# Collapse of U.S. Imports Threatens World's Leading Economies

by Richard Freeman

America's role as importer of last resort, which has dominated world trade for the last decade, is coming to an inglorious and violent end. This is starting to produce a shockwave of devastation throughout the world's trading system, while being amplified by and intensifying the disintegration of the world's financial system.

The nations which are most at risk from this development, are those that attempted to satisfy America's insatiable need for imported goods, to the extent that today, they ship an astounding 20-40% of their physical goods exports to the United States alone. These nations include many of the world's leading economies, including Japan, South Korea, Taiwan, Mexico, and Venezuela.

Under the press of the worldwide financial disintegration, the United States has entered a zone of instability, wherein it will neither be able to generate enough income internally, nor bring in sufficient funds from abroad, to finance the continued import of goods. This means that many of the nations that export to the United States will suffer sharp drops in their trade. Since many of these countries are heavy exporters, this will lead to steep cuts in their domestic production. This effect will spread to the whole trading system.

In its Jan. 19, 2001 issue, *EIR* explored the effect of the demise of the U.S. economy as the importer of last resort. We now concentrate on what effect that will have on America's trading partners. Let us first look at how the "importer of last resort" relationship arose and how it functions.

## The Importer of Last Resort

The origination and growth of the United States as the world's importer of last resort, destroys the myth that the U.S. experienced ten years of unbroken "economic expansion" during the decade of the 1990s.

In the mid-1960s, the Anglo-American financier oligarchy imposed a policy of the "post-industrial society" upon the United States. This policy collapsed production in manufacturing, agriculture, and infrastructure, while fostering a huge speculative bubble. Since then, especially since President Richard Nixon took the U.S. dollar off the gold reserve standard in August 1971, the U.S. physical economy, inclusive of infrastructure, has contracted at an average rate of 1-2% per annum. Increasingly, America impaired or destroyed its capacity to produce certain categories of physical goods.

In an attempt to compensate for and disguise that fact, the United States imported those goods it was no longer capable of producing. To do so, it used a vastly overvalued dollar to loot goods from around the world. The fact that the dollar was artificially appreciated against other currencies, meant that over a period of time, for the same volume of dollars, the U.S. imported a larger volume of goods.

As a result of this arrangement, each year, especially during the 1990s, America imported far more than it exported. This generated annual physical goods (merchandise) trade deficits of successively larger and larger record sizes. In chain-reaction fashion, the rising trade deficit swelled the current account deficit.

To cover the current account deficit, Wall Street and the City of London have rigged the world financial system so that large flows of foreign-held dollars are attracted back into paper investment inside the United States. What the United States pays out in dollars for its physical goods and other items that make up the current account deficit, and more, is brought back into the United States.

This process depends on the U.S. speculative financial bubble. Foreigners will only bring their dollars into the United States to invest in U.S. financial instruments—such as Treasury bonds, stocks, corporate bonds, derivatives—if the rate of return on these instruments pays more than the rate of return on financial instruments in other countries. Thus, the existing U.S. speculative bubble was stoked higher and higher, in part, to keep an increasing flow of foreign money coming in.

The bubble's imminent rupture, in the worst breakdown crisis in 300 years, ends this system. Foreigners, to protect themselves, will yank their investments out of the United States and out of dollar-denominated investments. This will send the dollar tumbling: A 40% fall in the value of the dollar is likely. Such a dollar crisis will trigger the de-leveraging of the highly leveraged U.S. financial system, splintering the

TABLE 1
**Percentage of Total Physical Goods Exports That Go to the United States**
(Percent)

| | Philippines | S. Korea | Taiwan | Japan |
|---|---|---|---|---|
| 1990 | 41.9% | 28.4 | 33.8 | 34.2 |
| 1995 | 40.0 | 19.3 | 25.9 | 27.9 |
| 1999 | 33.7 | 20.2 | 28.9 | 31.2 |

Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

TABLE 2
**Percentage of Total Physical Goods Exports That Go to the United States**
(Percent)

| | China | Indonesia | Thailand | Malaysia |
|---|---|---|---|---|
| 1990 | 24.2% | 13.0 | 22.9 | 17.9 |
| 1995 | 30.6 | 16.4 | 20.1 | 23.6 |
| 1999 | 41.9 | 19.6 | 24.5 | 25.4 |

Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

TABLE 3
**Percentage of Total Physical Goods Exports That Go to the United States**
(Percent)

| | Canada | Mexico |
|---|---|---|
| 1990 | 71.6% | 74.1 |
| 1995 | 75.1 | 78.1 |
| 1999 | 83.3 | 80.3 |

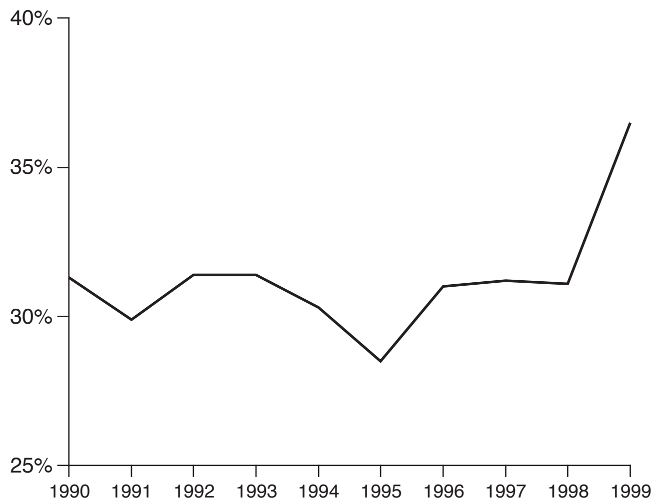
Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

dollar-centered financial system as a whole. The United States will not have the wherewithal—the dollars—to sustain its huge volume of imports. America's trading partners will experience a jolting contraction of trade.

The effect of this trade contraction will be non-linear. In the midst of the financial disintegration of the past decade, for many nations in Asia and Ibero-America, exports to the United States represent all that allows them to keep certain factories open. The disappearance of this trade will shut down large portions of manufacturing in their economies, which will in turn impact the non-export-oriented domestic economy.

As for the United States, the removal of this physical goods "subsidy" will send the economy into a free-fall. This

FIGURE 1
**Percent of Ibero-American Physical Goods Exports, Exclusive of Mexican Trade, that Go To the U.S.A.**
(Percent)




Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

will set off an interacting downward spiral in worldwide trade, as each collapse in trade lowers a country's industrial production, reducing its ability to export and import, and so forth.

## The Vulnerable United States

The arrangement of "importer of last resort" entails a reciprocal relationship between the United States and the rest of the world, which involves a very brittle mutual vulnerability.

America's dependence on physical goods imports extends across consumer goods, intermediate goods, and capital goods (see "The Bursting of the U.S. Import Bubble," *EIR,* Jan. 19, 2001.) To summarize, of the total American consumption of a particular good, the following percentage is supplied strictly by imports:

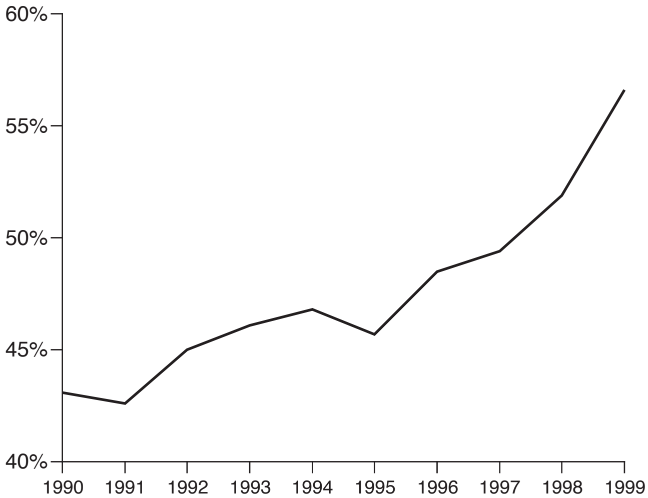
*Consumer goods:* 53.7% of all men's and boys' outerwear garments; 52.5% of all women's and girls' outerwear garments; 35.3% of all household cooking equipment; 44.5% of all electric housewares and fans; 34.2% of all cars.

*Intermediate goods:* 61.8% of all ceramic tiles; 22.5% of all steel; 22.2% of all industrial fasteners.

*Capital goods:* 25.1% of all electrical equipment (which includes specialty transformers; steam, gas and hydraulic turbines; etc.); 59.4% of all machine tools.

During 1990-99, the percentage of America's import dependency for most goods rose sharply; in some cases, the percentage doubled.

FIGURE 2
**Percent of Ibero-American Physical Goods Exports, Inclusive of Mexican Trade, that Go To the U.S.A.**
(Percent)




Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

FIGURE 3
**Percent of World Physical Goods Exports, Exclusive of Intra-European Trade, That Go To the U.S.A.**
(Percent)


Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

TABLE 4
**Percentage of Total Physical Goods Exports That Go to the United States**
(Percent)

| | Germany | France | Italy |
|---|---|---|---|
| 1990 | 6.7% | 6.1 | 7.5 |
| 1995 | 7.1 | 6.0 | 7.0 |
| 1999 | 10.2 | 8.6 | 9.7 |

Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

## Asia

We can now focus on what will happen to those economies which have a large export dependency on the United States. We look at what percentage of a nation's total physical goods exports goes to the United States, starting with Asia.

**Table 1** lists countries, which between 1990 and 1999, had a falling percentage of total exports that went to the United States. Though the reason for the fall is not known, it should be recalled that any time a nation sends 20% or more of its exports to another nation, that is a very significant relationship. Thus, for Taiwan to export nearly 30% of its physical goods exports to the United States alone, and for Japan and the Philippines to export approximately one-third of their total exports to the United States alone, is a highly concentrated relationship.

**Table 2** lists countries, which between 1990 and 1999, had a rising percentage of total exports that went to the United States. Look at China, which ships 41.9% of its total exports to the United States, an extraordinary concentration.

These eight Asian countries conduct a large volume of trade with the United States. Of the 20 countries from which the United States imports the most physical goods, these countries have the following rank: #2, Japan; #4, China; #7, Taiwan; #8, South Korea; #10, Malaysia; #18, Philippines. Meanwhile, for each of these countries, the United States represents either the first, second, or third largest market for their exports.

## The Western Hemisphere

**Table 3** shows that both Mexico and Canada send more than four-fifths of their total exports to the United States, as part of the North American Free Trade Agreement (NAFTA).

**Figure 1** shows that in 1990, in the case of Ibero-America, except Mexico, 29.9% of its physical goods exports went to the United States; in 1999, that rose to 36.5%. When Ibero-America is considered to include Mexico (**Figure 2**), then in 1990, 45.2% of Ibero-America's physical goods exports were exported to the U.S.; in 1999, that rose to 56.6%. (Though Brazil had a larger economy than Mexico, the latter, through the slave-labor *maquiladora* system, has the biggest