World debt slows U.S. farm exports

WASHINGTON, D.C. — Some of America's best customers are having trouble paying their debts — and that may slow any significant expansion in U.S. farm exports through the rest of the decade.

The foreign debt at issue now totals more than $800 billion, and the question of its repayment continues to haunt the world's financial community. One country — Bolivia — simply suspended its debt payments this year, pending new talks with creditors. Other countries are negotiating aggressively and successfully for more time to pay off their obligations.

Among the top U.S. farm export markets facing debt difficulties are Mexico, Brazil, and the Philippines. Excluding our industrialized country markets, the 18 major purchasers of U.S. farm products (each buying $200 million or more) hold about 60 percent of the total debt owed by all the world's developing nations.

Affects trade

Two economists with the Agriculture Department's Economic Research Service, Mathew Shane and David Stallings, have been studying the debt situation and analyzing its impact on trade. Their assessment, presented in a recent issue of USDA's FARMLINE magazine, is not encouraging. They conclude that both U.S. and international trade could be severely constrained by the debt problems of the developing countries for at least the next 5 years.

The effects of a complicated debt situation that had its origins in the 1970's are easy to see today, Shane maintains.

Easy Credit

"During the last half of the previous decade, middle-income countries such as Mexico, Brazil, and Nigeria were the fastest growing markets for U.S. agricultural exports. The recession of 1981-83 brought this growth in sales to an abrupt halt, particularly in those countries that had accumulated large debts."

Oil importers borrowed to sustain economic development plans in the face of rising petroleum prices. Oil exporters, assuming oil prices would continue to increase, borrowed against anticipated future revenues to modernize and diversify their economies.

Easy credit contributed to the rapid economic growth of developing countries during the 1970's. Economies such as Brazil's and Mexico's grew at unprecedented rates of 8 percent a year or more during this time.

But the "Brazilian Miracle" collapsed in 1981, along with the growth of most of the other developing nations. Worsening the problem since 1981 has been the mix of high interest and unfavorable exchange rates for these countries. Shane says the situation now approaches the point where a serious challenge is being posed to the world's financial health.

"The potential for a prolonged period of sluggish world trade growth, or worse, is very great unless fundamental solutions are found and aggressive actions taken to overcome the debt problem by both the developing and developed nations," he says.

No easy solution

Certainly, the dimensions of the problem suggest that no single, simple solution is likely.

"The magnitude of the problem since 1981 has been of a different order than anything that has come before," Shane says. More than 40 percent of total debt — an amount exceeding $300 billion — was at risk in the 25 developing countries involved in debt renegotiations and debt rescheduling between 1981 and 1983.

"Debt grew at a rate of more than 20 percent a year from 1974 to 1981, exceeding the growth in world GNP and exports," says Shane.

Forgive Loans

He describes the outlook for some debt-impacted countries as so severe that lenders — including commercial banks, the U.S. government, and international funding agencies — may have to consider forgiving a portion of the outstanding loans. "Simply putting off debt service payments for these countries will not lead to a feasible payment scenario."

Involved in this admittedly "grim analysis are the Latin American countries of Bolivia, Chile, and Peru, as well as some low-income African and Asian countries. Freeing up more money for these countries by deferring interest and principal payments on debt may not be sufficient to solve their financial difficulties."

Shane says that debt problems could mean falling per capita incomes in the affected nations.

"Latin America will not return to the economic growth rates of the 1970's in this decade. Growth rates of less than 1 percent for Brazil and 3 percent or less for Colombia and Mexico probably will not exceed their population growth. This implies that per capita incomes will be falling in many of the strongest economies of Latin America. The implications for their weaker neighbors, such as Bolivia, Chile, and Peru, are even worse."

Political instability

He goes on to say that "despite the apparent financial solvency of countries such as Brazil, Colombia, and Mexico, the question remains whether growth rates which imply falling incomes over a 5-year period are politically sustainable. The stakes in the international debt problem are more than just economic. One must consider the possibility of political instability when there are long-term declines in per capita incomes and trade. And that's what the current debt situation seems to imply for much of the Third World."

Shane cites the cases of the Dominican Republic, Tunisia, and other countries, where violent protests have erupted over rising inflation and falling incomes brought on by government-imposed austerity programs. Riots left hundreds dead and injured, and threatened the collapse of some governments.

Blame OPEC

The current world crisis has grown from events that occurred more than a decade ago when oil exporters agreed to unite in order to lobby for better prices. The result was OPEC — the Organization of Petroleum Exporting Countries — and the price of oil quickly rose.

"Almost as quickly, the global economic equilibrium was upset by the quadrupling of oil prices," Shane says.

With all revenues pumping up private bank reserves, lenders looked for ways that "petrodollars could be recirculated." Meanwhile, oil importers were looking for ways to pay the higher prices without sacrificing their economic development plans or suffering a deterioration in their already-low standards of living.

He explains that the "industrial countries accommodate the inflationary pressure of oil price rises with expansionary monetary and fiscal policies. Almost all prices for minerals, raw materials, and other natural resources went up substantilly, and exports of developing countries expanded."

More oil hikes

Most of the funds borrowed were used to finance productive investments that increased foreign exchange earnings by more than the amount of repayment. Brazil and Mexico were just two of the beneficiaries. In both nations, annual growth rates of 8 percent were common in the 1970's. "There were no previous periods of such growth," Shane notes.

The mix of factors at play produced what Shane describes as a "radical change in the global economic outlook that favored the resource countries. Prices of raw materials were so high that the profit on manufactured goods made by industrialized countries was hurt."

Then came the second round of oil price increases in 1979, shaking the world's stability again. "The response of the resource countries, expecting the same reaction from the industralized world, was to borrow even more," adds Shane's colleague, USDA economist David Stallings. The debtor nations were wrong.

World recession

"The monetary restraint of the West produced a recession which led to declining trade," Stallings says, "pressuring the sensitive financial balance of the less-developed world."

In early 1981, he says, "the situation deteriorated rapidly." Debt service obligations (the total of principal and interest payments) for many countries began to rise faster than their ability to meet them. "In the most serious cases, the interest and principal payments due, or the interest payments alone, exceeded the amount these countries were earning from exports."

Most hurt were nations that had contracted loans in dollars, he says. "In the United States, real interest rates rose as inflation abated. As a consequence, the value of the dollar also increased sharply. This abruptly reversed the circumstances for many borrowers, who contracted loans at what they thought to be low real interest rates. These loans had to be repaid with their depreciating local currency."

The dollar's real appreciation against the monies of the less-developed world "has been dramatic, substantially reversing the downward trend of the 1970's. Tremendous pressure now exists on the external financing of most affected countries."

Depressed trade

World trade has already been hampered by the debt crisis,

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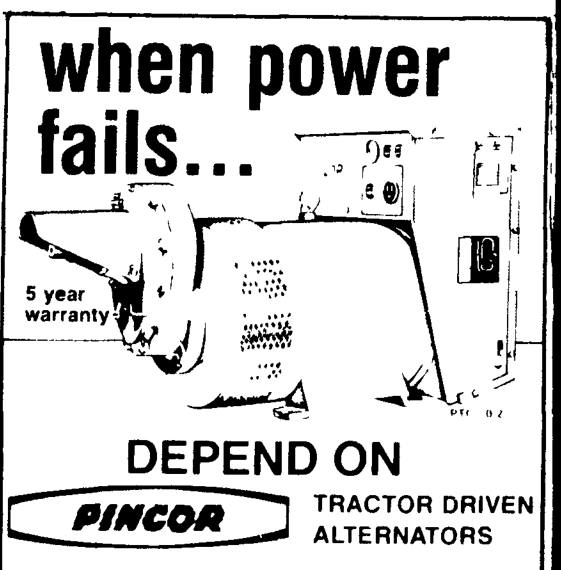

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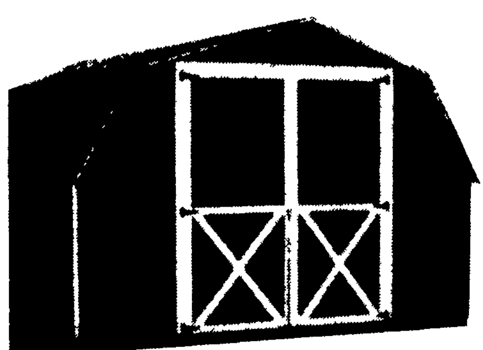

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