

Trade Falls as Economies Contract: The Fag End of the 'Free Trade' Era

by Marcia Merry Baker and Gretchen Small

While the babble continues everywhere (except in private banking and business circles) to the effect that “the recovery is arriving,” economic activity in industrial and most Third World nations is contracting at a rate which shows up in the dramatic drop in goods traded, up through the first quarter of 2002.

For some nations, this has reached the point of an immediate, or near-term crisis of vital supplies, even food.

One situation makes the point: In Malawi, 7 million people are in dire need of food; more than 2 million have been declared by aid agencies to be facing starvation, unless they get immediate food relief. But there is a ghastly twist to this story of famine. In 2000, the Malawi government was ordered by the International Monetary Fund, to sell the nation’s 167,000 metric ton grain reserve for cash, in order to service its international debt. It did so. The IMF ordered Malawi to rely on “the markets” to acquire grain in the future. This no-food-reserves policy was a tenet of the free-trade era, whose creed was, “One World/One Market”—the slogan of the World Trade Organization (WTO) and its predecessor General Agreement on Tariffs and Trade (GATT). Now Malawi has had two disastrous harvests, due to drought and floods, and has no food reserves. Having serviced its international debt, it has no means to buy food on international markets. This catastrophe is not unique, and not confined to southern Africa.

In Mexico, a “model” free trade country, the economy is imploding, as the *maquiladora* system on the Mexico-U.S. border folds, because the United States market is drying up. The ultra-cheap labor camps called *maquiladoras* were imposed on the Mexican economy over the past 15 years, as the supposed way for Mexico to “participate” in the new globalized one-world market. Now that the free-trade system—which has drastically subverted Mexico’s productive capacity since the 1982 debt crisis, and particularly under North American Free Trade Agreement (NAFTA)—is itself crashing, chaos looms.

From country to country, the particulars differ, but the process is the same. We are at the end-phase of what has been euphemistically called the “free trade,” “post-industrial,” and “New Economy” globalization era. These slogans merely covered all along for what was a swindle-process of economic looting and decline. National leaders are now confronted by

the inevitable consequences, and the need for working out the kind of New Bretton Woods emergency arrangements for nation-rebuilding, put forward by Lyndon LaRouche and collaborators in many nations.

The agencies which have enforced the “free trade model”—the IMF, World Bank, and the WTO—are issuing decrees, like King Canute, that trade must expand again, and that no nation must dare to take protectionist measures. But the free-trade game is over.

Largest Drop in Two Decades

The annual trade survey released on May 2 by the WTO states that world exports in 2001 fell by the largest year-to-year decline in 20 years. Exports dropped 4% in value in 2001 from the year before; and 1% in volume. The drop of \$6 trillion in value hit all three major merchandise product groups—agricultural, mining, and manufacturing.

The rate of fall in trade is also increasing. In the fourth quarter of 2001, the volume of world exports had fallen to 6% below the same period the previous year. The nations with the largest export decline, were those trading intensively in information technology—East Asia and the United States.

Look at the U.S. import and export statistics. The gigantic annual deficit of over \$400 billions in goods trade in recent years, is well known. In fact, the last year in which the United States ran a positive foreign merchandise trade balance was in 1975! The balance that year was \$9.1 billion. By 1984, the U.S. trade deficit had grown to \$112.5 billion and has never since gone under \$100 billion per year.

However, at some point, the era of “dollar tribute,” in which this gigantic deficit was more than covered by a net flow exceeding \$500 billion annually of investments into the United States from the rest of the world, was bound to end. That point is at hand.

Recent months of 2002 have seen a drop in the volume of U.S. imports and exports alike. The United States no longer commands the purchasing power to be the “importer of last resort,” or to maintain its deficit. From January to March this year, compared to the same time period in 2000, the value of U.S. goods imports fell from \$292.547 billion, to \$272.763 billion. The value of exports, in the same January-March period, dropped from \$185.142 billion in 2000, down to

\$164.960 billion this year. This is the downward spiral.

What about the so-called “recovery uptick” during March, when the monthly U.S. trade deficit narrowed? It was just that—the short upward bounce of a ball bouncing downstairs. It showed up because the monthly value of imports rose, when crude oil posted the largest one-month rise in price in the 12 years since Desert Storm. The monthly value of exports rose, because the U.S. posted a big sale of commercial aircraft. As for the overall trend, the downward spiral continues.

Since late April, the value of the dollar itself—the currency of the free-trade era—has been declining. As of the end of May, the dollar had fallen by 8% or so against the euro, yen, and Swiss franc, over the course of one month, reaching eight-month lows against those currencies. The flow of foreign funds *into* the United States—what supported the U.S. goods import dependence—is drying up.

For example, for the first two months of 2002, foreign investors purchased \$11 billion of American exchange stocks, compared to the \$33 billion they bought during the first two months of 2001—a fall of two-thirds.

Another reading of the decline of the dollar, is the rising price of gold. On May 30, gold reached over \$326 an ounce, the highest in two years.

Mexico’s Maquiladora Model Collapses

The situation in Mexico is dire. Mexico’s exports, which are 90% dependent on American markets, fell by 5% in 2001 over 2000, and its imports by 4%, a steeper drop than that experienced by the other countries in Ibero-America. The pace reflects the “turnaround” factor. Over the last ten years, Mexico’s trade grew more rapidly than that of the rest of the region; but now, as the U.S. market is failing, Mexico’s rate of fall in exports is that much more rapid.

The sequence is this: In 2000, Mexico’s trade still grew, by 12% over 1999. In the first half of 2001, it grew by 6%. Then the collapse hit: down 5.6% by the end of 2001, and down 6.7% in first quarter of 2002.

Given that Mexico’s economy, under NAFTA, was distorted to channel all resources into export-related activity, the effect is devastating. Industrial production as a whole in Mexico has fallen by a huge 27% from its level of August 2000. In the first quarter of 2002, industrial production fell by 7.6%, even more than the terrible 4.7% contraction of the fourth quarter of 2001.

The fall in overall industrial production in March 2002



“Free trade” recovery delusion becomes denial, and denial becomes manic-depressive. An unintentionally ironic combination of headlines on the same Wichita Eagle front page.

was the fourth month of contraction in a row, the longest period of consecutive decline since 1982 in Mexico.

The level of collapse of *maquiladora* production—which exists solely as an appendage of the free-trade system—is astounding: down 19.1% in the first quarter of 2002, after having fallen 19.6% in the fourth quarter of 2001. March 2002 figures were 20.4% below those of the year before.

First came the reduction in the size of purchase orders for the *maquiladoras*. Then, the cancellation of those orders. Now, the *maquiladoras* themselves are shutting down: Whereas there were 3,700 *maquiladoras* registered in the country at the close of 2000, at the end of 2001, there were 3,540. At the end of April 2002, the number had fallen to 3,316. Employment in the sector fell by 17% between 2000 and 2001: from 1.3 million to 1.08 million.

It should be kept in mind that at its peak, total *maquiladora* employment was almost at the level of the number of workers in Mexico’s manufacturing sector proper. As a consequence, the dislocation in such leading centers as Monterrey is terrible. There, both the national industries, such as steel, ceramics, and general manufacturing, are devastated, and the vast zones of *maquiladoras* are now folding up.

Deluded *maquiladora* “industry” analysts are putting forth two strategies to counter the collapse, both on a par with the myth of “the recovery coming soon.” Some say that the “high cost of Mexican labor and services” must be cut, so as to compete with Chinese or Central American labor. And others say that Mexico must concentrate on producing “high-tech” *maquiladora* products geared to the U.S. defense build-up.