

Will Asia's Economic Dominoes Tumble On U.S. Agriculture?

COLUMBUS, Ohio — Southeast Asia's recent economic troubles could be the flashpoint for longer-term effects that could hurt U.S. farmers, said agricultural economist Carl Zulauf of Ohio State University.

"This is a serious situation of which any informed American needs to be aware and watch for possible future consequences," Zulauf said.

The extent of that seriousness will depend on whether the crisis in Thailand, Malaysia, the Philippines and Indonesia spreads to East Asian countries that are major importers of U.S. farm products, Zulauf said. The latter are South Korea, Japan, and China.

Symptoms of Southeast Asia's troubles festered throughout 1997 with currency devaluations ranging from 13 percent to 34 percent in the above four countries. The value of South Korea's currency, the won, has also declined by 20 percent. Currency devaluations make U.S. farm products more expensive overseas, which could cut into trade.

Zulauf said the crisis is not just a change in currency values, but is a barometer of deeper, structural problems in Asia's long-touted "miracle" economies.

"Problems in economic activity always come from some place you didn't expect it," Zulauf said. "There was once unmitigated optimism in the Southeast Asian region."

The underlying troubles can be traced to the past decade when foreign investors optimistically poured money into Southeast Asia

in anticipation of their future potential. The infusion of capital pushed growth rates in to the upper-single digits and lower-double digits, and some economists heralded the region as an emerging "tiger" economy.

The intense investments activity overheated Southeast Asian economies, and by last summer, investors had lost faith in national currencies. This led to devaluations and stock market crashes through the latter half of 1997.

In addition, Japanese banks are exposed due to massive loans to the region. Add to that Japan's large debt problem left over from its economic boom of the 1980s.

"Americans still perceive Japan as an economic miracle," Zulauf said. "However, its economy has not performed well during the 1990s, and its government has not made the structural reforms that many experts say is needed."

Asia's economic problems stem from excess manufacturing capacity, Zulauf said. The region is producing more goods than the world market can absorb. When too few dollars chase too many goods, the result is deflation, or a drop in prices. Hence these countries have seen deflated prices for their manufactured goods.

"CEOs of major companies have been asking, 'What happens if this excess capacity comes on the market, and the demand isn't there to absorb it?'," Zulauf said.

The underlying economic problems may eventually hit Asians' pocketbooks by cutting into income growth and maybe even reducing their incomes. Conse-

quently, their demand for foreign goods — including U.S. farm products — is expected to decline.

Zulauf said Asia's "rational response" to the economic conditions would be to "export their way" out of the excess manufacturing capacity. They would sell their products at reduced prices to U.S. consumers, and U.S. producers would be forced to lower their prices.

In the short term, a round of deflation would benefit consumers with lower prices, Zulauf said. However, deflation potentially hits company profits and lowers stock prices.

Asia's economic problems would hurt U.S. farmers, who

have greatly increased their exports to the region in this decade. For example, 32 percent of U.S. corn exports go to China and Japan; another 30 percent go elsewhere to Southeast and East Asian countries.

In addition, more than 40 percent of U.S. soybean exports and more than 50 percent of beef and pork exports ended up there as of 1996.

Zulauf said the above economic scenario is not for certain, and he hopes it does not happen. "I would place a 10 percent to 20 percent probability on a significant impact on U.S. agriculture."

"These odds may not seem high, but normally the odds of a significant positive or negative event are much lower than this."

What should farmers read in to Zulauf's scenario, which may or may not happen, or else may occur in some modified form? "My advice to farmers is to stay on top of the situation by collecting information and to get your costs of production in order."

It would take at least six months before any serious indicators appear, Zulauf said. U.S. agriculture could be hurt whether or not the most serious aspects occur because of its vulnerability to overseas developments.

"Farmers need to ask the question: 'How can I cut production costs, yet retain or enhance profitability?'" Zulauf said. "Remember, the farmers who survive in the long run have the lowest cost of production."

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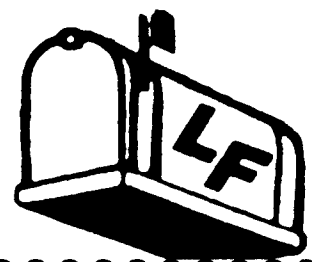
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