

## Year in review: The Asian Crisis was not the culprit in farm price/income problems

As agricultural policy goes, 2001 has been a very eventful year. Via these columns we have covered quite a bit of ground together. It has been an interesting journey.

By far the biggest story and the one we gave the most ink to is the farm bill discussions. As the year began Chairman of the Senate Agriculture Committee, Sen. Richard Lugar, declared that there would be no new farm bill until the expiration of the 1996 Farm Bill in 2002. At the year's end, Lugar is no longer the chair, the House has passed a farm bill, and we are waiting to see what happens on the floor of the Senate. We devoted 25 columns this last year to evaluating the performance of the 1996 bill and reviewing the provisions of the various proposals.

We devoted 7 columns to discussions of our major export competitors in South America, Brazil and Argentina. We also analyzed issues relating to our import customers. The Asian Crisis and its effect upon the grain markets took 9 columns. In 8 other columns we looked at a variety of issues ranging from GMOs to the US domestic demand for total grains and seeds.

In this column and in the coming weeks we will synthesize and draw conclusions from these four sets of columns. Because we do not know how the farm bill will turn out, we are going to write that one last.

So many people have written about the Asian Crisis and its effects on the export of US agricultural commodities that we had begun to believe what they were writing. But, before doing that we decided to check out the data first. The basic argument of those who blamed the Asian Crisis for the price and income woes of the US crop markets was that the collapse of the Indonesian currency in July, 1997 set off a chain of events resulting in the devaluation of a number of Asian currencies and currencies in weak economies in other parts of the world. As a result of the devaluation of these currencies, imports of agricultural commodities shrank and world-wide domestic demand fell. Their conclusion was that the US agricultural sector would have done well if it had not been for reduced world-wide demand due to the Asian Crisis.

We looked at the cotton, wheat, rice, soybean and corn markets and discovered a consistent story. The Asian crisis had little or nothing to do with the US commodity markets. We were surprised to find that from 1996 to 1999 world-wide demand for total grains grew at an average

rate of 1.44 percent per year compared to 0.38 percent per year for the previous five years. Demand wasn't the problem. The problem was growth in supply. Production grew at 1.86 percent per year during the 1996-1999 period, over .4 percent faster than demand.

Taiwan was often used as an example of the impact the crisis had on US corn exports. In 1996 Taiwan imported 221 million bushels of corn from the United States and in 1997, the first year of the Asian Crisis, imports of US corn fell by 38 percent to 137 million bushels. Numbers like that make it look like an open and shut case for the Asian Crisis theory. The only problem is that there are two missing pieces of data. First, while Taiwan's corn imports from the US fell by 38 percent, their imports from the world only fell by 22 percent. Argentina captured a greater portion of the Taiwan market in 1997 than they did in 1996. And exchange rates cannot be cited as the reason that we lost out to the Argentines because their currency at that time was pegged one-to-one to the US dollar.

The second missing piece of data in this Taiwan corn import story is even more telling. Taiwan's pork industry was struck by foot and mouth disease in 1997. As a part of its campaign to eradicate the disease Taiwan slaughtered a large number of pigs reducing their numbers by a whopping 45 percent. The drop in corn imports had little or nothing to do with the devaluation of the Taiwanese currency, rather it was a direct response reduced pork numbers brought on by an effort to eliminate foot and mouth disease.

Since it did happen, the "Asian Crisis" provided a logical explanation of the drop in US exports and prices in the 1997-1999 period. But, this logic is not supported by the data. Often unrelated events that are less visible or less well-known are the true culprits. So just as exports have not been the driving force in the crop markets over the last two decades, neither was the Asian Crisis responsible for the plunge in prices in 1997-99. Yet, from the statements made, it would seem that many have not looked up the data.

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