Business Briefs

Foreign Exchange

Germany's Poehl calls for dollar collapse

West German Bundesbank governor Karl-Otto Poehl told a bankers' meeting in Paris Nov. 29 that "a major shakeup in the values of key currencies seems imminent," and indicated that the "expected the changes to center on a drop in the dollar caused by the widening U.S. current account deficit."

Poehl, added that he "looked forward to a correction of the long period of overvaluation of the dollar, which he claimed had "accentuated economic difficulties in the rest of the world. . . ."

Poehl said that he would welcome "a new appraisal of the markets," a statement that the London *Financial Times* correctly characterized in its coverage as "a barely disguised central bankers' desire for a change in the international exchange-rate balance."

Should a dollar collapse be engineered, it would put enormous pressure on President Reagan on the issue of the budget deficit, and would also lend badly needed credibility to a central bankers' bid to force selective bailout packages on nations that are now critical for organizing a general detonation of the "debt bomb" against the central private banking system.

World Trade

Collapse accelerates in fourth quarter

Respected economist T. Nakamae of Japan's Daiwa Securities reports that based on fourth-quarter figures, world trade is now collapsing at an annual rate of 25 to 30 percent. If the current monthly rate of decline continues, at the end of 1982 world trade will be down one-third from the corresponding period of 1981. The economist specified that Mexico is currently importing 20 percent of what it imported one year ago, Brazil 50 percent, and intra-OECD trade is dropping at a rate of 10 percent or more.

The chief economist of the General Agreement on Trade and Tariffs (GATT) in Geneva is now saying that world trade volume has dropped by 4 to 6 percent in 1982, taking into account the steady volume in the first six months of the year. However, GATT is now estimating a final figure of an 8 to 12 percent drop, when the rapid decline of the last part of the year is included. "1983 will be even worse. . . . With this tremendous financial crisis, domestic and international, with the uncertainty of trade after the GATT ministerial conference fiasco, we have six to eight months ahead of us to contain the financial crisis, and if we cannot, then we go into the downward cumulative spiral."

An economist at London' Schroeder's Bank summed up the situation: "We cannot see a recovery. In fact, we tell people 1983 will be zero, but it is really getting worse and worse. To talk of recovery is just an act of faith. I don't believe any more."

Developing Sector Credit

Brazil's problems with banks unsolved

New York and London banking sources shrugged off President Reagan's announcement Dec. 1 of a $1.2 billion Federal Reserve loan package for Brazil, noting that large commercial banks are still hesitant to extend large commercial credits to the world's biggest developing-sector debtor. The biggest stumbling block, bankers say, is the more than $10 billion of Brazilian borrowings from New York banks through the New York agencies of Brazilian banks.

This extra short-term debt is a gray area, and it is not clear whether it is part of, or additional to, the $90 billion total Brazilian debt otherwise reported. Since September, banks have sought frantically to consolidate these lines, some of which are overnight Federal funds.

Even if the Federal Reserve and possible International Monetary Fund official credits bring Brazil through this year, and the $4 billion still due in various payments obligations, bankers see no hope whatever for 1983. The present rapid decline of Brazilian imports will rapidly cut into the country's ability to export, bankers worry, destroying the government's projected $6 billion trade surplus for next year.

IMF officials, meanwhile, warn that the $5.8 billion figure for an IMF loan circulated by both Brazilian and U.S. officials represents "wishful thinking," since it presumes an increase in Brazil's IMF quota.

U.S. Economy

Hyperinflation for the United States?

Washington circles report heavy lobbying by White House advisor James Baker III as well as (unrelated) Sen. Howard Baker, the Senate Majority Leader, for a major decrease in interest rates. The two Republican leaders argue that it is impossible to contain the federal budget deficit, now estimated at $150 to $200 billion for the current fiscal year—which means total net federal borrowing of over $250 billion when off-budget items are included. Only a major expansion of internal credit can finance the deficit, they say, which means a major drop in interest rates is required.

In a Nov. 29 commentary, the Swiss financial daily *Neue Zuercher Zeitung* warned of "economic landmines," in the U.S. budget situation. If the United States attempts to finance the $200 billion budget deficit thorugh credit expansion, the Swiss paper said, "the twin evils of unemployment and inflation will raise their heads more powerfully than ever before."

Banking

Cash-laundering scandal could get bigger

The recent arrest of a branch-level Citibank account officer for failure to file federal reporting forms on cash deposits over $10,000 is only the initial step in what may become a much broader investigation of drug-money laundering through New York banks, *EIR* has learned.

According to sources, bank-management officials must have known of the cash deposits. All standard bank-accounting computer systems automatically distinguish between cash deposits and those made by check or other paper transfer; and it is a standard feature of such systems that they produce a report of all cash deposits over $10,000 in the course of a normal processing of a day's transactions.

If large cash deposits were recorded as check deposits, the branch concerned would have an accounting imbalance, i.e., more cash and fewer checks than it could account for, a situation which would have to come to the attention of senior officials.

The source added that commodity traders' accounts were most likely to be used for this type of cash-laundering activity, since these accounts use computerized money-transfer systems frequently. After a large cash deposit is made, the branch officer can notify money-transfer operations at the bank of the increase in the available balance, and the funds could be transferred out of the country within minutes.

Far East

Chinese shifting economic priorities

Following the strong showing by the armed forces and proponents of heavy industry at September's Congress of the Chinese Communist Party, Peking is now showing signs of retreating from its austerity course and shifting economic priorities back toward heavy industry and infrastructural development. The changes were embodied in the new Five Year Plan, the product of a long and intense debate within the factionalized Chinese leadership, delivered by Premier Zhao Ziyang at the early December National People's Congress (NPC) in Peking.

While paying lip service to the "correctness" of the recent policies, Zhao declared that emphasis would be placed on energy and transportation infrastructure. "Large projects" which had been abandoned would be started up again. Zhao said that over the next five years, 400 large- and medium-sized projects would be completed and 490 more started. Among the projects expected to be started soon are two nuclear reactors for the provinces of Guangdong and Zhejiang, construction of new petrochemical factories, revival of the Baoshan steel works near Shanghai, and railway and port expansion and modernization. Peking also plans to invest more in the exploitation of abundant petroleum and coal reserves.

China is counting on increased foreign investment, especially from Japan, to finance such development, but also may draw on substantial foreign exchange reserves.

Debt Picture

Ibero-America discusses joint renegotiation

The feasibility of joint renegotiation of Ibero-America's debt was a principal topic of discussion at the week-long meeting of the Latin American Federation of Banks which ended Dec. 1 in Buenos Aires. The federation is a grouping of private banking associations from around the continent.

In his speech the head of the federation, Fernando Londoño, called upon the governments of Ibero-America to jointly confront the problem of their $300 billion debt. What is at stake is not "one more indebted country, but that all of us are receiving the same unjust treatment and the same pressures," he said. Londoño, a Colombian, had invited the Secretary General of the Latin American Trade System (SELA), Carlos Alzamora, to attend the bankers meeting, during the latter's visit to Colombia in mid-November, for talks with President Belisario Betancur.

Alzamora, who has been traveling throughout the continent organizing for joint debt renegotiations, said yesterday in Mexico, where he was attending the inauguration of President de la Madrid, that individual action has not "produced any results for any of the countries of the region, whether large, medium or small. Only joint action can give Latin America the sort of negotiating clout that it has never before enjoyed" Alzamora said.

In sharp contrast to the stances adopted by Alzamora and Londono, Argentina's Finance Minister, Jorge Wehbe, who gave the opening speech at the bankers' meeting in Buenos Aires, emphatically rejected the notion of nations unifying to "declare a unilateral debt moratorium upon our creditors." Wehbe insisted that the international banks will agree to postpone deadlines instead.

Briefly

● **THE GROUP OF 10** meeting in Paris will add another $7 billion to the existing General Arrangement to Borrow among major nations—a far cry from the $25 billion emergency fund bandied about by the United States at the September International Monetary Fund meeting in Toronto.

● **THE IMF'S** Interim Committee meeting will likely be in January, not April, accelerated in an effort to speed the collection of funds for a big IMF quota increase; funds, however, will not be useable at earliest until 1984.

● **U.S. AUTO PRODUCTION** fell in November 6 percent from the year-earlier level, and 5 percent below industry plans, at 395,000 units.

● **WEST GERMAN** interest rates fell Dec. 2 when the Bundesbank lowered the discount rate and lombard rate 1 percent, to 5 percent and 6 percent.

● **OPEC** oil production will fall to only 10 million barrels a day from the present 18 after the winter production peak, British oil analysts are predicting, with a major price decline to follow.

● **ARGENTINA'S** $750 million credit from the Bank for International Settlements has been delayed, as bankers protest the country's de facto debt moratorium on $5.5 billion of external debt.

● **CAPITOL HILL** is seriously considering a payment-in-kind scheme, which is designed to get U. S. farmers to reduce crop production by paying them with government owned grain stocks. Using warehouse receipts, farmers could then sell the grain in storage at market prices. The failure of a similar scheme 15 years ago is not fazing the Agriculture Secretary.