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World trade sinking back to the 1930s

by Richard Freeman

Images of the 1930s were revived in mid-March, when reports appeared that world import levels measured in current dollars contracted 5 percent in 1981 compared to 1980, the first fall in world imports since 1958. The fall-off in import levels from $1,925 billion to $1,821 billion promises to worsen, as the major motor of world trade—the import and export capacity of the Western industrial nations—continues to weaken under an industrial contraction engendered by the relentless assault of the high interest rates of Federal Reserve Board Chairman Paul Volcker. Contributing to this process, too, is the "conditionality" policy of the International Monetary Fund, which penalizes Third World nations unable to keep current with their debt payment schedules by requiring them to cut back on imports.

It should be remembered that in the 1930s, after the first shock of stock market failures in 1929, it was the fragmentation of international trade that took the world from monetary disaster into full-fledged depression. At that time, under protectionist measures, led by the U.S. Smoot-Hawley tariff of 1930, each nation erected trade barriers and tariffs that prevented other nations' exports from crossing its borders. As nations retaliated with higher and higher tariff levels, world trade fractured into a thousand pieces, and the world plunged deeper into depression. Today, Paul Volcker's high interest rates are already beginning to destroy international trade as Smoot-Hawley did in the 1930s, with Africa, for example, now being "decoupled" from the world and left to starve.

If the world trade collapse continues to gain momentum at its present rate, the Third World will find itself defaulting on its debts, and bankers will begin hastily calling in their international loans. Less Developed Countries (LDCs) owe $550 billion in debt, including $60 billion to $100 billion coming due this year. A cutback in international lending was recommended March 6 by Emile Van Lennep, the secretary-general of the Organization for Economic Cooperation and Development (OECD) in Paris. The combination of debt and the call-in of loans is precisely the chemistry that leads to a chain-reaction of bank failures that could bring down the entire global banking system.

Trade collapse

The most striking feature about the world trade contraction is that it occurred after several years of hefty current-dollar trade expansions. As the chart shows, from 1976 to 1980, world trade doubled. Nations and banks built their borrowing policy on the expectation of higher trade volumes the next year. In 1980,

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world imports expanded 26 percent, leading to a large borrowing spurt. When the 5 percent import contraction occurred in 1981, the Third World in particular was left with hefty interest payments, but sharply decreasing revenues to pay that interest.

In real, constant dollars, world imports also fell in 1981, by 2.9 percent. This was the second year in a row that constant dollar imports fell, marking the first time that world trade has fallen in back-to-back years since the end of World War II. It should be noted that the physical volume of trade fell less sharply than the non-inflation-adjusted volume of trade. That is because globally—although not in the United States or Western Europe—there was a price deflation. A Third World nation might ship an only slightly smaller quantity of goods than the year before, but earn considerably less in current dollars, because the price of the goods has fallen.

The world trade contraction hit the Third World much harder than the advanced sector for two reasons. First, the advanced sector had more accumulated infrastructure to fall back on; second, most of the cuts in imports occurred in the advanced sector and they were of Third World goods—thus the Third World lost export earnings. West Germany cut its imports by 13 percent for 1981; part of this cut was due to lower levels of importation of oil, but also lower import levels of other commodities also occurred. In the first nine months of 1981, France cut its imports by 12 percent, and hard-pressed Belgium cut its imports by 14 percent.

The fall of world imports would have been far worse were it not for the fact that the two largest economies in the world, Japan and the United States, maintained their import levels in 1981, although for different reasons.

Japan kept up its import level because its export levels continued strong. But even the resourceful Japanese could not prevent the level of their exports, many of them high-technology goods, from slowing down in the second half of 1981 and from turning to a negative level in February 1982—the first Japanese export contraction since 1975. If Japan's exports go, Japan will be forced to slash imports.

As for the United States, which imports 40 percent of all Third World goods, its imports actually rose in 1981. There is no mystery here. An overvalued dollar, artificially inflated through high interest rates, made foreign goods cheap. Through its strong dollar, America tapped the higher productivty levels of goods-producing economies around the world.

By the summer, the United States will be running an ever-widening current account deficit, as exports fall because they are overpriced in dollar terms, and certain invisible earnings, such as oil company repatriation of profits, will fall because of the fall in the price of oil. The dollar will go into free fall, and U.S. imports will be cut massively.

The bitter irony of the fall in world imports, especially in the advanced sector, is that it forced the Third World to slash exports and cut export prices in order to find markets in the industrial west. Third World raw materials prices fell by 15 to 25 percent; the Third World looted itself by charging prices below the costs of production just to sell its goods to the industrial sector.

Nowhere is this fact more apparent than in trade relations between Africa and the United States. In 1980, the U.S.A. imported $34 billion worth of goods from Africa; in 1981 U.S. imports fell to $27 billion, a fall of 20 percent. Not only did the U.S. cut back on its oil consumption from Nigeria, Algeria and Libya; African copper, cocoa, rare metals, lead, and other raw materials were shipped to the United States at a fraction of their cost. Instead of the United States subsidizing Africa, as it so frequently claims, the world trade collapse forced Africa to subsidize the United States.

World trade: current and constant dollars

Year	Total world imports (billion current dollars)	Percent change	Unit import prices (1975=100)	Percent change	Unit world imports (billion 1975 dollars)	Percent change
1976	926.4	13.4	101.2	1.2	915.3	12.0
1977	1,067.6	15.2	110.1	8.8	969.3	5.9
1978	1,240.6	16.2	121.2	10.1	1,023.5	5.6
1979	1,563.4	26.0	144.2	19.0	1,084.2	5.9
1980	1,920.8	22.9	177.9	23.4	1,079.6	−0.4
1981*	1,824.8	−5.0	174.0	−2.2	1,048.7	−2.9

*Estimate by ACLI International, New York
Sources: International Monetary Fund, ACLI International

The British and Venetian oligarchs standing behind Volcker and the IMF realize that their world banking system is very close to collapse and are planning to salvage the situation by decoupling the Third World from the world economy. This is an idea first introduced by the New York Council on Foreign Relations in its 26-volume "Project 1980s" program; developing countries are to be shut out of world trade, made unable to obtain the high-technology capital goods they require to industrialize. Decoupling is willful, conscious genocide.

Decoupling

Joseph Nye, who headed up the Project 1980s report on the Third World, boasted March 15, "There is no question that decoupling is taking place. Africa is being hived off from the world banking system. They will be forced to do without banking from the private sector altogether." Nye elaborated, "Some countries like Tanzania will limp along. Others are being forced onto self-subsistence agriculture and are dropping out of the market economy for good."

As Nye knows, once a nation cannot get private bank funding, it must go to the International Monetary Fund and its austerity-enforcing loan "conditionalities" policy. In 1977, only two out of all African nations were going to the IMF for funds. Today, that number has reached 21.

What is happening to Africa as a result of the export collapse is a lesson for the rest of the world:

• Zaire—according to an AID official of the U.S. State Department March 16, Zaire, which has $5.5 billion in total debt, has just been cut off from even an IMF loan. In 1982, Zaire must pay $650 million in interest payments; thanks to collapsed copper and cobalt prices, Zaire is earning only $35 million a month from exports. If Zaire were to put all its export earnings toward debt repayment, and buy nothing, it still could pay off only two-thirds of the debt it owes.

• Tanzania—a nation with over $1.3 billion in debt. Each worker in Tanzania earns only enough money each week to pay for half of the amount of corn that his family needs to survive. Tanzania has had 18 million people reduced to self-subsistence farming.

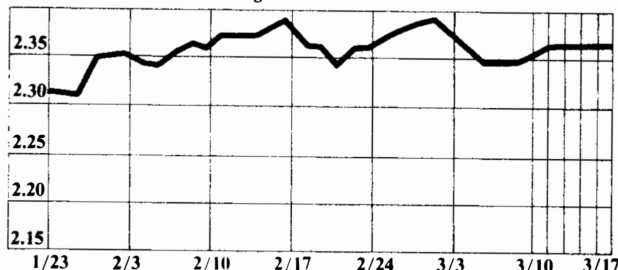
• Nigeria—once the showcase country of Africa. Now because of the fall in world oil prices, Nigeria will have to borrow on the world market. Wall Street bank officials are saying that Nigeria must give up its ambitious development plans.

What is occurring in Africa, will soon spread to the rest of the Third World. An official for the General Agreement on Tariffs and Trade reported March 16, "Last year, the Third World was most hurt by the fall-off in trade. We have done a study that shows that this year the advanced sector will be hurt."

Currency Rates

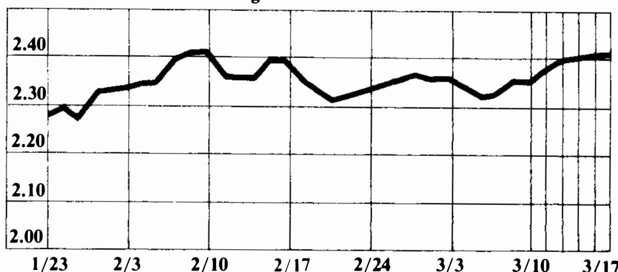
The dollar in deutschemarks

New York late afternoon fixing



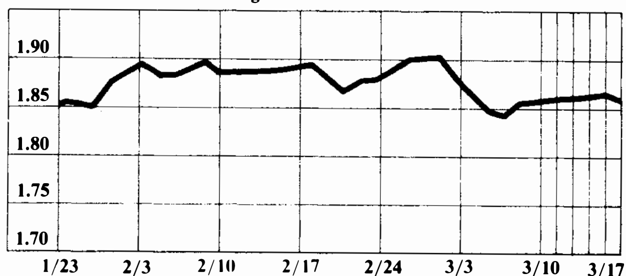
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing