'Asian crisis' collapses exports, threatens U.S. physical economy

by Richard Freeman

Two processes have been created by the Asia phase of the world financial disintegration, that will further destroy economies around the globe: First, since July 1997, the Asia crisis has caused world prices of several essential commodities to fall 15-25%, severely damaging many Third World economies, including those in Asia. Second, the economies of many Southeast and East Asian nations, such as Thailand, Indonesia, and South Korea, have been forced to cut back on the purchase of goods exported by the Group of Seven industrial nations. In the case of the United States, where one in five goods-producing jobs depends on exports, several Asian nations are cancelling, or are unable to pay for orders of everything from apples and alfalfa, to cotton and Boeing aircraft.

Since January, the media have continually fantasized that the "worst of the Asian crisis is now behind us," and focussed readers' attention instead on artificially inflated stock prices. But the emergence of these two processes punctures that fantasy, and indicates that the crisis is widening globally, further destroying the physical economic base, upon which the cancerous financial bubble depends. The result will be an acceleration of the onrushing disintegration.

TABLE 1
U.S. exports to East and Southeast Asian nations
(billions of dollars)

	1994	1996	1997	1997 rank as recipient of U.S. exports
Japan	53.5	67.5	65.8	3
South Korea	18.0	26.6	25.1	5
Taiwan	17.1	18.4	20.4	7
Singapore	13.0	16.7	17.7	9
Hong Kong	11.4	14.0	15.1	12
China	9.3	12.0	12.8	14
Malaysia	7.0	8.5	10.8	16
Philippines	3.9	6.1	7.4	20
Thailand	4.9	7.2	7.4	21
Indonesia	2.8	4.0	4.5	28
Total	**140.9**	**181.0**	**186.9**	

Source: U.S. Department of Commerce, Bureau of the Census

Reasons for trade contraction

There are three reasons that the Asia crisis is contracting orders for U.S. goods: 1) the shrinkage of many Asian nations' economies because of the financial crisis—a nation in depression buys less goods; 2) the devaluation of many Asian currencies, which has appreciated the dollar, making U.S. goods priced in dollars in the range of 30-250% more expensive, pricing them out of several markets; and 3) the International Monetary Fund's (IMF) conditionalities, which demand that Asian nations cut back on infrastructure spending. The full effect of the currency realignment will not unfold until eight to nine months after the dollar's appreciation began, meaning sometime this summer.

More than one-quarter of U.S. exports are accounted for by just ten East and Southeast Asia nations. For the last decade, this region was the fastest-growing region in the world for U.S. exports. **Table 1** shows the level of U.S. exports of physical goods (services are excluded) to these nations. **Table 2** shows U.S. exports to these nations as a percentage of all U.S. exports.

The United States exports to 225 nations and territories. But among these ten nations of East and Southeast Asia, are 9 of the top 21 export markets of the United States.

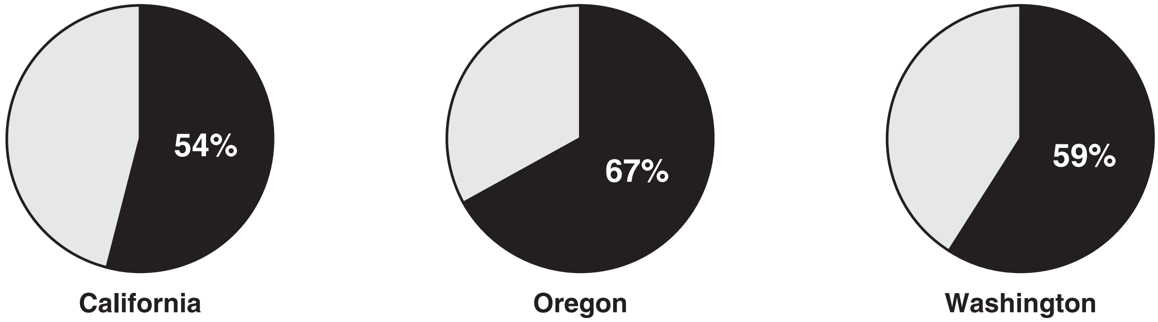
These ten nations import from the United States a large amount of "transport and machinery" goods. Of America's $186.9 billion of total exports in 1997 to these 10 nations, $96.9 billion worth, or 52%, was of the "transport and machinery" category. Some of these goods are planes and cars, but a large percentage is power-generating machinery, machine tools, specialized machines, tractors, and so on. Many of these machines constitute infrastructure and construction-related capital goods.

TABLE 2
U.S. exports to 10 Asian nations as percentage of all U.S. exports
(billions of dollars)

	1994	1996	1997
Exports to 10 Asian nations	140.9	181.0	186.9
Total U.S. exports	502.5	624.8	688.9
Percentage	28.0%	29.0%	27.1%

Source: U.S. Department of Commerce, Bureau of the Census

FIGURE 1
Percent of 1996 exports of U.S. West Coast states going to Southeast and East Asia



In addition, these ten nations import a considerable amount of agricultural goods from the United States. In fiscal year 1996, Asian nations purchased $23.8 billion, or 42%, of the $57.3 billion in agricultural products exported by the United States.

The Asia export market offered something in addition for both U.S. agriculture and the U.S. capital goods industry. In agriculture, the essential parity/price support system was eliminated. Farmers were told, "You don't need parity, just the free market; gear up and export to the expanding markets of Asia." So farmers did just that. In many instances, this provided the farmer with the necessary margin of income to survive. Now, that margin is being knocked out.

For some industries, such as aerospace and the machine-tool sector, for which the domestic market was not sufficient to keep them in business, export orders allowed them to keep employed their dwindling, but still existing pool of very skilled workers, who represent a valuable capability for the United States. The loss of exports will contribute to shutting down that capability.

The cancellation of orders may soon become a flood tide. Already in 1997, as Table 1 shows, U.S. exports to Japan and South Korea fell below 1996 levels, with much of the fall-off occurring during the fourth quarter of 1997.

Job losses

The heavy dependence of the U.S. economy on exports, especially the goods-production side, shows up in job creation. According to "U.S. Jobs Supported by Goods & Services Exports, 1983-94," a study by the U.S. Department of Commerce, 1 in 10 non-governmental jobs in the U.S. economy depends directly or indirectly on exports. But the real, productive side of the economy is even more dependent on exports than the economy as a whole: 1 in 5 manufacturing jobs, 1 in 3 agricultural jobs, 1 in 7 mining jobs, and overall, 1 in 5 goods-producing jobs depends on exports. The Commerce Department defines goods production narrowly as those employed in manufacturing, mining, and construction. Today, there are 24.7 million goods-producing jobs; thus, 4.94 million jobs depend on exports.

There will be serious job losses from the "Asia crisis" if it continues to worsen.

Even though the latest available monthly trade figures supplied by the Commerce Department are only for December, and the full fall-off of exports won't be seen until summer, there are already sufficient signs of economic contraction to indicate what is in store.

As case studies, we here look at the states of the U.S. West Coast, and Virginia.

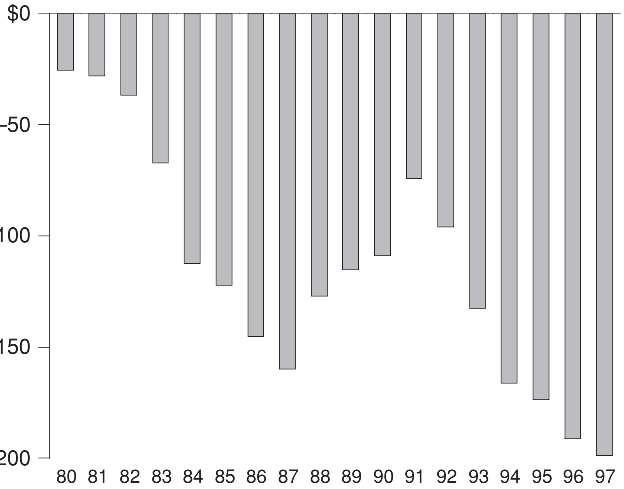
Start with California, Oregon, and Washington state. Each has an export dependency of more than 50% with Asia. In 1996, California exported $104.5 billion worth of goods, accounting for 16.7%, or one-sixth, of America's total exports of $628.8 billion for that year. **Figure 1** shows that 54% of California's $104.5 billion in exports in 1996 were to Asia. For the same year, of Washington state's $29.4 billion in exports, 59% were to Asia, and of Oregon's $10.6 billion in exports, 67% were to Asia.

Indicative of trends for Washington state, is the collapse of the market for apples in Asia. In Bangkok, one year ago, Washington state apples cost 40¢ apiece. Then, George Soros and company speculated against the Thai currency, the baht, forcing its depreciation by more than 60%. Today in Bangkok, an apple costs $1—outside the range of most citizens. Today, compared to a year ago, Washington state apple sales in Thailand have fallen 73%, and its shipments of apples to Indonesia are down 60%.

The situation is similar for the Seattle-based Boeing Aircraft, America's largest exporting company. The Malaysian airline has announced that it is seeking to delay delivery of 19 new aircraft, and Philippines Airlines is negotiating to delay delivery of seven jetliners. In 1996, more than $1.2 billion worth of airplanes and parts were exported to South Korea alone from Washington state. Boeing's president has said that every $1 billion in exports supports 11,000 jobs. In Washington, 1 in 4 jobs depends on exports, and, with 59% of exports going to Asia, the job loss could be considerable.

According to a study by the Federal Reserve Bank of San

FIGURE 2
U.S. physical goods trade deficit, 1980-97
(billions $)



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 3
Price fall in primary commodities, July-December 1997

Commodity	Price, units	July price	December price	Percent change
Natural rubber	cents/kg	93.9	72.6	−22.7%
Rice (Thai 5%)	$/metric ton	320.0	269.7	−15.7%
Timber	$/cubic meter	254.3	211.1	−17.0%
Copper	$/metric ton	2,450.5	1,762.3	−28.1%
Lead	cents/kg	63.4	52.7	−16.9%
Nickel	$/metric ton	6,835.5	6,139.5	−10.2%
Zinc	cents/kg	151.8	110.2	−27.4%

Source: World Bank

Francisco, for the fiscal year that ended June 1997 (even before the Asian financial crisis was in full swing), California's export of electrical machinery and components had fallen 4.1%, and industrial machinery and computing equipment 1.1%, compared to the year earlier. Though firm figures are not yet available, the high-tech industry in California, including computer-related electronics in the Silicon Valley, as well as the aircraft industry, are suffering. It is also reported that producers of cotton and alfalfa are experiencing a fall-off in orders.

Further, a sharp drop-off is in progress, or expected, for the West Coast states' export of wheat, hops, strawberries, and oranges to Asia.

In Virginia, chickens and broilers are the state's number-one agricultural product; turkeys rank fourth. In 1996, Virginia exported 220 million pounds of chicken and turkey, of which 95 million pounds, or 40%, went to Asia. Now, according to the March 1998 *Virginia Farm Bureau News,* that market is in jeopardy.

The U.S. trade deficit

This process will feed into an already-worsening U.S. trade deficit. In 1997, the United States ran a trade deficit on the account of goods and services of $113.8 billion, the highest annual level in eight years. In December, the monthly trade deficit jumped to $10.8 billion. One of the processes that fuelled the December rise, is that America's trade deficit with South Korea leapt from $43 million in November 1997, to $341 million in December, the result of Korea cutting orders for American goods.

Of great concern is the U.S. balance of trade deficit on goods account (excluding services). In 1997, the United States ran a physical goods trade deficit of $198.9 billion, the highest level ever recorded. **Figure 2** shows that this level has been steadily increasing since 1991. The "Asian crisis" will make this deficit worse.

Commodity prices are falling

There is a second, related development emanating from the Asia crisis: the plunge in the price of many essential commodities. **Table 3** shows the change in the prices of many fundamental commodities for July to December 1997.

In the case of natural rubber, Thailand, Indonesia, and Malaysia produce 70% of world supply; the devaluation of the currencies of these three nations forced the worldwide price for rubber lower. Now, Thailand, Indonesia, and Malaysia must each sell considerably more natural rubber just to get the same export earnings they received last July, when the price was higher. If they can't sell more, then it becomes harder for them to service their escalating debt.

As for copper, CRU, a London-based metals trading firm, said that "the cuts in copper production have been drastic," because of the fall in the price. A spokesman for the U.S. Geological Survey told *EIR* on Feb. 27 that "the price of copper may stay depressed for three to four years." In recent years, copper output capacity increased, in anticipation that the economies of Asia would be growing—building infrastructure and electricity transmission systems, both of which use large amounts of copper. But the contraction of the Asian economies, as well as IMF-demanded shutdown of infrastructure projects, shrank demand.

Many Ibero-American and African nations which mine basic metals—lead, copper, zinc, and nickel—will also experience a loss in export earnings. Add into this mix, the sharp fall in the price of oil over the past 12 months.

It is to be explored whether the commodity price fall, triggered by the worldwide financial crisis and global depression, is being fuelled by British oligarchical financier forces, which are using the lower prices as a way to break apart nations, while also buying up more of world production capacity cheaply.