# Transition, Transformation, and Turmoil: Global Economic Impacts on U.S. Food Exports

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## Introduction

It was just over a year ago that journalists, politicians, businessmen, and even some economists were pondering the "end of global capitalism." A number of Asian currencies and financial markets were on the brink of collapse. Major financial woes existed in Indonesia, South Korea, Russia, Japan, Thailand, the Philippines, and Malaysia. Virtually all the countries of East Asia were facing financial crises in their stock markets, their currencies, and their international investment standing. Western leaders were considering interest-rate cuts to stem the capital flight out of these countries. Influential leaders from both the public sector and the private sector urged U.S. action. Treasury Secretary Robert Rubin (1998) stressed that U.S. support of the International Monetary Fund (IMF) was imperative to stabilizing the global financial situation: "Every day that Congress does not approve . . . IMF funding increases our vulnerability to a crisis, and decreases confidence in global markets." Billionaire hedge fund manager George Soros (1998) called on the U.S. Congress to provide billions of dollars to the IMF to allow the IMF to intervene effectively and to forestall the "disintegration of the global capitalist system."

Concerns over the potential collapse of capitalism were widespread. James Buchan (1998), in "The World's Slow Nightmare," asked whether capitalism—which had developed under particular conditions in Europe and North America—was really suited to be a "one-system-fits-all prescription for the world." Robert Samuelson (1998) suggested that East Asian cultures and values simply did not embrace the capitalist ethic: ". . . market capitalism is not just an economic system. It is also a set of cultural values that emphasizes the virtue of competition, the legitimacy of profit, and the value of freedom. . . . Even when countries adopt some trappings of capitalism, they may not embrace the basic values that make the system work." It was easy to wonder whether we were simply watching a difficult transition from one financial state to another or witnessing a fundamental transformation of existing economic institutions.

We no longer hear the frets and concerns over the failure of global capitalism. Unfortunately, however, the lack of current headline news about worldwide currency markets does not mean that the problems have gone away or that we are no longer troubled by these events. In fact, U.S. production agriculture and U.S. food products exports both have a long way to go before they recover from the worldwide macroeconomic conditions of 1997 and 1998. With an eye to understanding history so as not to repeat it, we examine the events that brought on these difficulties in the East Asian nations. We also look at the impact of these events on U.S. exports of food products during 1997, 1998, and early 1999.

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## An Economic Snapshot of the United States and Europe Prior to 1997

Before we examine the events directly affecting Asia, we present a brief backdrop of the economic status of the United States and Europe just prior to the Asian difficulties of 1997–98.

### *The U.S. Economic Picture in the Mid-1990s*

The U.S. economy was humming along at a brisk clip during the years immediately prior to the Asian Currency Crisis (Table 1). GDP growth had been relatively strong following the brief recession in the early 1990s. Growth during the first three quarters of 1997 averaged just over 4 percent. The unemployment rate was on its way to its lowest level in three decades and, in early 1997, had dropped below five percent for the first time since 1973. Inflation was hovering in the 2–3 percent range, well under control compared to prior years. Finally, interest rates were stable, with the six-month Treasury Bill in the 5 percent range. For consumers, moreover, home mortgage rates had dropped substantially from the high levels of the 1980s and early 1990s.

**Table 1. U.S. Macroeconomic Data, 1981–98.**

| Year(s) | Real GDP Growth | UnEmpl Rate | Inflation Rate | Interest Rate | Mortgage Rate |
|---|---|---|---|---|---|
| 1981–85 | 3.1 | 8.3 | 6.1 | 10.21 | 13.3 |
| 1986–90 | 3.1 | 5.9 | 4.3 | 7.34 | 9.8 |
| 1991 | -0.9 | 6.8 | 4.2 | 5.49 | 9.3 |
| 1992 | 2.7 | 7.5 | 3.0 | 3.57 | 8.2 |
| 1993 | 2.3 | 6.9 | 3.0 | 3.14 | 7.2 |
| 1994 | 3.5 | 6.1 | 2.6 | 4.66 | 7.5 |
| 1995 | 2.3 | 5.6 | 2.8 | 5.59 | 7.9 |
| 1996 | 3.4 | 5.4 | 3.0 | 5.09 | 7.8 |
| 1997 | 3.9 | 4.9 | 2.3 | 5.18 | 7.7 |
| 1998 | 3.7 | 4.5 | 1.6 | 4.85 | 7.1 |

Source: U.S. Council of Economic Advisors (1999). The interest rate reported is the six-month Treasury Bill. The mortgage rate is "New Home Mortgage Yields."

All this was good economic news for U.S. consumers. The good economic conditions allowed many consumers the freedom to adjust their spending habits. Americans of all ages were actively investing in their retirement finances, with heavy doses of growth mutual funds in their portfolios. The major objective of growth funds is the growth of the asset base value. Growth fund managers hold a large percentage of equity (stocks) in their portfolios. As the demand for mutual funds grew stronger and stronger, the demand for U.S. stocks contained in those funds also grew, and Wall Street's Dow Jones Index experienced incredible growth. Stock and mutual fund markets went "through the roof" in the mid-1990s. After a sluggish year of 2 percent growth in 1994, the Dow Jones Index of 30 leading industrials grew 33 percent in 1995, 26 percent in 1996, 23 percent in 1997, and 16 percent in 1998. The Vanguard 500 Index Fund, a fund that attempts to duplicate the S&P 500 portfolio, showed returns of 1.2, 37.5, 22.9, 33.2, and 28.6 percent in these same years. Returns were so strong during these years that Alan Greenspan was quoted in late 1996 and early 1997 as being somewhat skeptical of the "excessive optimism" and "irrational exuberance" being exhibited in the markets. As we discuss later, the excessively high prices and returns in the U.S. markets led many investors and fund managers to search for bargains in what became known as "emerging markets." Therein we find a direct tie between the strength of the U.S. economy and the Asian Currency Crisis.

### *Europe and the Advent of the Euro*

During the height of the Asian Currency Crisis, Europe was also on the verge of a major transition/transformation. The European Monetary Union was only a few months away from the introduction of its new currency, the Euro. Preparations had been long and difficult for the nations involved. Getting political and public support for the Euro had been almost easy compared to the rigors of getting their financial houses in order. European monetary authorities, in the Maastricht Treaty of 1991, had set five conditions (known as convergence criteria) for each nation that chose to enter the European Monetary Union. For each country: (1) the inflation rate could not be more than 1.5 percent above the three community nations with the lowest rate; (2) long-term interest rates could not exceed by more than two points the average interest rate of the three countries with the lowest inflation rates; (3) budget deficits could not exceed more than 3 percent of GDP; (4) overall government debt could not exceed 60 percent of GDP; and (5) the average exchange rate could not fall by more than 2.25 percent of the average of the EMS (European Monetary System) for the two years prior to their joining (Salvatore, 1998). Three nations (Denmark, Sweden, and the United Kingdom) opted out of the Euro, and Greece failed to meet the established criteria.

By early 1998, only three of the 11 nations seeking to join the Euro had met the convergence criteria in full—Finland, France, and Luxembourg. All 11 nations had inflation rates, interest rates, and government deficits within acceptable ranges, and exchange rate movements had presented no problems. However, eight of the 11 nations were out of range with respect to overall indebtedness. Debt-to-GDP ratios for 1997 ranged from a low of 6.7 percent in Luxembourg to a high of 122.2 percent in Belgium, with two other nations (Italy and Greece) also above 100 percent. Recognizing that years of prior fiscal abuse had brought some nations to the point where their indebtedness problem was not something that could be solved in the short run and that debt-to-GDP ratios were in fact on the decline in the most troublesome nations, European monetary authorities moderated their standards somewhat with respect to overall debt and decided, in May 1998, to allow all 11 nations (excluding Greece) to participate.

Getting their financial houses in order required a great deal of restraint on the part of national monetary authorities. The appropriate policy combination is contractionary monetary policy to bring down inflation and contractionary fiscal policy to bring down government deficits and to keep interest rates low in the face of contractionary monetary policy. The result of this simultaneous use of contractionary monetary and fiscal policy, together with substantial capital outflows associated with lower interest rates in Europe and high returns in the United States, has been slow growth and high unemployment in much of Europe. By early 1998, aggregate unemployment in the Euro countries was almost 12 percent. Unemployment was on the order of 4–5 percent in only three Euro countries—Austria, the Netherlands, and Portugal. It stood at 8–9 percent in Belgium, Ireland, and Germany and was double-digit in Finland, France, Italy, and Spain (topping out at 19 percent in Spain). Aggregate growth in the Euro area was also slow, at just over 2 percent. High unemployment and slow growth, in turn, led to reduced imports of manufactured goods during these years. The volume of Western European manufactured imports, which had averaged 18 percent growth per year between 1985 and 1995, increased only three percent in 1996 and 5 percent in 1998, with negative growth of one percent during 1997. Because Europe constitutes some 15 to 20 percent of Asian trade, this reduction in trade almost certainly contributed to the difficult macroeconomic conditions in Asia during 1997–98.

## The Asia Currency Crisis of 1997-98

The East Asian troubles can be traced to a number of causes. We examine two: (1) an overly zealous export orientation on the part of East Asian nations and (2) excess Western investment, together with failure on the part of Western and Eastern public and private financial authorities to provide oversight, guidance, and correction to managers in these newly emerging economies.

### *Export Orientation*

Export-led growth has long been one of the leading strategies for economic advancement in many lesser-developed countries. It has been a particularly dominant strategy for many of the nations of East Asia for the past few decades. Export-led development was so strong during the 1970s and 1980s that four of these Asian nations—Hong Kong, South Korea, Singapore, and Taiwan—became known as the "East Asian Tigers," while smaller successes led to a "Big Cats" moniker for Indonesia, Malaysia, Thailand, and the Philippines. The term "newly industrialized countries" also was coined as a reflection of the activities of these countries and others like them.

Data on export growth for a number of regions and countries, including seven "Currency Crisis" countries, are reported in Table 3. Growth rates were calculated for three prior five-year periods (1980–85, 1985–90, and 1990–95) and three recent one-year periods (1995–96, 1996–97, and 1997–98). Growth rates for each of the periods are calculated as the percent growth in exports between the boundary years divided by the number of years. From 1985 to 1995, the average annual growth rate of exports for the seven Currency Crisis countries was 24 percent while their GDP growth rate was in the 7–10 percent range. World export growth during this time, both in the industrial economies and the lesser developed countries, was one-half the rate of the East Asian nations, on the order of 12–13 percent per year. Over the next few years, only the Philippines remained in double-digit export growth, largely because of their substantial amount of trade with the United States. The other six nations averaged 4 percent annual export growth during 1996 and 1997, and all six experienced negative export growth during 1998.

**Table 2. European Union: Convergence Indicators, 1997.**

| | Consumer Price Inflation | Interest Rates | Government Deficit-to-GDP Ratio | Government Debt-to-GDP Ratio |
|---|---|---|---|---|
| Germany | 1.8 | 5.6 | -2.7 | 61.3 |
| France | 1.2 | 5.5 | -3.0 | 57.7 |
| Italy | 1.7 | 6.7 | -2.7 | 121.6 |
| Spain | 2.0 | 6.3 | -2.6 | 68.3 |
| Netherlands | 2.2 | 5.5 | -1.4 | 72.1 |
| Belgium | 1.6 | 5.7 | -2.1 | 122.2 |
| Austria | 1.3 | 5.6 | -2.5 | 66.1 |
| Finland | 1.2 | 5.5 | -0.9 | 55.8 |
| Portugal | 2.2 | 6.2 | -2.5 | 63.4 |
| Ireland | 1.5 | 6.7 | 0.9 | 66.3 |
| Luxembourg | 1.4 | 5.6 | 1.7 | 6.7 |
| United Kingdom | 2.8 | 7.0 | -1.6 | 54.5 |
| Denmark | 2.2 | 5.6 | 0.4 | 63.3 |
| Sweden | 0.9 | 6.5 | -0.4 | 76.6 |
| Greece | 5.4 | 9.8 | -4.0 | 108.7 |
| All EU | 1.9 | 6.1 | -2.3 | 73.0 |
| Reference Value | 2.6 | 7.8 | -3.0 | 60.0 |

Source: IMF (1998).

**Table 3. Growth in World Merchandise Exports for Selected Time Periods, 1980–98.**

| Country / Region | 1980–85 | 1985–90 | 1990–95 | 1995–96 | 1996–97 | 1997–98 |
|---|---|---|---|---|---|---|
| | percent | | | | | |
| World | -0.8 | 15.3 | 9.5 | 4.6 | 3.4 | -1.9 |
| North America | 1.1 | 13.7 | 9.8 | 6.4 | 9.2 | -0.7 |
| United States | -0.6 | 16.0 | 9.7 | 6.9 | 10.2 | -0.9 |
| Latin America | -0.2 | 6.8 | 11.0 | 12.4 | 10.1 | -1.5 |
| Western Europe | -1.0 | 22.2 | 7.1 | 3.5 | -0.7 | 2.6 |
| European Union (15) | -1.2 | 22.6 | 7.2 | 3.4 | -0.5 | 3.4 |
| Central / Eastern Europe | -0.2 | -6.5 | 10.3 | 8.3 | 4.3 | -4.7 |
| Africa | -6.6 | 5.4 | 0.7 | 14.2 | 2.0 | -15.2 |
| Middle East | -10.5 | 6.1 | 1.6 | 17.1 | 4.4 | -22.2 |
| Asia | 5.7 | 18.1 | 16.5 | 1.3 | 5.2 | -6.3 |
| Hong Kong | 9.6 | 34.8 | 22.2 | 4.1 | 4.0 | -7.1 |
| Indonesia | -3.0 | 7.6 | 15.4 | 9.7 | 7.3 | -8.6 |
| South Korea | 14.6 | 22.9 | 18.5 | 3.7 | 5.0 | -2.8 |
| Malaysia | 3.8 | 18.1 | 30.3 | 5.8 | 0.5 | -6.9 |
| Philippines | -4.0 | 15.0 | 23.4 | 16.7 | 22.9 | 16.9 |
| Singapore | 3.5 | 26.2 | 24.8 | 5.7 | -0.0 | -12.1 |
| Thailand | 1.9 | 44.8 | 28.9 | -1.3 | 3.2 | -6.9 |
| China | 10.1 | 25.4 | 27.9 | 1.5 | 21.0 | 0.5 |
| Japan | 7.2 | 12.5 | 10.8 | -7.3 | 2.4 | -7.8 |
| Developed Economies | 0.1 | 18.6 | 8.0 | 3.0 | 2.0 | 0.4 |
| Developing Economies | -3.3 | 12.1 | 12.4 | 8.2 | 6.8 | -6.9 |

Source: WTO (1999).

A substantial portion of the reduction in exports from the Currency Crisis countries during 1997 and 1998 was due to a reduction in imports in both Western Europe and Japan. EU imports were down \$30 billion in 1997 while Japanese imports were down \$11 billion in 1997 and \$48 billion in 1998. The other major factor was the growth in exports from China. China's export growth averaged 27 percent a year between 1985 and 1995. Their export growth was down somewhat in 1996 but increased 21 percent in 1997. China's \$33 billion in increased exports between 1996 and 1998 more than offset the loss of \$27 billion in those six East Asian countries whose exports were suffering. The export-led development that had brought the East Asian miracle growth in the 1980s and early 1990s had become the victim of China's active entry into world markets, especially the small manufacturers that had been the backbone of these countries' merchandise exports. China, a low-wage but relatively educated country of 1.2 billion people (three times the size of the seven smaller Asian nations listed in Table 3), was able to exert its comparative advantage at a time when these other nations could ill afford to lose their markets.

*Excess Western Investment*

A second growth strategy chosen by many countries is to entice foreign capital into the country, either as actual physical investment (factories, infrastructure, service industries) or in the form of financial capital, both debt (loans) and equity (stock ownership). Potential investors include private manufacturing, investment, and lending firms; government assistance and government-backed lending agreements; and multilateral organizations and agencies like the World Bank and the International Monetary Fund (IMF). The recipients of the investment funds can be either private-sector firms or governments. Problems arose in East Asia when Western investors, primarily private-sector banks and mutual fund managers, became overly aggressive in their lending and in their investment portfolio management.

Mutual funds managers make money when they "buy low, sell high." Accordingly, higher and higher prices on Wall Street in the mid-1990s became less and less attractive and forced fund managers to look for new asset growth possibilities. Fund managers invested heavily in what later became known as "emerging markets" funds. Although higher returns typically entail greater risks, in order to stay competitive, fund managers became more and more willing to accept these greater risks and more likely to "look the other way" when they saw signs of market weakness that normally would have raised a flag of caution over a particular transaction. With interest rates in the United States and Europe at relatively low levels, lenders also began to look for higher returns elsewhere. Again, Asian markets showed continuing promise of strong returns—returns for which a higher-risk premium could be charged. In addition, many Asian markets were closed to outside ownership, leaving investors with only a lending option if they wished to benefit from these growing markets. As the number of potential lenders seeking Asian borrowers grew, however, lenders became somewhat more lax in their initial loans analyses and less stringent in their ongoing oversight. In addition, an increasing number of loans became high interest, short-term business transactions rather than low-rate, long-term investments.

There were a number of other problems associated with the large influx of Western investment. Where large volumes of money are concerned, regulation and oversight can often be a problem. Robert Samuelson (1998) detailed some of these problems:

> These countries tried to maximize the benefits of the process while minimizing changes to their politics and commerce. Mutual deception flourished. Countries like Korea and Russia pretended that they were changing more than they had. American, European, and Japanese bankers, executives, and government officials pretended the claims were true—or might become true. Loans were made on the basis of incomplete or faulty financial statements. Or they were made on the faith that, if a loan went sour, someone (the government, the IMF) would cover the losses. "Crony" capitalism often meant corruption: contracts won with bribes; favoritism for the well-connected.

Samuelson (1998) cites a study by a group called Transparency International that ranked Russia fourth, Indonesia seventh, and Thailand 14th in corruption, as judged by global executives and country specialists.

Other problems can be added to this list that are more internal to the countries themselves, independent of Western influence—such as protectionism (both in their merchandise trade and in their failure to allow foreign ownership of domestic assets); exportism and the failure to properly develop domestic markets; and (to paraphrase Samuelson) a set of cultural values that fails to emphasize the features of competition, profit, and freedom that are inherently tied to capitalism. Add to this mix over-zealous investors, poor oversight and analysis, and bad accounting practices, and the result is a bottom line of too little market discipline.

The net result of this investment activity was a tremendous amount of Western capital flowing into the East Asian countries. Samuelson (1998) shows private capital flows to Indonesia rising from near zero in the early 1990s to more than $20 billion in 1996 and then falling dramatically in 1997. He showed a similar result for Thailand—although Thailand started from a somewhat higher capital investment base in the early 1990s, it also rose to more than $20 billion in private capital inflows in 1995 and fell into a net capital *outflow* status by 1997. Finally, and most dramatically of all, private capital flows to South Korea rose from $5–10 billion in the early 1990s to more than $40 billion in 1996, with a flow reversal of more than $60 billion in 1997. To quote Samuelson (1998): "Countries became overdependent on foreign capital, which, having entered in huge amounts, is trying to leave the same way." James Buchan (1998) wrote, "It now appears that 'western capital,' like steroids to an athlete, was excessively stimulating. Western lending seems to have distorted local economies and perpetuated shady or incompetent oligarchies. At the first hint of trouble it dried up." Lester Thurow (1998) provides an insightful analysis into this capital flight phenomenon:

> The sequence of events in a crash are well known. Some asset rises in value to levels far above those that can be sustained. . . . Every investor imagines that he will be able to see the end coming and get out in time—but few do. As asset prices fall, what had been good loans become bad loans. Adequate collateral becomes inadequate collateral, and loans with inadequate collateral get called for payment. Fearful of defaults or short of liquidity themselves, banks don't renew short-term loans that normally would be automatically rolled over. Working capital dries up. Even financially sound firms find that they cannot pay their bills since they are suddenly unexpectedly asked to repay loans and pre-pay suppliers. Business firms that cannot finance themselves go broke.
>
> Worried about preserving their wealth, insiders and outsiders convert their holdings to currencies that are not expected to depreciate. Vast amounts of money leave the country; the currency plunges; the real cost of paying international loans rises; and the central bank has to beg for loans from the IMF. And when central banks lack international reserve currencies, . . . even companies with sufficient funds in local currency cannot get the necessary foreign funds to repay their international loans. A business crisis becomes a crisis for the country. The contagion spreads to other countries. Brazil has been very shaky in the aftermath of the Asian collapse.
>
> The problem before the collapse is not in knowing that prices will fall, but in predicting the timing and speed of the downturn. Economic models are good at describing fundamental forces and pressures, but are of little use when it comes to timing. What is clear by now is that crashes are not set off by outside speculators who see internal weaknesses and attack. The first investors to leave the local market are the local investors who have the best information. Indonesian industrialists got their money out of Indonesia first since they were the ones who had borrowed money in dollars. . . . Outsiders are the last to know.

## Impacts on U.S. Food Products Exports

The Asian Currency Crisis began on July 2, 1997, with the devaluation of the Thai baht. Realistically, however the Crisis did not hit home for U.S. citizens until late in August 1998. On Monday, August 31, the Dow Jones Index experienced a 512-point drop (a loss of 6.4 percent) and, at that point, had lost almost 20 percent from its July 17 peak of 9,338. In fact, the close on August 31 was almost 1,000 points lower than its close just 10 days earlier (an 11.7 percent decline). The impact became more pronounced over the next few months as the U.S. trade gap widened and export industries watched their sales dwindle. The loss in exports was particularly dramatic for U.S. agricultural producers and food processing firms, since East Asian nations had become leading destinations for U.S. agricultural and food product exports.

Processed food includes all food, beverages and related products that fall within the Standard Industrial Classification Code 20 (SIC-20), Food and Kindred Products. SIC-20 contains 49 separate food processing industries—including fish and seafood, meat and poultry products, hides and skins, distilled liquors, pet food and animal feeds, and fats and oils. East Asian markets have historically been among the leading markets for U.S. processed food exports. Japan, South Korea, Taiwan and Hong Kong all ranked among the top 10 processed food export destinations during 1990–94, together claiming 36.5 percent of total U.S. processed food exports during this time period (Neff et al.). In this section, we examine how the Asian and European macroeconomic developments discussed in the first part of the paper affected U.S. processed food exports to three regions: Asia, Europe, and Latin America. First, however, we compare trends in U.S. exports of processed foods with the volume of sales from U.S.-owned processed food affiliates located in foreign countries (FDI).

*U.S. Export Growth vs. FDI*

Exports are not the only way in which U.S. food processors access international markets. In fact, sales of processed food from U.S.-owned affiliates abroad are larger and growing faster than trade as a means of international commerce in the food industry. Sales by U.S.-owned affiliates in other countries are estimated to be five times larger than U.S. processed food exports in 1999 (Table 4). Sales from U.S. affiliates abroad increased 7.4 percent annually during 1990–99, to $145 billion annually. During this same time, U.S. exports increased at an average annual rate of 4.3 percent. Exports increased steadily through 1997, reaching $30.1 billion, but declined 6 percent in 1998. Exports were off another 8.8 percent for the first half of 1999 and, for the full calendar year, are estimated to fall about 6 percent to $27.6 billion. Due to the strong U.S. economy, processed food imports continued to grow in 1998, increasing 5.8 percent to a record $32.0 billion and resulting in a trade deficit of $2.6 billion, the first trade deficit in processed foods since 1991. In 1999, the trade deficit for processed food could be close to $5 billion if food imports continue to grow at a 6 percent annual rate.

*Exports to Asia*

U.S. exports of processed foods held up surprisingly well during 1997 but fell off substantially in 1998 to all major Asian markets except China (Table 5). Exports to Japan, historically the United States' largest export market, fell 12 percent in 1998 after also declining in 1996 and 1997. Most of the decline was in seafood and meat products. Exports to China rose 30 percent, to $841 million, largely due to increased soybean oil sales. Hong Kong exports dropped 17 percent. The largest absolute decline was to South Korea where exports fell 38 percent, from $1.5 billion in 1997 to $948 million in 1998. By January 1998, the value of the won had fallen more than 50 percent, and for the full year, Korea's economic output declined almost 6 percent. Most of the export decline was in beef, hides and skins, and seafood products. Indonesia, a relatively small market for U.S. exports, had the largest percentage decline, more than 51 percent.

**Table 4. Global Sales of U.S. Affiliates Abroad vs. U.S. Exports of Processed Foods.**

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| | billion dollars | | | | | | | | | |
| Affiliate Sales | 76.0 | 82.3 | 87.6 | 95.4 | 104.9 | 115.3 | 121.2 | 131.0 | 140.0 | 145.0 |
| U.S. Exports | 18.9 | 10.3 | 22.8 | 23.4 | 26.2 | 29.4 | 30.1 | 31.3 | 29.4 | 27.6 |
| | units | | | | | | | | | |
| Affiliate-Index | 100 | 108 | 115 | 126 | 138 | 152 | 159 | 172 | 184 | 191 |
| Exports-Index | 100 | 107 | 121 | 124 | 139 | 156 | 159 | 166 | 156 | 146 |

Sources: Exports—USDOC, Census Bureau; Affiliate Sales—USDOC, Bureau of Economic Analysis (affiliate sales for 1997–99 are USDA/ERS estimates).

**Table 5. Changes in U.S. Processed Food Exports to Asia.**

| Country | 1998 | January–June 1999 |
|---|---|---|
| | ------------% change from one year prior------------- | |
| Japan | -11.8 | 1.3 |
| China | 29.6 | -61.7 |
| Hong Kong | -17.2 | -19.0 |
| South Korea | -38.2 | 40.5 |
| Taiwan | -21.4 | 18.3 |
| Philippines | -11.6 | 4.3 |
| Thailand | -27.3 | 8.1 |
| Singapore | -24.7 | 5.1 |
| Malaysia | -32.6 | 48.0 |
| Indonesia | -51.4 | 50.0 |

Source: Calculated from export values, USDOC, Census Bureau.

In stark contrast to the difficulties in 1998, export markets experienced a dramatic turnaround in 1999. During the first half of the year, U.S. exports to Japan and to all seven East Asian crisis countries increased. South Korea's economy grew at a 7.3 percent clip during the first half of 1999, and U.S. exports to South Korea rose 40 percent, largely on the basis of strong poultry and red meat sales. Exports to Malaysia and Indonesia were up 48 percent and 50 percent, respectively. Although exports to these countries were up sharply, they still were not back to the levels obtained in 1997. Exports to Japan started growing slowly in 1999 after three years of decline. Unfortunately, exports to China, after growing 30 percent in 1998, fell 62 percent in the first half of 1999, primarily due to sharply lower soybean oil sales.

*Exports to Europe*

Until 1998, Europe had been a slow-but-steady growth market for U.S. processed food exports. Both the United Kingdom and the Netherlands are among the top 10 U.S. export markets. But in 1998, U.S. exports declined to five of the seven largest European markets (Table 6). And with the exception of the Netherlands and Belgium, the decline in U.S. exports to Europe intensified during the first half of 1999. Exports to Spain, Italy, and France fell 36, 44, and 34 percent, respectively. The export decline was broad-based across many processed food products but was deepest for beer, distilled liquor, and soybean oil and other vegetable oil products. This decline in exports is a direct reflection of the slow economic growth and high unemployment rates in European countries that was discussed earlier.

*Exports to Latin America*

Mexico and much of South America have been a growing market for U.S. processed food exports during the 1990s. As a group, Mexico, Venezuela, Brazil, Argentina, and Chile accounted for 12 percent of U.S. exports in 1998. Mexico alone accounted for 9.7 percent of U.S. exports and is our third largest market. Table 7 shows that exports to Mexico rose 18.9 percent in 1998, following a 19.6 percent increase in 1997. Meat and poultry products are the largest U.S. exports to Mexico. In South America, there was solid export growth to Venezuela, Argentina, and Chile. However, Brazil's economic slowdown was reflected in an 11.3 percent drop in U.S. exports.

The sharp decline in U.S. exports that swept East Asia in 1998 spread to Latin America during the first half of 1999. Exports to Mexico fell 5 percent, the first decline since 1995. Most of the decline was in poultry and wet corn milling products. Brazil devalued its currency by 40 percent in January 1999. This contributed to the additional decline of U.S. exports by 34.6 percent. Weak domestic economies and high unemployment also led to export declines to Venezuela, Argentina, and Chile.

**Table 6. Changes in U.S. Processed Food Exports to Europe.**

| Country | 1998 | January–June 1999 |
|---|---|---|
| | ---------------% change from one year prior--------------- | |
| The Netherlands | -23.6 | 5.7 |
| United Kingdom | -1.4 | -8.6 |
| Germany | -4.0 | -19.3 |
| Belgium | 6.6 | 6.5 |
| Spain | 9.8 | -36.2 |
| Italy | -3.7 | -43.9 |
| France | -21.8 | -34.5 |

Source: Calculated from export values, U.S. Census monthly trade data.

**Table 7. Changes in U.S. Processed Food Exports to Latin America.**

| Country | 1998 | January–June 1999 |
|---|---|---|
| | ------------% change from one year prior----------- | |
| Mexico | 18.9 | -5.4 |
| Venezuela | 8.6 | -10.2 |
| Brazil | -11.3 | -34.6 |
| Argentina | 5.4 | -14.3 |
| Chile | 12.3 | -37.0 |

Source: Calculated from export values, USDOC, Census Bureau.

**Conclusions and Recommendations**

Where do U.S. processed food exports go from here? Evidence shows that U.S. exports are very sensitive to macroeconomic conditions in destination countries. The quick and strong economic recovery in most Asian countries bodes well for U.S. exports. Higher GDP growth into the year 2000 is also forecast for most European nations. The biggest question is how quickly the economies of the major South American countries recover. One plus is that U.S. foreign direct investment into Asia and Latin America has continued even during the downturn, which should help in the recovery process.

Few events in recent years have brought to light the complete interdependencies of the international financial system as well as the Asian Currency Crisis of 1997–98. Events in Asia, Europe, and the United States all contributed to the Crisis to some extent but also helped to mitigate the depth and breadth of the Crisis by their combined response. If our global economic and financial system has, in fact, dodged a bullet and all the Crisis countries recover (as has the U.S. stock market), then we need to learn from the experience. A number of suggestions have been offered by some of the authors and financial experts already mentioned (Greenspan, Thurow, Samuelson, Soros) as to what global financial leaders can do to prevent such a crisis from occurring again. Clearly, nations need to focus on building internal markets for their products. Even though nations may desire the gains that can be obtained from an export orientation, they also need to manufacture for their home markets, or create home markets for those goods that are typically destined for export markets. This focus may require government investment (or oversight of private investment) in both industry and infrastructure.

A natural expectation is to look to foreign financial markets as a source of capital. To the extent that foreign capital is utilized, long-term capital should be sought to replace short-term capital.

Financial authorities may be forced to take some losses in divesting themselves of short-term liabilities, but the future gains may well exceed those losses. In order to make internal markets more attractive to future foreign capital, government authorities need to be able to guarantee financial institutions that meet international standards for risk management and accountability, possibly with international supervision over national regulatory authorities. In addition, nations need to open their markets to greater foreign ownership of domestic industry so as to benefit from the competition inherent in foreign ownership. Currency and capital controls in financial markets are no less harmful than tariff and quota protections in goods markets.

Advanced economies and global financial institutions share some portion of the responsibility for minimizing future crises. There is good reason to suggest that the strong nations in any international region take the necessary steps to ward off future difficulties within their region. That is, Japan and the United States should take primary leadership where Asian and Latin American nations are concerned, and the European Union should take the lead in building the emerging nations of Central and Eastern Europe. It is clear that the relative weakness of the Japanese economy was a major contributing factor to the Asian Currency Crisis. Likewise, the prolonged failure of the United States to pay its IMF dues has weakened the ability of the IMF to respond when needed. Both national authorities and multinational organizations need to consider some form or degree of debt relief, especially for those countries that are taking steps to open their markets and their financial institutions. Debt burdens are substantial in many countries and exact quite a toll when that debt is at disadvantageous terms. Providing more equity finance and less debt finance would be a good first step.

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