Dangerous trends in the LDCs' trade

by Peter Rush

Between 1978 and 1980, the dollar value of world exports rose 54 percent to over $1.8 trillion; in volume terms, the reported increase included an 11.5 percent rise for the industrial nations, 17 percent for non-oil developing countries, and negative 10 percent for the oil producers. For 1981, however, the projections of various international organizations show a drop in volume for all these sectors in absolute terms.

Since 1978, the rate of increase of world exports has dropped into the negative. But even more disturbing is the nature of what increase there has been, particularly in the non-oil developing sector's export increase, the largest of all the sectors. Since the "oil shock" of mid-1979, these nations have sharply increased their exports (of manufactures aimed largely at industrial nations or OPEC markets) and imports (of raw materials and capital goods to produce such exports), in order to stay afloat financially. Despite the apparent shift in world trade to their advantage, their deficit position has steadily worsened. The prospect of a recessionary contraction of their markets in the advanced sector, therefore, poses a threat to world trade not seen since the 1933-1945 period.

The picture is far worse than the International Monetary Fund or anyone else has yet publicly noted. The trade figures demonstrate that little if any net wealth measured in tangible merchandise is being transferred to the less developed countries (LDCs). When placed against the enormous run-up in LDC debt of all kinds in the past few years, this fact establishes that the trade-debt situation of the LDCs amounts to a bubble waiting for the marginal factor that will prick it, causing an unprecedented shrinkage in world trade.

Unless the new debt incurred by developing countries is matched by investment in productive plant, equipment, and agricultural capital, the surplus output of which *more than* covers the interest and amortization paid out during the lifetime of the loan, the debt will sooner or later drain the countries' economic prospects. If the return on investment does not cover interest and amortization, then repayment must either be financed by a new loan (corresponding to zero new productive capacity and exacerbating the problem) or be repaid through an increase in exports, an increase *deducted* from the resources available for domestic growth. Both these responses are the rule for the LDCs today. The recommendations from the U.S. administration and the International Monetary Fund are explicitly to reduce imports and expand exports.

Yet the figures confirm that import reduction, apart from all the other negative consequences of that policy, is *the fastest route to destroy exports,* which are effectively hostage to imports. A major portion of the recent rise in LDC imports has gone strictly into manufacturing exports. Restrict the imports, and LDC exports will crash, leaving trade deficits the same or larger. The Fund's nostrum on increasing exports is the route now being employed by many countries from Brazil to Turkey. Every salable item not securely nailed down is being exported, a process that can go on for about as long as living off the sale of one's furniture, then one's appliances, and finally the house itself.

In fact, during the entire 1970s, the LDCs have increasingly emphasized exports, as per IMF and World Bank coaxing, with the growth in LDC exports substantially greater than the growth in non-oil imports over the period. In 1977, the non-oil LDCs reduced their trade deficit to $23.3 billion, almost the level before the 1974 oil shock, with $168.4 billion in exports. The 1979-80 oil shock, plus world inflation since 1978, widened the deficit to $65 billion in 1980, or slightly more than 20 percent of total exports.

This deficit, large as it is, represents little or no real transfer of wealth to the LDCs. Changes in the terms of trade make quantitative comparisons difficult. But obviously, the LDC oil import bill alone approximates this deficit. In 1978 and 1979, however, when the real price of oil was declining, the unit value of imports rose sharply versus the unit value of exports (10.3 percent versus 4.1 percent in 1978; and for low-income countries alone, 9.7 percent versus 0.5 percent).

A better and more revealing reading is provided by the volume index prepared by the IMF, which for all non-oil LDCs shows a compound increase of 60 percent for exports between 1974 and 1980, and only 34 percent for imports. In volume terms, exports have come close to closing the LDC trade deficit. Using the volume index to adjust current value terms, we find that the LDC trade deficit is $23.5 billion (in 1974 dollars), not $65 billion. The widening of the LDC deficit is due largely to the worsening of those nations' terms of trade (prices of imports rising faster than prices of exports), not to any transfer of real wealth.

The looming debt crisis

Measures could be taken even now to begin a long-term corrective process, beginning with a global debt reorganization and streamlining of organized flows of capital for development (capital goods, primarily) in

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vast quantities to, in effect, capitalize the existing debt. But presently, the policies emanating from the International Monetary Fund and United States in particular may instead ensure a near-term crisis.

For several years, the total debt service of the non-oil LDCs has exceeded their merchandise trade deficit. In 1979, interest plus amortization totaled $60.5 billion against a trade deficit of $48.4 billion (excluding the sizable less-than-one-year debt category for which reliable figures are not available).

Stratospheric U.S. interest rates have aggravated the already grave problem. Figures are not yet in for 1981, but the Brazilian government has calculated that every 1 percent rise in U.S. interest rates costs Brazil $500 million annually. This translates into between $2.5 billion and $4 billion for the LDCs as a whole, for each 1 percent rise in U.S. interest rates. Largely because of this, interest due more than doubled between 1978 and 1980, from $14.1 billion to $30.5 billion, while the rate of increase of total debt was a lower 36 percent (excluding short-term debt). And 1981 can be expected to be worse still.

Debt and trade

The precariousness of the debt payment situation has been extensively reported, most recently in the just released annual report of the Inter-American Development Bank. The report treats Latin America, where the growth in debt has been most rapid. What is often overlooked, however, is how the debt crisis is related to LDC trade, which is in turn determined by world economic questions.

If the LDCs encounter any more difficulty in exporting to the industrialized countries, they will be in deep trouble with regard to debt repayment. In 1981, the non-oil imports of industrialized countries are projected to fall $14 billion in current dollar terms (IMF estimate), against a 0.8 percent volume rise (because of a further worsening of prices for LDC exports).

Equally significant, the invisibles received by the LDCs, chiefly remittances from workers abroad (more than $25 billion in 1979) and tourism (more than $15 billion), will plummet under depression conditions. If the major portion of these two items were to evaporate, the LDCs' current account deficit would balloon by up to 80 percent.

In this light, the forecasts for deepening recession in Europe and the U.S. spell trouble. Very little would be required to destabilize LDC debt payments, and the forecast conditions could be more than enough. A debt collapse will lead to an import collapse, which will in turn clobber the industrial economies and wipe out LDC export capability further, widening the payments problem.

Shifting patterns of world trade

An analysis of world trade patterns since 1970 also reveals some significant shifts in world trade patterns.

World exports, 1970-80

(billions of current dollars)

	1970	1973	1978	1980	1970	1973	1978	1980
World[1]	$285.3	$528.2	$1,203.8	$1,863.6	**Percent of world exports**			
OPEC	17.3	39.0	141.9	294.2	6.06	7.38	11.79	15.79
AOPEC[2]	12.4	27.4	110.6	226.9	4.35	5.19	9.19	12.11
World excl. AOPEC	**272.9**	**500.8**	**1,093.2**	**1,636.7**	**Percent of world exports excl. AOPEC**			
Europe[3]	140.9	265.0	575.7	831.5	51.63	52.92	52.66	50.80
United States	43.2	71.3	143.6	220.7	15.83	14.24	13.14	13.48
Japan	19.3	37.0	98.4	130.4	7.07	7.39	9.00	7.97
Other Developed[4]	26.1	44.7	79.4	120.7	9.57	8.93	7.27	7.37
Other Asia	16.6	37.5	97.5	161.6	6.08	7.49	8.92	9.87
Latin America	16.0	27.4	59.2	102.7	5.86	5.47	5.42	6.27
Other Africa[5]	8.5	14.8	29.5	53.7	3.11	2.96	2.70	3.28
Other Middle East	2.3	3.1	9.9	15.4	0.84	0.62	0.91	0.94

1. Excludes U.S.S.R., Poland, East Germany, Czechoslovakia, Bulgaria, Hungary, Cuba
2. Arab OPEC: OPEC excluding Nigeria, Venezuela and Indonesia
3. Including Romania and Yugoslavia.
4. Canada, Australia, New Zealand, South Africa
5. Sub-Saharan Africa only. Non-OPEC Saharan Africa is in Other Middle East

Source: International Monetary Fund

One of the important developments was the impressive growth in Asia's exports, an increase that was not, surprisingly, led by Japan. Paced by Taiwan and Korea, and with contributions from China and oil-exporting Indonesia, exports from Asian countries other than Japan now account for nearly 10 percent of world exports, up from 6 percent in 1970.

Japan's share of world exports grew from 7 to 9 percent of non-OPEC world trade through 1979, before falling below 8 percent in 1980. However, the rapid growth in Japanese exports was nothing more than a catching up to U.S. and European levels. Japanese exports are presently only on par, in per capita terms, with U.S. levels, and far below West Germany's (with 10.2 percent of total trade and less than half Japan's population), as well as below the per capita levels of Britain and France.

At the other end of the spectrum is sub-Saharan Africa. The region appeared to hold on to its meager 3.1 percent share of exports but Nigeria's booming oil exports were offsetting declines elsewhere. Excluding Nigeria (and South Africa), sub-Saharan Africa fell from a low 2.7 percent to a disastrous 1.7 percent. This result corresponds to IMF figures showing that the poorest LDCs, predominantly in Africa, have registered the least gains in trade since 1973.

Latin America increased its share of exports marginally. The other losers were the non-European industrialized countries. The contrast between Asia and Latin America is highlighted by observing that since 1970, when both regions exported almost the same value of goods, Asian trade has grown 33 percent faster, while Latin American debt has vastly outstripped Asian debt.

Country studies

In Latin America, Brazil has the largest debt and Argentina the most depressed economy of any major debtor, so their trade positions are of great concern.

Brazil: Brazil has solved its balance of trade problem the IMF way, but the results, held up by the IMF as exemplary, have devastated the economy. Through the first nine months of 1981, Brazil's exports rose to $17 billion from $14.4 billion in the same period last year. Imports fell to $16.8 billion from $17.3 billion, yielding the first surplus in four years, albeit a small one. Oil imports rose 10.3 percent in value terms, though they dropped 9 percent in volume; the import cuts came out of capital goods (down 5.1 percent) and chemicals (down 17.5 percent). It is not surprising that the country's industrial production is also down 5 percent, with capital goods, chemicals, and transport equipment off 7, 8.4, and 16.8 percent, respectively. In sum, investment in domestic industries is being gutted, while everything possible is being exported, undermining any long-term growth prospects.

Argentina: Economic disaster reigns in this country. IMF estimates project exports to rise to $9.76 billion this year from $8.0 billion, against a fall in imports to $8.85 billion from $10.5 billion. Capital goods are projected to fall 17 percent to $1.9 billion. Industrial production in the second quarter was 13.4 percent below the same quarter in 1980, itself a fall from the previous year. Again, the domestic economy is being auctioned off to pay the country's debts.

Portugal, Yugoslavia, and Turkey are cases of economies dependent on foreign remittances and trade with Europe.

Portugal: Through April of 1981, Portugal's imports fell marginally (from $3.11 billion to $3.06 billion), while exports nosedived from $1.59 billion to $1.35 billion, largely because of falling exports to a recession-wracked Europe. The stagnation of imports reflected a real fall in value terms in capital goods and other manufactures, as oil imports and food are up, the latter because of last year's drought.

Turkey: Turkey boosted exports (Jan.-Aug.) from $1.67 billion in 1980 to $2.6 billion, but at the cost of an additional $1.75 billion of imports, boosting the import total to $5.8 billion. Only an increase in foreign remittances from Turkish workers in Europe from $1.29 billion to $1.6 billion prevents this situation from being a total disaster.

Yugoslavia: With exports up 16 percent over last year, and imports up only 12 percent, and with foreign remittances up strongly, Yugoslavia is still facing a $1.8 billion trade deficit and is being hurt by sluggish exports to Europe.

Korea, Indonesia, and Nigeria illustrate the difficulties of manufacturing and oil exporting LDCs.

Korea: In the Jan.-Aug. period, Korea boosted its exports and imports by nearly equal amounts. Exports rose from $10.9 billion to $13.8 billion, matched by import growth from $14.7 billion to $17.3 billion. Korea's main problem is recovery from recession in 1980, caused by a bad harvest that caused GDP to fall 6 percent. Industrial output, which fell 2 percent last year, is projected to rise 6 percent in 1981.

Indonesia: Battered by a sharp fall off in non-oil exports (off by $1.4 to $3.0 billion in the first three quarters), total exports are down for the first time in over a decade to $10.8 billion, narrowing the overall trade surplus from $3.27 billion to a meager $884 million. Nonetheless, imports are up 25 percent, permitting a continuation of capital goods and other import increases.

Nigeria: No trade figures for any part of 1981 are available. Estimates of losses in oil income suggest that imports must have slowed down, though a $1.6 billion rundown of reserves through June (and probably more since then) has partially covered the oil shortfall.