East-West Trade Now Only Prop Holding Up the World Economy

by David Goldman

Oct. 29 (IPS) — A quasi-military mobilization of existing international means of payment to expand trade with the Soviet sector and developing countries has averted the collapse of western Europe's and Japan's industry, an ICLC intelligence study shows.

Two distinct tendencies now bear on international commerce, according to the study. The first is the continuing dissolution of post-war channels of trade and investment, organized under the "Marshall Plan," "Development Decade," "Alliance for Progress," and similar rubrics. The second is the preliminary phase of the construction of a new international economic order, centering on three-way trade between the advanced capitalist countries, the Soviet sector and the Third World.

The Italian government underscored the new conditions under which international trade is conducted this week by granting a $900 million subsidized trade credit to the Soviet Union and a $500 million trade credit to Poland this week.

During the first half of 1975, European Economic Community exports to the Soviet sector rose by 18 per cent, while dropping by 5 per cent to the rest of the world. Exports to the Soviet Union of the four largest industrial countries — West Germany, Japan, Britain, and France — rose to 46 billion during the first five months of this year, almost twice the figure for the same period in 1974. If new trade credits made available during 1975 are used for current imports — including 42.0 billion in projected commercial bank loans and almost $9 billion in government loans — the rate of exports will have doubled again by the year's end.

"Previously," writes the Journal of Commerce in a feature on East-West trade, "the East sought primarily liberalization of quota restrictions...now the stress is distinctly on industrial cooperation, licensing trade, joint construction of enterprises, joint ventures in third countries, transfers of technology, and credits." That is, the Soviets are primarily concerned with extending trade relations to close industrial cooperation with the Western countries, and three-way development of Third World economies.

In contrast, European exports to the United States tumbled sharply during the same period. West German exports to the U.S. fell from $3 billion during January to May of 1974 to a mere $2.2 billion in the same period this year; French exports from $1.86 billion to $0.82 billion, or less than half of their previous level; and Japan from $4.5 to $4.4 billion. These figures include price inflation of 20 per cent in commodities traded among the industrial countries. The volume level is, in proportion, much worse.

In addition, preliminary indications from the third quarter of 1975 indicate a sharp drop in European countries' current exports and export orders involving non-oil-producing developing countries, including cutbacks of essential items. Beginning with the June 30 international payments date, New York banks began drawing down their $30-$35 billion in short-term loans outstanding to Third World countries, many of which had been used to finance essential imports. This liquidity squeeze, combined with the closing of Eurodollar lending channels to the Third World, forced severe import cutbacks throughout the underdeveloped sector. The cutbacks range from blockages of food and medicine imports to bankrupt Zaire, to a 60 per cent cutback in capital equipment imports for Brazil, with $03 billion in outstanding debt, and an impossible $4 billion to refinance this year.

Bandaid proposals — including one under discussion at the Experts Group of the oil producing countries' organization in Vienna for an $11 billion fund for developing countries — mitigate this situation to a certain extent. To a considerable extent, last week's $1 billion Saudi loan to Great Britain, and similar reported deals with other European countries, will provide temporary trade credits for the developing sector.

Nonetheless, existing international reserves, mainly dollars held by central banks, cannot be juggled to sustain even current depressed levels of trade past the next three months. The Algerian proposal for an immediate international conference to rebuild the international monetary system in Havana yesterday, and other initiatives which converge on the ICLC's International Development Bank proposal, must go through by the end of this year, or trade will suffer the most precipitous collapse in world history.