One year since the start of the 'Asian meltdown'

Growing signs of world slump

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When the Thai government announced its decision on July 2, 1997 to float the baht, it did not make major headlines in the world news media. There were reports of problems in the Thai economy but certainly no indication of the momentous events to come.

In fact, the two major international financial authorities, the International Monetary Fund and the World Bank, were busy organising their September joint annual meeting in Hong Kong as a celebration of the "Asian miracle" and the virtues of the market economy.

In the United States, with unemployment, economic growth, interest rates and inflation considered to be "just right" a new term had been coined -- the "Goldilocks economy". It was even suggested that because of the increased productivity associated with computerisation, a "new paradigm" had overcome the problems of the past.

What a difference a year makes. The Asian economies are caught in a 1930s-style recessionary spiral, the Japanese financial system hovers on the brink of insolvency, and there are growing signs that the global economy, including the United States, is about to enter recession.

For the past year the official wisdom has been that the US economy will escape the effects of the Asian crisis, and that it could even prove beneficial. These sentiments were reinforced by last week's announcement of a revised estimate of growth for the first quarter of 5.4 percent. But closer examination reveals the impact the Asian crisis is having on the world's largest economy.

The most obvious effect is on the trade deficit. The April deficit was a record $14.5 billion, reflecting a 2.6 percent decline in exports and a 0.9 percent drop in imports. It was the third month in a row in which the deficit widened sharply.

Farm exports are among those hardest hit, with estimates of the loss of Asian revenue ranging between $1.5 billion and $2 billion so far this year.

The trade deficit for the first four months of the year was $49.3 billion, up from $37.1 billion for the first four months of 1997.

According to the magazine *BusinessWeek* the sharp falloff in exports to Asia is a "big reason why the April trade data show the trade gap is on its way to surpassing the chasm that opened up as a result of the superdollar in the mid-1980s".

The widening trade gap is considered to have subtracted three percentage points from economic growth in the first quarter -- a rate that will be sustained if the deficit continues to stay at the April level.

In addition to the worsening trade position, there is evidence of slowing growth in the domestic economy. One reason for the high first quarter growth figures was the rapid build up of inventories -- a sure sign that sales are slowing.

Output figures for durable goods showed their largest monthly decline for a year, dropping by 2.6 percent in May. Warnings are being issued of the economic downturn ahead.

According to John Lipsky, chief economist and director of research at the Chase Manhattan Bank, writing in the *Financial Times* of June 24: "The global outlook is due for a sober reassessment. Both Asia and Europe have been counting on the US to remain a steady customer for a growing stream of their exports. However, two powerful forces are weighing on the US economy and are likely to cause a sharp slowdown in the second half of the year. ...

"The first shoe has already dropped. Asia's economic implosion has widened the US trade gap, and US industrial activity is beginning to slow in a delayed response.

"Now the second shoe is about to fall. America's equity-inspired consumer shopping spree is drawing to an end. According to the Chase Research forecast, US gross domestic product growth will virtually halt in the second half of the year. As a result, 1998 US GDP will fall to around 1.5 percent on a fourth quarter to fourth quarter basis, down from 3.7 percent in 1997."

Summarising the outlook for the US economy, Lipsky wrote: "Many US observers earlier minimised the impact of the Asian crisis because the first deflationary wave emanating from that region caused US interest rates to decline and commodity prices to plummet, providing a surprising boost to the US economy. However, the second wave of Asia's impact is hindering rather than helping the US growth outlook: the trade deficit is widening faster than almost anyone had dared to predict; inventories are accumulating at three times the sustainable pace; industrial output growth has hit a wall; and manufacturing employment has dropped for four consecutive months."

He warned that more significant than reports of declining unemployment were figures showing "a dramatic slowdown during past few months in the growth of total hours worked."

And as concern grows over the US economy, the Asian crisis is beginning to impact on Europe. Figures released in Italy show that the national economy contracted by 0.1 percent in the first quarter of the year, with the major drag on growth being the 1.6 percent decline in exports, which account for one quarter of the Italian economy.

So far this year Italian exports to Japan are down 10 percent, while exports to the so-called "newly industrialised countries" have fallen 24 percent compared with the first four months of 1997. Industrial production fell 0.2 percent in April and is likely to be down by 0.6 percent for the June quarter.

And on the other side of the world, figures on the New Zealand economy told the same story. The national economy contracted by 0.9 percent in the first three months of the year, amid warnings that worse is to come. The main reason for the contraction was the slowdown in the meat and dairy industries, the country's two biggest exporters.

Across the Tasman, the Australian government is maintaining that its growth targets of more than 3 percent remain "on track". But other forecasts put the growth rate for 1998-99 at 1.5 percent. The growth rate of Australia's major trading partners in 1998 is likely to be zero, compared to the 4.8 percent it has averaged over the last decade and a half.

Meanwhile BHP, the country's largest mining and industrial corporation, has announced only its second loss in its 113-year history. Last year the company went into the red to the tune of $A1.47 billion, following a write down of more than $3 billion in key asset valuations.

The reason for the record decline was the slump in Asia, which provides 30 percent of BHP's revenue, and the fall in world commodity prices, especially copper. BHP wrote a further $1.6 billion off Magma Copper, the US firm it purchased in 1996, following a $500 million write down last year.

Just as commodity prices in general tend to indicate trends in industrial production, so the price of the chief energy source, oil, is especially significant. Here is another expression of the gathering world recession.

Last week, the Organisation of Petroleum Exporting Countries (OPEC) announced it would cut production by more than 3.1 million barrels a day in a bid to raise prices, reversing a decision last November to boost production by 10 percent. Since that time, prices have fallen by 28 percent under the impact of the Asian economic slump.

The deepening world crisis is certain to add fuel to the already bitter conflicts between bourgeois economists over its causes and the policies which should be implemented.

It will certainly intensify the ideological war that has broken out between the IMF and the World Bank. The IMF is accused by World Bank economists, among others, of imposing a "restructuring" program on Asia which has only served to exacerbate its crisis, threatening to bring on a depression.

When the World Bank vice-president for East Asia Jean-Michel Severino warned that the region was facing a "long period of deep and long-lasting depression" his remarks were not only directed at his immediate audience but had another target in Washington.

The official IMF strategy has been the promotion of export-led growth. But as Severino pointed out this was impossible in East Asia because of the recession in Japan -- broader stimulation of the economy of the entire region was necessary.

From the other side, the spending plans of World Bank economists have been denounced by supporters of IMF policies. According to Massachusetts Institute of Technology economist Rudi Dornbusch, the World Bank plan for fiscal stimulation is "rubbish, real rubbish" and its chief economist Joseph Stiglitz an "eccentric -- a liberation theologist".

Another MIT economist Paul Krugman, who has candidly admitted that his fellow economists in the IMF and World Bank have no real understanding of the Asian crisis and are making it up as they go along, has called for a massive expansion of the money supply in Japan. His plan would seek to induce inflation and push the economy out of the so-called liquidity trap whereby cuts in interest rates fail to provide economic stimulus because of the lack of demand.

But opponents of these measures have pointed out that such a rapid expansion of the money supply would send the yen tumbling even lower and worsen the crisis of the region.

Even apart from the figures on the debt mountain, trade imbalances, falling growth rates, and currency turmoil; the perplexity of the bourgeois economists and the conflicts between them signify that the mounting crisis of the world economy is no mere downturn in the business cycle, but is rooted in more fundamental processes.