The 'Asian crisis' is wrecking U.S. exports

by Richard Freeman

On March 19, the U.S. Commerce Department released the January U.S. trade statistics, which showed a $12.04 billion monthly deficit—a 10.5% increase over December 1997. Most dramatic, has been the drop in U.S. exports to eight of the nations most severely affected by the so-called "Asian crisis": South Korea, Taiwan, Singapore, Hong Kong, Malaysia, the Philippines, Indonesia, and Thailand. Between December 1997 and January 1998, U.S. exports to this group tumbled from $9.143 billion to $7.269 billion—a fall of 20.5% in a single month.

This unusually large month-to-month drop of U.S. exports indicates the rapidity with which the world financial disintegration is collapsing these economies in Asia: They now have currencies that are too cheap, and economies that are too depressed, to buy goods from the United States.

This development has grave implications for the U.S. economy. During the past 15 years, the U.S. physical economy has become increasingly dependent on exports; one in five U.S. goods-producing jobs is now dependent on exports. According to the U.S. Department of Commerce, exports to Asia today constitute 30% of all U.S. merchandise (i.e., physical goods) exports; and, of all agricultural exports, 40% goes to Asia. The Commerce Department defines Asia, for export analysis, essentially, as the eight above-mentioned nations, plus Japan and China (Hong Kong is now part of China, but its statistics are figured separately). Knock out the East and Southeast Asian market, and one damages U.S. exports, which further eats away at the withered U.S. physical economy.

The January drop in exports renders ludicrous the attempts by Robert L. Bartley's *Wall Street Journal* to portray the United States as largely invulnerable to the "Asia crisis," and to focus attention, instead, on the rising stock market bubble.

Table 1 shows U.S. exports to Asian nations, comparing the monthly levels of December 1997 to those of January 1998, and indicating the percentage of change. Thus, between December 1997 and January 1998, U.S. exports to South Korea fell 34.8%; Indonesia, 42.4%; Taiwan, 26.1%; Hong Kong, 22.3%; and even Japan, 2.9%. To the group of eight as a whole, exports fell 20.5%; to the Commerce Department defined "Asia region" as a whole, exports plunged 12.9%.

The U.S. trade deficit rose, because U.S. exports to Asia plunged, while imports from Asia fell by but a small amount. The U.S. trade deficit with four Asian nations—South Korea, Hong Kong, Singapore, and Taiwan—leapt to $2.186 billion in January, up from $841 million in December, an increase in America's trade deficit with these four nations of $1.345 billion. This sum more than accounted for the increase of America's global trade deficit between December and January.

The size of these deficits underscores the necessity for a new world financial system, because the current financial and monetary collapse is taking everything down with it. There's no patching things up.

On Feb. 21 in London, 18 countries (the Group of Seven plus 11) involved in trade with East Asia, agreed to a multinational trade-financing mechanism, the Export Financing Agreement, to scare up some $10-20 billion for trade guarantees (many for 90-day standard letters of credit) to keep Asian trade going in 1998.

U.S. Treasury Secretary Rubin fostered this initiative. The purpose is to fill the gap in trade financing stemming from the halt of credit from commercial banks and other traditional sources. But the scheme is based on the presumption that the global financial crisis will somehow "settle down." On its own, this will not happen. Only action for a New Bretton Woods financial system can begin to restore economic activity.

Physical goods deficit

The crisis in U.S. exports manifests a deep problem in the U.S. trade profile that goes back 30 years. In the 1960s, the British financier oligarchy imposed upon the United States a post-industrial society policy, under which production withered. This policy became most acute when, in October 1979, Federal Reserve Board Chairman Paul Volcker sent the prime lending rate into the stratosphere, and kept it there for several years. Many sections of U.S. industry, especially the ma-

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

	December 1997	January 1998	% change
South Korea	1,680	1,096	–34.8%
Taiwan	2,235	1,651	–26.1%
Singapore	1,443	1,180	–18.2%
Hong Kong	1,317	1,024	–22.3%
Malaysia	851	902	6.0%
Philippines	601	585	–2.7%
Thailand	538	557	3.5%
Indonesia	478	275	–42.4%
Subtotal	9,143	7,269	–20.5%
Japan	5,265	5,143	–2.3%
China	1,236	1,212	–1.9%
Grand total	15,644	13,624	–12.9%

Source: Department of Commerce, Census Bureau, International Trade Information.

chine-tool industry, were reduced by half or more, and the lost capacity has never been restored.

To substitute for the lost capacity, the United States started to import. It needs to be emphasized, because of widespread misinformation, that, in most cases, imports did not *cause* the problem. For most industries, destructive monetarist policymaking first destroyed production, and created the necessity for imports. Coincident with the increased push for "free trade," the U.S. economy became increasingly dependent on imports for essentials, such as machine tools, food, shoes, clothing, and fuel.

This policy shift has caused the U.S. annual trade deficit in physical goods—capital goods, finished products, raw and processed agriculture goods, and so on, but excluding services—to mushroom from $25 billion in 1980, to $198.9 billion by 1997, the highest deficit ever recorded. In other words, the United States has increasingly become dependent on "outsourcing" to exist. Go to any WalMart or K-Mart, or to a factory full of machine tools, and read the labels. Without this high level of imports, the United States would not exist. But as the Asian phase of the world crisis deepens, these supply lines to the U.S. economy may disintegrate. For some Asian nations, exports to the United States have already started to fall.

On the other hand, America's failure to correct the underlying policies generating the world financial bubble and disintegration of trade has fuelled the economic crisis in Asia, causing U.S. exports to collapse.

Cancelled orders

The January 20.5% drop in U.S. exports to the eight Asian nations is recognizable in delayed and cancelled goods orders. The dependency of some states on the Asia export market means that the effects will be severely felt.

Thirty-three U.S. states depend on Asia as a market for at least one-fifth of their exports, and 12 states depend on Asia as a market for 40% or more of their export share: New Mexico, 69%; Hawaii, 65%; Oregon, 64%; Alaska, 57.9%; Nebraska, 55.7%; Washington, 54.6%; California, 51.9%; Idaho, 50%; Arizona, 44.8%; Louisiana, 41.8%; Utah, 40.3%; and South Dakota, 40%.

To cite one example, in Monroe, Alabama, in January, 700 out of 900 workers were laid off—77% of the workforce—when the Alabama River Pulp Mill and Alabama Pine Pulp Mill shut down temporarily, because Indonesia's pulp import orders have stopped. Indonesia's currency, the rupiah, has dropped 75% against the dollar since last summer, making U.S. imports that much more expensive; and there is no trade financing. Without pulp, Indonesia now has a newsprint shortage, along with shortages of priorities such as food and medicine.