U.S. exports plummet as 'Asia crisis' hits

The impact of the Asian financial crisis is beginning to hit the U.S. physical economy. Richard Freeman reports.

The Asian phase of the world financial disintegration, plus the implementation of International Monetary Fund (IMF) conditionalities in many Asian nations, is decimating U.S. export trade. Despite assurances by Wall Street experts, that "the Asian crisis will have no appreciable effect on the United States," just the opposite has occurred.

Eight top trading nations in Asia—South Korea, Thailand, Malaysia, the Philippines, Indonesia, Taiwan, Singapore, and Hong Kong—now have economies that are too battered, or currencies that are too devalued, and, thus, too cheap, to purchase American goods. In several nations, the IMF has forced the cancellation of infrastructure projects, which has led these nations to cancel orders for U.S. capital goods and machine tools. At the same time, U.S. exports to China and Japan are also falling.

These developments are a major reason that in February, the United States registered an $18.57 billion monthly trade deficit in physical goods (excluding services), the largest in history. All of this became apparent on April 17, when the Commerce Department released U.S. trade figures for February.

Table 1 shows the level of U.S. exports to the above-mentioned eight leading Asian trading nations, plus Japan and China, for December 1997, January 1998, and February 1998. It also shows the percentage of change in the volume of exports between December 1997 and February 1998.

Between December 1997 and February 1998, U.S. exports to Indonesia plummeted by nearly two-thirds; to South Korea, by one-third; to Taiwan, 28%; and to Malaysia, 22.7%. America's exports to these eight nations as a whole fell from $9.14 billion in December 1997, to $7 billion in February of this year, a fall of 23.4%. Some nations, to which the level of U.S. exports fell only moderately between December 1997 and January 1998—Malaysia and Thailand—saw the bottom drop out of the market in February.

Most important is that U.S. exports to Japan and China took a large dip during February.

U.S. exports to the 10 major Asian trading nations, between December 1997 and February 1998, fell 18.8%.

Table 2 reports the yearly change. Comparing February 1997 to February 1998, U.S. exports fell 14.8% to Japan, 18.0% to Thailand, 43.1% to South Korea, and 52.1% to Indonesia.

Overall, U.S. exports to Asia account for 30% of all U.S. merchandise (physical goods) exports, and 40% of all U.S. agricultural exports. In the U.S. economy, one in five goods-producing jobs depends on exports.

Largest monthly physical goods deficit

To mitigate the effect of the sharp drop in U.S. exports to Asia, U.S. businesses and farms have attempted to increase exports to other parts of the globe. U.S. exports to the rest of the world rose from $63.71 billion in December 1997 to $64.31 billion in February 1998, a rise of a mere nine-tenths of 1%. That is, the rest of the world barely absorbed a tiny

TABLE 1
U.S. exports to Asia
(millions $)

	December 1997	January 1998	February 1998	% change (Dec.-Feb.)
Taiwan	2,235	1,651	1,610	−28.0
South Korea	1,680	1,096	1,128	−32.9
Singapore	1,443	1,180	1,378	−4.5
Hong Kong	1,317	1,024	1,056	−19.8
Malaysia	851	902	658	−22.7
Philippines	601	585	583	−3.0
Thailand	538	557	417	−17.8
Indonesia	478	275	171	−64.2
Subtotal	9,143	7,269	7,001	−23.4
Japan	5,265	5,143	4,643	−11.8
China	1,235	1,212	1,056	−14.5
Grand total	15,643	13,624	12,700	−18.8

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

TABLE 2
Year-on-year fall of U.S. exports to Asia
(millions $)

	February 1997	February 1998	% change
Japan	5,452	4,643	−14.8
Thailand	509	417	−18.0
South Korea	1,984	1,128	−35.6
Indonesia	357	171	−52.1

Source: U.S. Department of Commerce, Bureau of Census increase in U.S. exports.

But, this trend can readily change for the worse, because the world financial disintegration now wracking Asia, is going to strike Brazil, other nations of Ibero-America, and the rest of the world.

Already, for the period between December 1997 and February 1998, the sharp drops in U.S. exports of goods and services to Asia has accounted for an overall drop in U.S. exports. Just as important for an import-dependent America, during this period, overall U.S. imports of goods and services also fell.

If we concentrate on just the trade in physical goods, leaving services aside, then the fall in exports is quite dramatic. In December 1997, the United States exported $58.41 billion worth of physical goods; in February 1998, exports fell to $55.61 billion, a drop of 4.8% in just two months. In the same period, imports fell from $76.12 billion to $74.17 billion, a fall of 2.6%. But, because exports contracted more sharply than imports, this further widened the already existing U.S. physical goods deficit. In February, the U.S. physical goods trade deficit reached $18.57 billion, the highest monthly figure in U.S. history.

Last year, the United States registered a record $198.98 billion physical goods trade deficit. Based on the trend of January and February, this year's physical goods trade deficit will be higher still, and as the financial disintegration hits Ibero-America and elsewhere, the U.S. physical goods trade deficit could reach a quarter-trillion dollars. This represents, in effect, a bailout from the rest of the world to the U.S. economy. Normally, an industrial nation should run *a physical goods surplus,* based on its export of machine tools, power stations and transmission lines, infrastructure building machinery, and other capital goods, to developing nations. That the United States is not doing so, reflects a profound flaw.

Inadequate response

The U.S. government is attempting to address the problem of U.S. trade with Asia. In mid-April, the U.S. Department of Agriculture announced a package of $400 million of credits to South Korea, to enable that nation to import agricultural products, and attempt to prevent falling nutrition levels and social dislocation throughout the country. While well intentioned, as a local solution to a broader crisis, this will prove insufficient. Earlier in the year, the United States extended food and other import credits to South Korea, but U.S. exports to South Korea still fell between December 1997 and February of this year by one-third.

The problem is, that piecemeal measures will not save a system that is in a state of acute, breakdown crisis. Until the speculative bubble is popped, and the system reorganized to promote productive industry and commerce rather than speculation, no end to the crisis is in sight.