

## Did the Asian Crisis play a role in the sharp decline in cotton prices?

Conventional wisdom seems to be that during the first two years of the 1996 Farm Bill crop prices and incomes were strong and agriculture was doing just fine, thank you very much! But then, the Asian Crisis hit and ruined it all. The Asian Crisis did occur about the same time that crop agriculture was spiraling south.

But of course, to say that the Asian Crisis caused low prices is much different than saying that the Asian Crisis occurred just before or at about the same time as the decline in crop prices. Asserting causation between the two could be an example of the “post hoc, ergo propter hoc” logical fallacy, which literally translated means: “after this, therefore caused by this.”

So what are the particulars?

Over what time period was the Asian Crisis? What happened to Asian imports, world trade and U.S. exports during that time?

Our focus in this analysis will be on cotton. Other crops will be considered at other times.

Most claim that the Asian Crisis began with the collapse in value of Thailand’s currency following the July 1, 1997 announcement by the Bank of Thailand that the bhat was going to be allowed to float. Following this, currency attacks occurred in Malaysia, the Philippines, Indonesia, Taiwan, Japan, South Korea and Hong Kong. Between October 20 and 23, the Hong Kong stock market suffered a 23.34% loss in value. From there, some of the panic spread to Latin America putting the economies of Brazil and Argentina under fire. By the summer of 1999 a rebound in these markets was well under way.

So what was the impact of the Asian Crisis on cotton?

1997 cotton crop year

Well, during the first year of the Asian Crisis, which corresponds to cotton’s 1997 standard trade year, the countries generally considered to be affected by the Asian Crisis (Japan, Indonesia, South Korea, Thailand, Taiwan, Malaysia, the Philippines and Hong Kong) imported 871,000 fewer bales of cotton. Worldwide 1997 cotton exports declined significantly less at 165,000 bales.

On the other hand, U.S. cotton exports increased by 638,000 bales. The 4.1 cent per lb. drop in U.S. cotton prices in the 1997 crop year can be attributed to increased U.S. supplies, not to the Asian Crisis.

1998 cotton crop year

While worldwide cotton exports fell by 3,008,000 bales during the 1998 standard trade year, as a group, the countries affected by the Asian Crisis increased their imports by 656,000 bales.

Again, Asian imports and U.S. exports moved in opposite directions: Asia cotton imports were up while U.S. cotton exports were down, a whopping 42 percent. Factors affecting U.S. exports included depletion of the “Step 2” cotton export subsidy allocation and significantly less production.

1999 cotton crop year

During 1999, there were increases all around. The crisis-affected Asian countries imported more cotton and total world and U.S. exports were above the previous year, as well.

Our survey says:

As we all know, cotton prices have declined substantially compared to its 75.4 cents per lb. level in the 1995 crop year, the year before the 1996 Farm Bill. While relatively strong in 1996 and 1997, thereafter the cotton price immediately began but its downward trend landing at 45 cents per lb. in the 1999 crop year.

The Asian Crisis had virtually nothing to do with these price declines.

At another time we will investigate whether the Asian Crisis was a source of price and market income problems for other major export crops.

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