

OBSESSION WITH SURPLUS BALANCE CREATES CHALLENGE AND OPPORTUNITY FOR LDCs

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The pursuit of a surplus balance as a virtue, par-excellence, has stayed far too long with the global economies to the detriment of both developed and least developed countries (LDCs). The tolerance of high rates of unemployment and low growth among the EEC countries is a manifestation of the absurd proportions to which such a pursuit could be pushed. More latently, the failure of the global economic policy makers to formulate a concerted programme for the surplus and deficit economies of the world, has resulted in confusion in the developed nations, and continued abject poverty for the LDCs.

Some EC countries (Germany in particular) and Japan, have become the top surplus nations of the world. Policy studies of these nations show that their primary concern was not to lose the export advantage they have won. In order to preserve their victory, they were and are even prepared to change the rules of the game, covertly if possible, and overtly if necessary.

Much lobbying had to precede before Germany or Japan could be persuaded to re-value their currencies and yet it was not up to the desired degree. The Japanese engage in the stealthy transfer of money into Euro - Dollar markets in order to present a picture of low reserve, as an excuse against legitimate pressure for further re-valuation of the Yen. It is not so much the degree of success of these exercises, as the reality that surplus balance is pursued and preserved as an 'obsession', an end-target, that is of concern to economic policy makers.

The present day scenario is one of wildly disturbing elements in the global economy gigantic transnational capital movements causing difficulties in internal money management; panic flight of capital in pursuit of speculative gains on the heels of anticipated devaluation of the accepted currencies causing fear suspicion and frenzy in regular capital markets (this culminated in the stock market crash of October 1987); jealous protection of surplus balances followed by stealthy transfer of capital into the credit markets of the world contributing to the creation of surplus credit that

marauds the globe; tempting credit hungry LDCs into traps of easy money and eternal debt, as what happened since 1972; precipitating 'cold' trade war among nations as is the current case between the U.S. and her trading partners. All this in one way or the other be traced to this meaningless obsession with 'surplus balance'.

It is no secret that the U.S. economy is now largely sustained by substantial transfer of LDCs debt servicing funds and foreign funding on U.S. bonds, (together accounting for not less than 400 Billion Dollars on the credit column of the U.S. balance sheet). The latter rests mainly on the reputation of the U.S. Dollar. This reputation of the Dollar, however is fast dwindling, particularly after the good beating it had in the stock market crash in October 1987 a single incident that portrayed the declining confidence in the U.S. Dollar in spite of increasing Central Bank efforts to keep it adequately propped up. More than the dwindling confidence in the U.S. Dollar, the stock market incident in October 1987 drove home the realisation that the U.S. Dollar is not what it purports to be. It is of far lesser value in real proportions and the delicate mechanism that holds it has to be always well oiled. A complete erosion of the confidence in

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the U.S. Dollar can cause a run on U.S. bonds, causing a wide gap in U.S. domestic savings, which will further aggravate the short fall in U.S. export earnings. Indeed, the slightest hint of Dollar devaluation can cause a big run on Dollars by investors, seeking not only stability but also speculative profit. If this devaluation comes without warning, holders of the vast sums of Dollars,

in savings, will lose confidence in the Dollar - not to mention the great destabilising effect it will have on countries that hold their reserves, in U.S. Dollars. The U.S. performance since the Bretton Woods and its efforts to stem its problems by resort to every means, other than devaluation, gives the confidence that devaluation will not come easily and certainly not unless it becomes the last expedient. To say it in other words, devaluation although logical is not the expedient option for the U.S. economy.

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In an international economy, subjective solutions alone cannot be fully effective; and national economies are interlocked in such complex manner that solutions that seem logical are not necessarily expedient. Suitable reciprocal conduct by globally significant surplus economies is an essential

prerequisite for the smooth functioning of an 'internationalised' global economy. The EC and Japan particularly and the NICs have failed to play the reciprocal role expected of them to keep the global economy running smoothly. The international policy makers are equally to blame not merely for their failure to formulate a behavioural pattern for surplus and deficit

nations; but more so for their dim and disapproving attitude to the deficit balance and disapproving attitude to the deficit balance economies (although they are an essential counterpart in a zero sum game).

The international policy makers have not assessed the role that surplus countries can play and should play in order to rejuvenate a corresponding deficit economy. They have resorted to the conventional and allowed theoretical solutions - i.e. devaluation, increased tariff, austere fiscal policies etc. However, as seen in the case of a developed economy like that of the U.S., these seemingly logical solutions are not expedient. Since 1986 the tension between the U.S. and Korea have increased. The U.S. wants Korea to revalue her currency, and open her trade wider to take in more U.S. goods. The U.S. is increasingly in conflict with her western allies of the EC as well pursuing relentlessly (and with no response), the idea that a greater part of her military commitments should be borne by the EC., in order to help the U.S. economy reduce her deficit. The U.S. Japan conflict over protectionist trade wars and similar developments with India and Brazil in recent times all point to the pressure on the U.S. economy and the need for adjustment. The U.S. is also increasingly concerned with the trade balances in favour of South Korea, Singapore, Hongkong and Taiwan, running to billions of U.S. Dollars. Japan had recorded a surplus of 83 billion U.S. Dollars in 1986 and since then has revalued the Yen under pressure. Conscious that she has to reciprocate her good fortunes, Japan has overtly shown her intentions to accommodate more imports by politically declaring a policy of conciliation instead of a policy of competition. This overt altruism with secret desire for the very opposite has become the standard policy of surplus nations. After more than two years the U.S. remains still with a deficit balance and complaining that Japan is not doing enough.

What is required today is not abandoning competition but more competition, that would create the internal situation necessary to attract and accommodate more and more foreign goods. Both surplus and deficit nations need to scrupulously avoid policies that could attract recession and depression. An artificial brake on the tempo of development can further aggravate the ills of the deficit nations and in the long run perniciously affect the export process of the originally surplus nations. What is required is not a process of self sterilisation of the economy, which can have a depressive chain effect on the global economy, but an articulated policy of accommodation of expanded imports from deficit nations. It necessarily involves enhanced development in the right directions. The complaint is that Japan is siphoning a large portion of her surplus money on social security nets that cannot attract foreign goods

instead of widening internal construction to set in motion a greater transfer of foreign goods into Japanese capital investment. Contrarily, in spite of the revaluation of the Yen, Japan has striven to maintain the cost advantage of her exports by relocation of her industries in relatively low wage countries.

The European scenario is even more illustrative of the efforts used by surplus nations to hold on to their export advantages - with little or no concern of the effects on the global economy. These countries have a trading volume much larger than that of Japan. They have also recorded a growth rate of 2% to 4% which is considered to be highly satisfactory. However a close look at these countries reveals a different scenario, leaving much to be desired.

There is vast unemployment in almost all the European countries, arising from sub-normal utilisation of capital assets. The comprehensive social security nets in all the EC countries, prevents any untoward political reaction to this situation. Like in Japan vast spending on social securities does not help foreign exporters. This policy of controlled stagnation is not the desirable conduct of a surplus nation, for the well being of the global economy. German financiers and banking houses, consciously followed a strategy that could retain the export advantage for Germany. "Faced with the choice of maintaining a certain volume of sales at lower prices and utilising existing capacity, or to cut back sales and production, most companies plump for the former as, by far the easier. Underlying this strategy is the consideration that in the last analysis, every export order that helps to cover the overheads over and

is unemployed capital assets and idling skilled labour. Germany is perpetuating this situation by resigning itself to a very low growth rate and pacifying its labour, in layoff, by gratifying social welfare schemes. The resulting economic impact on the global economy, is almost lethal.

Government spending is almost nil, and the people have accepted this situation as the norm, for, the alternative is to court inflation. Entrepreneurial spending is discouraged by keeping interest rates high, on the excuse that to do otherwise will let loose inflation. The high interest rate in Germany has led to great strides in the flight of foreign currencies especially the U.S. Dollar, into Germany, over-supplying the Euro Dollar credit market, which in turn due to the sluggishness of the EC economy (particularly the Germany economy) has found no takers either in Germany or anywhere else in Europe. It was this trend of sluggishness and recession in the EC's investment sector that contributed to push Euro Dollars easily into the LDCs; the LDCs were credit hungry and the Euro Dollar had no takers in the authentic sector. The greed of international investment bankers, cut the final knot, and easy credit flowed into sectors hitherto considered not credit-worthy by conventional banking circles. If any banking principle was followed in the negotiation of these loans to LDCs it was the target of profit. 'Money was lent recklessly to the 3rd World leaders who had infinite appetites and little choice but to 'borrow' reports S. C. Gwynne an offshore banker who had left a lucrative job as a loan officer, as he was disgusted with the whole system. Creation of idle money in the international money market of Europe through ill

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above its regular costs, affects profits less than a complete stoppage of production. And most important of all the valuable pool of skilled labour is preserved in this way" (quoted from Dr. Kurt Richebacher, Chief Economist Dresdner Bank.) The German thinking, policy options, and the psychological preference to hold on to the export advantage cannot be made more clear. However it is not possible in the normal course of events for any corporation to continue to export at marginal prices without the economy absorbing a good proportion of the punch. This is precisely what is happening in the German economy. These are vast amounts of unused assets, particularly in the consumption industry, are conspicuous. Some, like the Volks Wagen, have squeezed themselves out into foreign climes. Yet the scenario in Germany

balanced and selfish policies by the surplus economies and the self suppression of the demand for the available money created the mood for irresponsible lending to the LDCs, and subsequent aggrandisement of this burden by further irresponsible refinancing, leaving the LDCs with a current debt burden of an estimated staggering 1.3 trillion U.S. Dollars. Apart from the devastating economic effect of this burden on the LDCs the developed nations themselves (particularly the U.S., Britain and other deficit nations) stand to lose by way of suppression of demand from the LDCs. Today the U.S. receives a large sum of money (nearly 250 Million U.S. Dollars) annually by way of interest on a part of these loans. But the slightest mal-adjustment in the future that would affect the repayment capacity of the LDCs concerned

can leave the creditors holding the bag.

The EC is a significant factor in the global economy both in terms of size and volume. It has a positive role to play in maintaining the health of the global economy. Self induced depression or recession merely to retain the position of surplus balance, depriving, developing and developed nations of vital market opportunities for their products will not only dampen the global economy, but in the ultimate analysis be self defeating.

The 'no-let' attitude of the developed nations to their affluence can give little or no hope for the LDCs, that their plight would be considered with concern. The LDCs need to formulate their own strategy; an economic programme of their own, oriented to lure the involvement of the developed nations, on market terms.

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The climate for such an effort is best, just now.

The countries of the EC and Japan are 'children' of the Marshal plan and the Dodge plan respectively. When these two sectors of the global economy were razed almost to the ground nearly 50 years ago, the U.S., probably the only nation in the western hemisphere with a surplus balance and an operative economy, came to their assistance. The Marshal plan was formulated and executed for the reconstruction of Europe, and the Dodge plan played a similar role for Japan. Today these countries particularly West Germany and Japan have massive surpluses. But they are conspicuously unwilling to play the reciprocating role needed for the global economic balance. The writing is on the wall. The hard rule of international economic relationship is not generosity or fellow feeling; it is profit and maximisation of profit. This is the moral the LDCs have to learn and live with.

The issue is not altogether unrecognised in the LDCs circles. At least among the intellectuals, the force of subjective experience has directed the thinking towards options other than absolute dependence on the altruism of the developed nations. Even so the political leadership in the LDCs is yet to rise up to the challenge to formulate a strategy to meet the developed nations on strictly economic terms. LDC declarations both in the U.N. and outside conferences abound. The declaration and action programme on the establishment of a new international order contained in the U.N. general assembly resolution 3201 (S-VI) and 3202 (S-VI) of May 1st, 1974 and the

Dakar declaration and action programme of the conference of developing countries on raw materials of April 15th 1975 are some of the early declarations showing the yearnings and aspirations of the LDCs. To say the least, they represent bankrupts of strategy and method, for achieving their object, for they are no more than entreaties for generosity and kindness on the part of the developed nations. This is precisely what LDCs must not look for in their relationship with the developed nations and perhaps also in their relationships among themselves. There is no evidence of commercially based strategy by the LDCs except for isolated instances, confined to a few nations. The ASEAN and the South Pacific forum in the Asian region merit mention in this sphere, for generating motivated leadership in diverse aspects of finance and development relating to their member

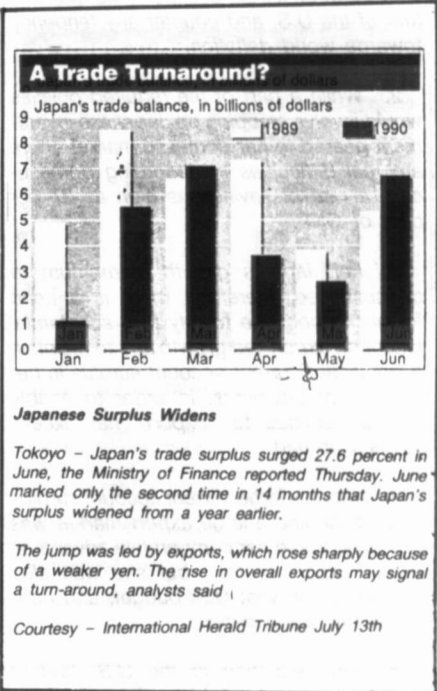
countries. The Banco Latino Americano de Exportacion (BLADEX) an organisation for export financing among Latin American countries is also considered a model that has attracted the attention of conscious intellectual, financial and political leaders in the LDCs who are on the lookout for a change.

In the late 1970s and 1980s many developed countries with surplus balance and high exchange premium on their currencies, offered to establish their industrial plants in low wage LDCs. The developed nations in re-establishing their plants in these LDCs had to incur substantial costs. They did not do this for the love of the LDCs. They were pushed into this re-organisation by genuine economic pressure. West Germany, Japan, France, Italy, Switzerland, Netherlands, and indeed almost all the countries of the group 10, countries of the OECD, and many of the NICs, were scrambling for favours from Asian and African LDCs, for the re-establishment of their crowded out industries. This was a great moment for the LDCs to assert themselves. Opportunities akin to this scramble among developed nations are occurring in

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many areas, crying for exploitation by the LDCs. This can be seen in the global political and economic scene. (for example the disintegration of the consensus among developed countries for the tough line approach of the U.S. to LDCs) majority of the developed countries see greater advantage, in 'woeing' than in 'warring'. The call by the U.S. for trade embargoes and denial of capital and technology to

developing countries, who do not play the game according to standards set unilaterally by one or more of the developed nations, had been received with mixed feelings. The relatively great dependence of the EC countries and Japan on the resources of the LDCs reduces the likelihood of an unyielding resistance to LDC demands for change in developed countries treatment of the LDCs. Indeed this demand needs to be backed by the force of economic viability and expediency. The reaction of almost all the developed nations to the OPEC drama (although an extra ordinary situation) can still become the standard, under increasingly changing situation of greater dependence of the developed countries on the resources of the LDCs. The increasing internationalisation (particularly the increasing involvement of the LDCs in the global economy) will make developed countries more responsive to the demands of the LDCs.



As U.S. Senator bill Bradley declared 'Since 1982 the debt crisis has stalled development in the 3rd World and

destroyed jobs in the United States, Europe and Japan. In order to repay debts Latin American Countries have cut imports to the bone and subsidised exports. American industries and farms find it impossible to sell products in Latin America. One Million U.S. Workers have lost their jobs as a

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result of the debt crisis.' The developed nations cannot continue to treat the LDCs as non entities. Their new and increasing significance is now being felt. The green light is 'blinking' as it were for the LDCs to meet the developed nations on strictly commercial terms and there cannot be any mistaking about the response. It is upto the LDCs to work out the organisational set up for this great challenge.

The challenge that faces the LDCs is no easy one. It involves not less than 3/4ths of the world population occupying a vast area and is characterised by equally vast divergences in historical background, aspirations and values, education and culture and degrees of economic development. It was this immense divergence that struck economist Walt Rostow when he considered the prospects for regional corporation among LDCs in a limited area of the Asia - Pacific region. The situation prompted Rostow to conclude that any attempt at regional corporation in this region will have to take the form of 'A development towards a brick by brick build up of mutual goals and solutions leading to the construction of a network of solid regional or sub-regional institutions'. The politico economic leadership in the LDCs need to choose their goals and methods wisely. They should know by experience that entreaties will not bend the developed nations. The need and goal is to attract the developed nations to the LDCs on market terms. The house of the LDCs has to be put in order to create the economic climate conditions that encourage capital to flow from developed countries to LDCs through mutually beneficial market directed investments. Today we need a process of development, which by its very nature attract the capital and technology of the developed north strictly on market terms. The political and business leadership has a responsible role to play; to search for and implement bold new and innovative ideas.

The suggestion then, is that the global economy is in imbalance. Any manipulated restoration of the authentic order, will involve among other things, the acceptance of reciprocal responsibilities. Probably preoccupied with the mercantalist thinking, most nations are reluctant to accept such reciprocal responsibilities. All economies are in selfish pursuit of maximum profit and surplus. The developed nations are in contesting with each other to make more profit and the resultant disturbances are increasingly becoming the international economic norm. This norm has delayed any international programme for poverty alleviation in the LDCs. It has also brought vast and significant alterations in the nature of the north-south inter dependence - alterations that have created both the challenge and the opportunity for the LDCs to put their house in order, so as to attract the capital and technology of the north on a market oriented basis. The political financial and intellectual leaders of the LDCs have a job to do. ■