1978 and 1979 from 22 percent to 15 percent of the total; the United States fell from 33 percent to 24 percent; and West Germany from 8 percent to 6 percent. A big surge in South Korea's exports to Saudi Arabia, much of it centered in big construction projects, boosted the Persian Gulf share of South Korea's exports from 8 percent to 19 percent over the year. But the rest of the difference came in increased shipments to other Asian developing nations.

The same pattern can be discerned for Taiwan, the other Asian NIC. Consumer goods, automotive equipment, and capital goods, for which Asian nations formerly were dependent on the OECD sector are now flowing from South Korea and Taiwan to Malaysia, Indonesia, Thailand, and other Asian developing nations. Although numbers for most of 1980 and for the beginning of 1981 are not yet available, commercial bank experts report a surge in Asian-Asian trade.

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Japan, whose investments in Korea and Taiwan provided the basis for the export surge, does not stand to lose; its powerhouse economy is merely continuing a longstanding policy of shifting into higher value-added categories. The auto industry is a good case in point. Japanese automakers are not unaware that the production of auto components involves more added value than lower-skilled auto assembly; the Japanese intend, therefore, to scale down the rate of increase of their auto exports, and ship components for assembly to countries where cheap labor is available, such as Malaysia—or the United States.

EIR staff noted, in the course of a trade study for a private client, that only one important U.S. export showed remarkable growth in the Asian market. This was synthetic resins, the basic feedstock for plastics. Asian developing nations are building plastics factories with Asian capital equipment. But they have not yet had the resources to invest in expensive, capital-intensive petrochemical cracking plants. However, as a Dow Chemical executive told an industry conference in Amsterdam last week, the growth of petrochemical facilities in the Persian Gulf and elsewhere in the developing sector puts a time limit on American predominance in some areas of the petrochemical trade. In the next 20 years, Dow projects, 10 of the big 30 chemical companies will disappear, and another 10 will maintain operations exclusively in the NICs. And the rest, the Dow forecast concludes will become subsidiaries of the leading oil multinationals, who will become the only available source of investment capital for the industry.

America's spectacular performance in the export markets during the past four years is, largely, artificial, based on exports of consumer goods to the European market paid for with cheap dollars, exports of petrochemicals produced with relatively cheaper Saudi oil, and so forth. In real volume terms, American exports rose by 33 percent from 1977 to the end of 1980, a performance commensurate with Japan's, and far better than West Germany's mere 3 percent increase in real volume of exports. However, despite the sharply adverse impact of the downturn of the European economies and the rise in the dollar's relative value this year, there is a basic underlying trend showing a rise in U.S. exports. The bulge in exports to Europe is a temporary phenemenon, but not the steady rise in Latin American exports.

As a proportion of total U.S. exports, the Latin American market rose from 14 percent to 18 percent over 1977-1980, mostly, as a result of the Mexican economic boom. This accounts for the sharp drop in the percentage of U.S. exports sent to other industrialized countries, from an average of 60 percent in the 1974 to 1977 period to only 55 percent last year. U.S. exports to both Asia and Europe showed, respectively, no rise and a decline as a percentage of the total. On the import side, U.S. trade with Latin America rose from 11 percent to 14 percent of total imports.

Europe remains unable to crack the American *political* hold over the Latin American market (despite some important big contracts, e.g. West German nuclear exports to Brazil), and the Japanese technological hold over Southeast Asia. West Germany, the European Community's biggest exporter (and still the world's biggest exporter in absolute terms) depended on industrial nations' markets for 69 percent of its foreign shipments in 1977, and for 74 percent in 1980. France improved its export performance outside Europe through arms sales more than any other category, a development which does not necessarily bode well for future exports.

In the past three years, the European Monetary System permitted the European nations to substantially increase their exports *to each other*. However, as the extremely low levels of capacity utilization throughout European heavy industry attest, this taking in each others' laundry did not provide a healthy underpinning for the European economy. Historically, half of European Community exports have been intra-EC, and half have gone outside. The tilting of the balance toward intra-EC trade was an important indication of weakness.

Former French President Giscard knew that Europe had to run hard and fast to maintain its competitiveness, and expand the nation's nuclear energy and other forms of high technology, rather than worry about unemployment in industries that had already become uncompetitive. The strategy was correct on paper, but the pressure of high U.S. interest rates and clumsy, monetarist economic management by French Prime Minister Raymond Barre produced internal economic difficulties which, in part, cost Giscard the recent election.

Above all, Europe's failure to follow through with the projected "Phase Two" of the European Monetary System, which would have turned the present mutual currency support operation into a credit-issuing European Monetary Fund, set Europe back in a fashion from which—in the worst-case scenario—it will never recover. European industry, with higher productivity growth rates than the U.S. for the past 15 years, could have competed successfully in the developing sector except for the monopoly stranglehold on international credit exercised through the International Monetary Fund and, indirectly through the markets, by the Bank for International Settlements.

Now European consumer electronics, auto, steel, and textiles are uncompetitive relative to Taiwan, let alone to Japan. Without a burst of capital investment Europe will be shut out of international trade. Thence come the immense pressures (see page 6) for Europe to accept the terms dictated by Aurelio Peccei and the Brandt Commission, for admission to the Latin and Asian trading blocs under construction by the U.S. and Japan.