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The stakes in the fight over Eximbank

by David Goldman

George Gregory's accompanying report from West Germany on the spectacular Soviet-West German natural gas deal indicates on what hangs the present debate over funding for the Export-Import Bank of the United States. Cut to a penurious level that continually provoked sarcasm from our trading partners under the Carter administration, the Eximbank is threatened further by OMB Director David Stockman's meat-axe approach to budgetary control.

Under the present Stockman formulation—subject to future presidential review—Eximbank would have to cut its outstanding credit commitments for the next two years from $14.5 billion to $8.3 billion, and reduce discount loans from $400 million to $200 million.

Although Sen. Jake Garn, the new chairman of the Senate Banking Committee, and other congressional leaders close to President Reagan want a strong export finance policy, the Stockman-Kudlow-Sprinkel-Ture-Roberts group at OMB and Treasury have made a special target out of Eximbank. Exim's detractors have budget rationales and ideological complaints against the policy of financing capital-intensive exports.

They envision a basic change in the composition of international trade, to dovetail with the projected transformation of the United States into an "information economy" based on telecommunications, computers, related electronics, and satellite systems, instead of traditional "smokestack industries." Rather than increase U.S. capital-goods exports—where American companies still have a significant competitive advantage in world markets—under this program the United States will correct its trade imbalance by stopping importation of expensive oil and selling expensive telecommunications and expensive food.

As opposed to manufactures trade based on traditional means of infrastructural development, Stockman and his colleagues see a system in which cheap labor in the Newly Industrialized Countries (NICs) will build components, to be assembled in free-trade zones in American cities, for re-export to other markets. In Latin America, financing for this form of quick-turnover export industry would start with the *legalization of narcotics revenues*, on the model of already extant programs in Jamaica, Colombia, and Bolivia. In Asia, moves by the overseas Chinese families—about 100 groups with capital resources of between $200 million and $1 billion each—are surfacing into the manufacturing and transportation sectors, after 30 years of specialization in the "unofficial" economics of South Asia, including a $10 billion per annum wholesale opium traffic.

This perspective for the developing sector goes by the name of "Development Without Aid," the title of a forthcoming book by Hoover Institution economist Melvin Kraus. In a Feb. 4 article for the *Wall Street Journal*, Kraus advised Latin countries to abandon hopes of obtaining resources from the United States, and instead begin "importing labor-intensive industries." Kraus envisions "free-enterprise zones" throughout Asia and the Caribbean employing cheap labor on the model of a plan which National Security Adviser Richard Allen drew up for fugitive financier Robert Vesco in 1971.

What the developing sector needs, Kraus told an interviewer, is "the kind of industries that use cheap labor; textiles, plastics, toys—light manufacture." In the

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United States, he says, "It's the sunset industries which have to face the high labor costs here that will move out." The proposed labor-intensive free-enterprise zones in American cities "are exactly the same idea."

This theme dominated a Feb. 8 *New York Times* survey on the world economy. The most important issue in trade negotiations between the U.S. and its partners, the *Times* said, is not protection of our auto and steel industries, but promotion of our exports in the electronics and communications fields. It cited the "agreement . . . permitting sales of American telecommunications equipment to the mammoth Nippon Telephone and Telegraph company [which] came after three years of difficult, tense negotiations, an indication of the importance Japan places on protecting its advanced-technology industries. Post office and telephone monopolies exist in most countries of Western Europe and also operate under buy-national purchasing policies."

In addition to cheap-assembly operations, there is one final element in this "new profile" of international trade: the disappearance of the world oil trade.

It is seriously argued that the U.S., after reducing foreign oil consumption by 25 percent during the past two years, can do the same again during the next two years—even though the drop in consumption reflected a collapse of both investment and current output of the steel, transportation, auto, construction, and other energy-intensive industries. These industries may shut down permanently, to be replaced by "sunrise" subsectors.

The oil question

Indeed, the New York Federal Reserve—following the suggestion of the World Bank's *World Energy Report* of Fall 1980—has projected a triage scenario in which those developing nations that survive the current world payments crisis are those which can produce their own oil. Apart from OPEC, a review in the New York Fed's most recent *Quarterly Review* states that a significant number of other nations are at or near oil self-sufficiency among the Third World; these include Mexico, Oman, Trinidad and Tobago, Malaysia, Angola, Bahrain, Peru, Syria, and Tunisia. To this list could be added Argentina, Zaire, the Ivory Coast, and Colombia that are undertaking major oil-drilling programs, because project financing is available for little else.

This was the subject of the World Bank address at the IMF-World Bank Annual Meeting last fall. Now, the New York Fed comments:

> The non-OPEC developing country current account deficit mounted to over $50 billion in 1980, more than double its level two years ago. This deterioration was nearly equal to the $35 billion growth of the oil-import bill of the group over the period. But the direct impact of higher oil prices on the developing countries is very uneven. Four countries—Brazil, India, Korea, and Taiwan—account for nearly half of the group's oil-import bill. Many other countries with less export or borrowing potential have been even more seriously affected in proportion to their own income and output. At the other extreme, those developing country oil exporters that are not members of OPEC showed a $15 billion increase in net oil receipts over the 1978-1980 period."

What the New York Fed envisions is the financial survival of a handful of countries, including those already sufficiently developed to take advantage of the electronics boom, e.g. Korea, Singapore, and Taiwan; those with potential energy self-sufficiency; and those with access to illegal funds that may now be brought onto the "legal" market through the "enterprise zone" system advocated by the Hoover Institution. Colombia, for example, overlaps the latter two categories. Brazil, which can neither produce its own oil revenues nor take advantage of recaptured flight capital, is in a category by itself. As the largest Third World debtor, Brazil is still assured of financing. The Inter-American Development Bank last November convened a Western Hemisphere energy conference in Brasilia to work out oil supply arrangements for Brazil from net exporters.

As for the rest of the developing sector, the report issued jointly last year by the State Department and the Council on Environmental Quality, entitled "Global 2000," states the conclusion inescapable under this regime: the elimination of more than 1 billion persons from the world's population, among those countries which do not fit into the above survivor countries.

The Western Europeans will have none of this. Their governments are committed—as in the West German-Soviet gas project—to maintaining the flow of capital-goods exports that have been the source of European economic strength for a generation, principally orienting toward nuclear power (see Special Report).

That the United States should adopt a trade profile compatible with the loss of its own basic industries worries the French and West German governments. The projected slash in Eximbank funding is particularly ironic after the visit last week of the South Korean President (see International), who brought a proposal for the construction of 110 nuclear power plants in Korea, including 46 before the year 2000. That by itself represents $2 billion per year in American exports for the entire period. In the past, nuclear power construction in South Korea has depended on Eximbank, and could not continue without it. Offers of this sort—echoed by the Mexicans, Brazilians, and others since Reagan took office—indicate how crucial the Eximbank actually is.