Chapter II

TRADE IMPLICATIONS OF THE EAST ASIAN CRISIS

Global economic developments in 1997 were overshadowed by the financial and economic crisis in Asia, the impact of which was severely felt in the region during the last quarter of the year, especially in Indonesia, the Republic of Korea and Thailand. Adjustments in the seriously affected countries have barely begun, and their direct and indirect repercussions on other economies in the region, as well as on the rest of the world, are still working themselves out. As discussed in the previous chapter, the crisis has led to a slowdown, in varying degrees, in the prospective output growth of all regions.

A precise assessment of the implications of the crisis for the global economy is difficult to make, not only because the changes in the economic and financial situation in many of the countries concerned have not yet played themselves out, but also because it is not yet clear how other regions will react in terms of policy. There are various channels by which the repercussions of the Asian crisis can be transmitted to other countries. Much of the adjustment will probably take place through changes in both the direction and the composition of trade flows, particularly for primary commodities.

A. The significance of Asian trade

Asia's linkages with the rest of the world are strong. Built on the "flying geese" pattern of economic development involving a division of labour among countries at different levels of industrialization,[1] most of the economies in East and South-East Asia have been active participants of growing importance in international trade and at the forefront of the increasing participation and integration of developing countries in the world economy. The Asian economies are highly integrated through trade. For example, in 1996 about 52 per cent of Asia's total merchandise exports were sold within the region, while 54 per cent of total imports were also intraregional. For various categories of merchandise, the share of exports absorbed by regional partners is even higher – for example, 63 per cent for agricultural products and 85 per cent for mining products – while the share for manufactured products is about 48 per cent. As regards services, it is notable that the large tourism industry in Asia, with its vast array of backward- and forward-linked industries, is dominated by intraregional trade. Intraregional tourists account for almost 80 per cent of total tourist arrivals in Asia. The dynamic Asian economies have now become not only major competitive suppliers on global markets for a wide range of products, but also increasingly a "locomotive" for the world economy through their large and rising import demand.

Table 10

WORLD MERCHANDISE TRADE BY REGION, 1996

(Billions of dollars and percentages)

	Exports			Imports		
	Value	Share	Change over 1995	Value	Share	Change over 1995
Exports from/imports to	*($ billion)*	*(Per cent)*		*($ billion)*	*(Per cent)*	
World	5115	100.0	4	5 265	100.0	4
North America	827	16.2	6	994	18.9	6
United States	625	12.2	7	818	15.5	6
Latin America	249	4.9	11	273	5.2	11
Mexico	96	1.9	21	90	1.7	24
Western Europe	2 282	44.6	3	2 235	42.5	2
European Union (15)	2 110	41.2	3	2 053	39.0	2
Transition economies	169	3.3	6	174	3.3	13
Central and Eastern Europe	81	1.6	2	108	2.0	13
Africa	116	2.3	12	127	2.4	3
Middle East	165	3.2	16	143	2.7	8
Asia	1 309	25.6	1	1 318	25.0	5
Japan	411	8.0	-7	349	6.6	4
China	151	3.0	2	139	2.6	5
ASEAN	336	6.6	5	372	7.1	6

Source: UNCTAD secretariat calculations, based on WTO data.

1. Asian imports

At $372 billion, the total merchandise imports by members of the Association of South-East Asian Nations (ASEAN)[2] in 1996 ranked as the third largest in world trade, after the European Union and the United States, and before Japan, which is in fourth place. The dynamism of these markets is attested by the fact that their share in world imports more than doubled from 1985, to reach 7.1 per cent in 1996 (table 10). No other market has experienced such import growth. If ASEAN's imports are combined with those of other emerging markets in Asia and Japan, the group accounted for about 25 per cent of world merchandise imports in 1996. Furthermore, the region's imports have a broad-based product composition and it is also a major importer of primary commodities, including fuels, food, ores and metals, and agricultural materials (table 11).

In recent years, practically all regions have increased the share of their exports going to Asia. Among the OECD countries in 1996, Japan had the largest share (48.5 per cent), followed by the United States and Canada (31.1 per cent) and Western Europe (9.7 per cent); see table 12. For particular categories of exports, the share is even higher. For example, it is about 40 per cent for United States agricultural exports.

In the developing regions, dependence on the Asian market is also notable. Currently, in Latin America, about 16 per cent of agricultural exports and 13 per cent of mining product exports go to Asia. In Africa, the corresponding shares for agricultural and mining exports are around 20 per

Table 11

SHARE OF SELECTED ASIAN ECONOMIES IN WORLD IMPORTS OF SELECTED PRODUCT GROUPS, 1996

(Percentages)

	Shares in world imports of							
Region/economy	*All products*	*Food*	*Cereals*	*Agricultural raw mat.*	*Fuel*	*Ores and metals*	*Manufact. goods*	*Textiles and clothing*
Developing East and South-East Asia (excl. China)	**15.3**	**9.9**	**22.2**	**16.0**	**14.3**	**36.0**	**6.4**	**14.7**
Indonesia	0.8	1.0	4.4	1.7	0.9	2.5	0.3	0.7
Malaysia	1.5	0.9	2.5	0.8	0.5	3.7	0.4	0.5
Philippines	0.7	0.6	2.3	0.6	0.7	1.6	0.2	0.4
Republic of Korea	2.8	1.9	5.9	5.0	5.5	9.0	0.9	1.8
Thailand[a]	1.3	0.6	0.8	2.2	1.1	4.7	0.5	0.7
Hong Kong, China	3.8	2.4	1.3	2.4	1.0	5.1	2.6	8.5
Singapore	2.5	1.2	1.0	0.7	2.8	3.1	0.8	1.0
Taiwan Province of China	1.9	1.3	3.9	2.8	1.9	6.5	0.7	1.0
China	**2.7**	**1.8**	**5.8**	**5.3**	**1.6**	**8.3**	**1.3**	**4.6**
Japan	**6.7**	**11.6**	**15.3**	**12.4**	**13.7**	**14.8**	**2.7**	**7.5**
Total of above destinations	**24.6**	**23.2**	**43.2**	**33.7**	**29.6**	**59.1**	**10.3**	**26.8**

Source: UNCTAD secretariat calculations, based on United Nations, *Commodity Trade Statistics* (tapes).
a 1995.

cent and 13 per cent, respectively. Fifty-seven per cent of Middle Eastern countries' exports of mining products (basically oil), which constitute the bulk of their exports, go to Asia. As already noted, Asian countries also provide important markets for each other; more than half of Asia's total merchandise exports go to other countries in the region.

In world commercial services trade, Asia is the second largest importing region, with a share of around 28 per cent of world imports in 1996. It is surpassed only by Western Europe (with a 45 per cent share) and is followed by North America (with a 13 per cent share). Services account for a large proportion (about 20 per cent) of the region's total imports, exceeding the share of services in world imports. Asia maintains its ranking as the second largest importing region for all three of the major service categories constituted by transportation, travel and other commercial services. In the area of tourist travel, which dominates the travel category, outbound tourism from Asia has grown rapidly in recent years, to stand at about 15 per cent of the world total.[3]

2. *Asian exports*

Through their phenomenal trade and industrial growth over the past three decades the countries of East and South-East Asia have become major competitive suppliers on global markets for a wide range of products. Asia as a whole now accounts for about 26 per cent of world merchandise exports. The growth and share of Asian exports in world trade in particular catego-

Table 12

SHARE OF SELECTED ASIAN ECONOMIES IN THE EXPORTS OF VARIOUS REGIONS AND COUNTRIES, 1996

(Percentages)

	Shares in exports of							
Region/economy	*Africa*	*Latin America*	*West Asia*	*Transition economies*	*North America*	*Western Europe*	*Japan*	*Australia and New Zealand*
Developing East and South-East Asia (excl. China)	**5.5**	**5.1**	**23.3**	**4.3**	**16.6**	**5.6**	**40.5**	**26.7**
Indonesia	0.6	0.4	1.0	0.3	0.8	0.4	2.1	3.7
Malaysia	0.4	0.4	0.4	0.3	1.6	0.6	4.7	3.0
Philippines	0.1	0.3	1.7	0.3	0.9	0.2	1.8	1.4
Republic of Korea	1.3	1.7	9.1	1.2	4.5	1.0	7.7	6.3
Thailand[a]	0.7	0.4	1.6	0.8	1.1	0.6	5.3	1.8
Hong Kong, China	0.2	0.5	0.6	0.4	2.2	1.1	6.6	3.3
Singapore	0.6	0.6	6.5	0.2	2.8	0.9	5.8	2.9
Taiwan Province of China	1.7	0.8	2.5	0.8	2.7	0.8	6.7	4.3
China	**0.9**	**1.4**	**1.9**	**3.1**	**2.4**	**1.0**	**7.1**	**5.1**
Japan	**2.5**	**4.3**	**21.4**	**2.4**	**11.4**	**2.5**	**-**	**21.7**
India	3.0	0.2	3.4	0.4	0.5	0.5	0.5	1.8
Pakistan	0.4	0.1	1.8	0.1	0.2	0.1	0.3	0.3
Total of above destinations	**12.2**	**11.2**	**51.9**	**10.3**	**31.1**	**9.7**	**48.5**	**55.8**

Source: See table 11.
a 1995.

ries of products are noteworthy (table 13). In machinery and transport equipment, the Asian share in world exports in 1996 (which was not a favourable year for Asian exports) was more than 30 per cent, surpassed only by that of Western Europe. For the subcategory of office machines and telecommunication equipment, its share of the world export market has grown rapidly and stands at about 50 per cent. Asia is also a major and growing exporter of automotive products, with a share in world exports of around 20 per cent. It predominates in textiles, particularly clothing, with a share of over 40 per cent. However, during 1990-1996, whereas Asian exports of clothing to North America grew at an annual rate of 3 per cent, and to Western Europe at an annual rate of 4 per cent, those of Latin America to North America grew at 20 per cent per annum and those of Eastern Europe to Western Europe grew at 23 per cent per annum. What this reflects is a discernible shift in East Asia's production towards more skill-intensive products.

Apart from intraregional trade discussed below, Asia's merchandise exports in 1996 were mainly to North America (23 per cent) and Western Europe (16.2 per cent), followed by the Middle East (2.6 per cent), Latin America (2.3 per cent) and Africa (1.5 per cent). Its exports to other regions are dominated by manufactures, which accounted for 82 per cent in 1996. With respect to services, although Asia is the second largest exporting region, after Western Europe, in world commercial services trade, it is also the largest net importing region for commercial services. A number of Asian countries are among the leading world exporters of transportation, travel and commercial services.

Table 13

SHARE OF EXPORTS FROM ASIA AND OCEANIA IN WORLD EXPORTS 1996, BY MAJOR PRODUCT GROUP

(Percentages of respective product group total)

	Share of Asia and Oceania[a]	*of which:* Japan
Agricultural products	19.1	0.7
Food	18.0	0.4
Raw materials	23.0	1.9
Mining products	15.2	1.1
Ores and other minerals	23.3	1.2
Fuels	13.8	0.5
Non-ferrous metals	16.6	3.7
Manufactures	28.8	10.4
Iron and steel	22.0	10.8
Chemicals	16.0	6.1
Other semi-manufactures	20.5	4.9
Machinery and transport equipment	31.6	14.4
Automotive products	19.8	15.9
Office and telecommunication equipment	49.9	15.0
Textiles	42.7	4.6
Clothing	42.6	0.3
Other consumer goods	29.3	7.5
Total merchandise exports	25.6	8.0

Source: UNCTAD secretariat calculations, based on statistics from WTO, *Annual Report 1997*, Vol. II (Geneva, 1997).
a Australia and New Zealand.

B. Impact on regional trade

Given the relative economic size of the East and South-East Asian countries as a whole and their strong economic linkages with one another, developments in international trade in the period ahead are likely to be affected by the financial and economic crisis which has spread throughout the region since mid-1997. The crisis is the first major economic setback that the region has faced since its period of high growth began. Its seriousness, in terms of its scope and its repercussions, is increasingly felt in trade and related areas.

As can be seen from table 14, the five most affected Asian countries (Indonesia, Malaysia, the Philippines, the Republic of Korea, and Thailand – hereafter sometimes referred to as “Asia-5”) trade intensively with other developing countries in the region: between 25 per cent and 45 per cent of their exports go to those partner countries, and between 17 per cent and 35 per cent of their imports originate from them. If the developed Asian countries are also included, the intraregional share rises to 45-65 per cent for both imports and ex-

Table 14

NETWORK OF TRADE AMONG SELECTED ASIAN ECONOMIES, 1996

(Percentage shares in total trade)

	Destination of exports					
Exporter	*Total Asia and Oceania[a]*	*Japan Australia New Zealand*	*Developing Asia*	*China*	*Asia-5[b]*	*Other*
China	59.4	21.7	37.7	-	8.3	29.4
Hong Kong, China[c]	55.4	8.1	47.4	34.3	5.3	7.8
domestic exports	51.4	6.5	45.0	29.0	5.6	10.3
Indonesia	63.0	28.5	34.6	4.1	11.8	18.6
Japan	46.4	2.2	44.2	5.3	19.6	19.3
Malaysia	62.1	15.3	46.9	2.4	9.9	34.6
Pakistan	31.6	8.3	23.3	1.3	6.4	15.6
Philippines	44.5	18.8	25.8	1.6	9.6	14.6
Republic of Korea	52.1	13.7	38.4	8.8	9.3	20.3
Singapore[c, d]	62.9	10.5	52.4	2.7	30.2	19.5
Taiwan Prov. of China	54.5	13.6	40.9	0.5	10.6	29.7
Thailand	55.8	18.5	37.3	3.4	8.3	25.7

	Origin of imports					
Importer	*Total Asia and Oceania[a]*	*Japan Australia New Zealand*	*Developing Asia*	*China*	*Asia-5[b]*	*Other*
China	59.0	23.8	35.2	-	13.9	21.3
Hong Kong, China[c]	76.7	14.7	61.9	36.7	10.4	14.9
Indonesia	54.6	26.3	28.4	3.7	10.3	14.3
Japan	42.6	4.8	37.8	11.6	16.5	9.7
Malaysia	64.0	28.0	36.0	2.4	11.4	22.2
Pakistan	33.1	12.3	20.7	4.7	10.2	5.8
Philippines	55.0	24.9	30.1	2.2	11.6	16.3
Republic of Korea	43.0	25.6	17.4	5.7	5.9	5.8
Singapore[c, d]	58.5	19.2	39.3	3.3	27.5	8.5
Sri Lanka	63.3	14.9	48.5	3.5	16.1	28.9
Taiwan Prov. of China	50.5	30.0	20.5	3.0	11.8	5.7
Thailand	56.9	30.5	26.3	2.7	10.8	15.5

Source: WTO, based on United Nations, *Commodity Trade Statistics* (tapes).

a Australia and New Zealand.
b Indonesia, Malaysia, Philippines, Republic of Korea and Thailand.
c Includes significant re-exports.
d Adjusted to include Singapore's exports to Indonesia.

ports. Thus, intraregional trade in East and South-East Asia is the natural point of departure for analysis of the impact of the crisis. Indeed, the particular regional dynamics are one of the explanations for the success of the countries in that region, where fast-growing countries have been providing expanding markets and complementary production for each other. This carries with it the risk of a "contagion" effect, which has indeed occurred as a consequence of the crisis.

The economic slowdown in Asia thus encompasses not only those countries in which an acute financial crisis began in July 1997 (i.e. Indonesia, the Republic of Korea and Thailand), but also Japan (where the economy has been stagnant for several years and an economic downturn in 1997 has been exacerbated by the financial crisis). The region-wide spread of the economic downturn means that the economic malaise emanating from the region is likely to have a greater impact on global trade and the world economy than might be supposed by focusing only on those countries where the financial crisis broke out.

Many Asian economies are now experiencing varying degrees of contraction in domestic demand and imports. For countries with a high share of exports in the region, there are already signs of a fall-off in exports and a downward spiral in regional trade. For example, data for Japan for the first quarter of 1998 show that exports to Asia fell sharply: they continued to fall in April. In February alone, the decline in exports to Indonesia, Thailand, the Republic of Korea and Malaysia was 56 per cent, 41 per cent, 38 per cent and 24 per cent, respectively. Imports from Indonesia, Malaysia and Viet Nam fell by 23 per cent, 22 per cent and 30 per cent, respectively.[4] Since the beginning of 1998, the growth of Japanese exports valued in yen has continued to slow, becoming negative during April on a year-on-year basis. On this basis and in dollar terms, Japanese exports have fallen since November 1997. Since the beginning of 1998, imports have also been contracting sharply (year-on-year) each month.

For the first quarter of 1998, Taiwan Province of China recorded its first quarterly trade deficit in 17 years. The fall in exports reflects contracting demand in the Asian region, which has in recent years absorbed around 50 per cent of its exports. From January to March, exports to South-East Asia dropped by 27 per cent, to Japan by 24 per cent, and to Hong Kong, China, by 3.2 per cent.[5] The Republic of Korea's exports declined in absolute terms in May 1998 for the first time since the crisis started. Exports to Asia, which account for 50 per cent of all outbound shipments, fell by 10.8 per cent in the first four months of 1998, the decline in exports to South-East Asia being 27.1 per cent.[6] Although China's exports for the first five months of 1998 rose by 8.6 per cent over the corresponding period of the previous year, they fell in May alone by 1.5 per cent, for the first time in 22 months. From April to November 1997, India's rate of growth of exports to Asia was less than in the same period of 1996, with absolute declines in exports to the Republic of Korea, Thailand and Singapore, and reduced growth in exports to Indonesia and Hong Kong, China. In addition, there is concern in the developing countries about an acute loss of competitiveness vis-à-vis Indonesia, Malaysia, Thailand and the Republic of Korea because of their currency devaluations.

C. Trade effects outside the Asian region

The impact of the Asian crisis on other regions and countries will vary depending on a number of factors, including the pattern of trade and competitiveness. In addition to the direct effects on the volume and prices of traded goods, there are reinforcing and offsetting indirect effects through competition in third markets as well as access to, and the cost of, finance.

The adoption of restrictive monetary and fiscal policies to deal with the financial crisis, particularly in the most seriously affected countries, has significantly reduced the level of economic activity and domestic demand.[7] A consequent rise in unemployment has also added to the initial expenditure reduction effect (see chapter III). The reduction in aggregate expenditure can be expected to reduce overall imports, affecting to varying degrees different products and supplying countries.

The large depreciations in the region's currencies (in some cases exceeding 86 per cent against the dollar), if sustained, will also have direct trade implications. To the extent that currency alignments are passed on, they may lead to a substantial across-the-board shift in the prices of traded goods and services produced in the region relative to those produced in other regions. While exports will become more competitive, imports will become more expensive. The overall impact will vary from one sector to another. For example, the scope for reducing export prices in foreign currency would be less than the devaluation to the extent that imported inputs are required in the production of an export good.

Given the past trade and growth performance of the most affected Asian economies, the substantial depreciation of their real effective exchange rates, together with excess capacity in export-oriented production, has given rise to expectations of a reasonably strong export-led recovery. However, as noted in chapter I, the responsiveness of exports so far has been hampered not only by higher import costs, but also by a severe liquidity crisis and an export credit crunch. Adjustments in the trade balance of these countries have been due more to a reduction of imports than to an expansion of exports.

Another factor that can influence adjustment in Asia and its impact on trade is that those countries which are close competitors of Asian countries in export markets may be tempted to devalue in order to maintain their international competitiveness, as they begin to lose market shares to cheaper Asian exports. This could engender a process of competitive devaluations. Similarly, an increased inflow of cheap products from Asia could trigger a domestic backlash in major import markets (particularly North America and Western Europe), leading to a proliferation of anti-dumping and related actions and growing trade frictions.[8]

Because of the importance of the Asian economies and the relative dependence of both developing and developed countries on Asian markets, an economic slowdown in the region is likely to result in a deceleration in world import demand, with multiplier effects on the exports and incomes of countries in various regions, particularly developing countries. Indeed, real output growth in developed market-economy countries as a group is expected to slow to 1.8 per cent in 1998 from 2.7 per cent in 1997, with the Japanese economy going into outright recession (see chapter I, table 1). This slowdown will in turn impact negatively on developing country exports and growth.

With regard to Latin America as a whole, while exports to Asia represent about 10 per cent of the region's total merchandise exports, for some countries (Chile, Peru and Ecuador) the proportion is much higher (as much as around 35 per cent for Chile); see table 15.[9] While exports to Asia grew quite rapidly in the first nine months of 1997, there appears to have been a sharp fall-off towards the end of the year, particularly in Chile, whose Asian exports are concentrated mainly on the countries in crisis.

In Africa, the impact of the Asian crisis could be felt particularly in Zambia, the United Republic of Tanzania and Congo, since over a quarter or more of these countries' exports go to Asia (table 16). Furthermore, the crisis may result in a re-

Table 15

SHARE OF ASIA[a] IN EXPORTS OF SELECTED LATIN AMERICAN COUNTRIES, 1990-1997

(Percentages)

Country	*1990*	*1996*	*1997 (Jan.-Sep.)*
Argentina	10.2	12.1	15.0
Brazil	16.8	16.2	15.3
Chile	24.6	33.3	38.1
Colombia	4.5	4.3	3.9
Mexico	6.7	3.3	3.3
Peru	20.9	23.8	25.3
Venezuela	4.0	1.9	1.9
Group average	11.3	9.5	10.3
Memo item:			
Total exports of group to Asia *($ million)*	12 410	21 230	17 860

Source: SELA, "The impact of the Asian crisis on Latin America" (Caracas, February 1998).
a Developing Asia and Japan.

Table 16

SHARE OF ASIAN DEVELOPING COUNTRIES IN EXPORTS OF SELECTED AFRICAN COUNTRIES, 1994 AND 1996

(Percentages)

Country	1994	1996	1996 value *($ million)*
Angola	2.3	11.2	494
Congo	13.1	24.7	411
Egypt	11.1	7.7	401
Morocco	7.5	7.3	509
Nigeria	5.0	7.5	1 112
South Africa	9.8	12.9	4 613
United Rep. of Tanzania	24.6	30.4	244
Zambia	37.7	33.8	338

Source: UNCTAD secretariat calculations, based on IMF, *Direction of Trade Statistics*, 1997.

duced FDI flow to Africa owing to a general change in business sentiment. Some developing Asian countries, such as Malaysia, have become large investors in Africa, but may have to cut back their outward investments during the next few years.

Among the economies in transition, the ones likely to be most affected by the crisis are Kazakhstan, the Russian Federation, Ukraine and Romania (table 17). These countries may be faced with a reduction in the volume of their exports to Asia and with the impact of the Asian recession on world prices of export products.[10]

Table 17

SHARE OF ASIAN DEVELOPING COUNTRIES IN EXPORTS OF SELECTED TRANSITION ECONOMIES, 1994 AND 1996

(Percentages)

Country	1994	1996	1996 value *($ million)*
Czech Republic	3.2	2.6	563
Kazakhstan	6.6	12.6	786
Poland	4.9	3.3	816
Romania	9.5	6.8	519
Russian Federation	8.6	10.2	8 335
Ukraine	10.7	7.7	1 303

Source: See table 16.

D. Competitiveness effects of the currency depreciations

The large depreciations in the region's currencies will have major implications for the pattern of international competitiveness both within and outside the region. Between July 1997 and 10 June 1998, the currencies of the region depreciated substantially against the dollar, by between 17 per cent (the Singapore dollar) and more than 80 per cent (the Indonesian rupiah). Other currencies within and outside the region have also weakened significantly against the dollar (table 18). These exchange rate movements are likely to alter international competitiveness among countries and trade shares in third-country markets.

Since March 1998, some of the region's currencies, notably the yen, have continued to decline against the dollar, thus altering once again the pattern of competitiveness. By the second week of June 1998, the dollar was traded at more than 140 yen, implying a nearly 10 per cent depreciation of the yen since March. The renewed slide of the yen means a rise in many East Asian currencies against the Japanese currency, thus cancelling out to some extent their sharp depreciation against the yen since June 1997. The weaker yen is likely to boost Japan's competitive position in the United States and other markets (for example, vis-à-vis other

Table 18

MOVEMENTS IN EXCHANGE RATES[a], JUNE 1997 - MARCH 1998

(Percentage changes of monthly averages)

Country	Bilateral exchange rate with		Real effective exchange rate[b]
	US dollar	Japanese yen	
United States	-	13.0	8.6
Japan	-11.5	-	-4.1
Germany	-5.4	6.8	-0.8
France	-4.8	7.5	-0.1
United Kingdom	1.1	14.2	7.7
Italy	-5.8	6.4	-0.2
Canada	-2.3	10.4	1.5
Australia	-11.1	0.4	-5.6
New Zealand	-16.8	-6.0	-10.6
China	-0.2	12.7	2.9
India	-9.5	2.2	-0.2
Hong Kong, China	-	12.9	11.2
Republic of Korea	-39.0	-31.0	-30.3
Singapore	-11.9	-0.5	-1.0
Taiwan Province of China	-14.1	-3.0	-9.6
Indonesia	-73.9	-70.6	-63.2
Malaysia	-32.3	-23.5	-23.6
Philippines	-31.0	-22.1	-21.8
Thailand	-37.5	-29.4	-27.1
Argentina	-	12.9	4.7
Brazil	-2.6	10.1	6.6
Chile	-7.9	4.1	1.5
Mexico	-7.1	5.0	7.8
Poland	-6.4	5.7	3.2
Hungary	-11.5	-	3.9
Turkey	-38.8	-30.8	11.1
South Africa	-9.5	2.2	-2.2

Source: IMF, *World Economic Outlook,* May 1998.
a A negative sign signifies a depreciation of the currency of the country.
b Nominal trade-weighted exchange rates, deflated by consumer price indices.

East Asian countries, notably the Republic of Korea) and reduce already contracting Japanese imports, including those from East Asia.

One measure of international competitiveness is provided by multilateral trade-weighted exchange rates, deflated by some measure of domestic inflation.[11] IMF-computed real effective exchange rates are reported in table 18.[12] The difference between the depreciation against the dollar and the depreciation of the real effective exchange rate reflects (i) the significance of trade with other countries whose currencies have fallen against the dollar, as well as competition between one another in third markets; and (ii) the partial offset of competitiveness gains from currency depreciation by higher domestic inflation, due in part to an accompanying rise in traded goods prices.

A first approximation of the impact of the Asian currency depreciations on exports to third markets can be derived from a recent study focusing on Latin American exports to OECD markets.[13] The study seeks to identify at the six-digit level of the Harmonized System (HS) those products exported by each Latin American country to OECD markets which are also exported to those markets by seven Asian countries (Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore, Taiwan Province of China and Thailand). For each Latin American country, products subject to competition from the Asian countries are defined as those for which the share of the Asian countries in the sum of OECD imports from both the Latin American country and the Asian countries is greater than or equal to 10 per cent.

The study finds that around 58 per cent of Latin American exports to OECD markets are potentially vulnerable to Asian competition through the relative price effects of currency depreciations (table 19). Exports to North America and to Asian OECD countries have the largest shares of products exposed to Asian competition (62 per cent and 71 per cent, respectively). However, exports to the latter countries are only around 9 per cent of Latin American exports to the OECD as a whole. There is also a wide range of degrees of exposure across Latin American countries, with the smaller economies (plus Colombia and Mexico) at the higher end, with more than 60 per cent exposure. For manufactured products, just under 36 per cent of total Latin American exports to the OECD (with a value of $61 billion) are exposed to Asian competition. Again, the study finds that the smaller economies of Central America and the Caribbean are the most exposed, reflecting the large share of articles of apparel and clothing in their manufactured exports to the OECD, as well as exports of electrical apparatus and appliances and their parts in some cases.

Consideration of the competitive advantage provided by the currency devaluations in Asia also needs to take into account the import intensity of Asia's exports. There are few systematic studies of the import content of the manufactured exports of countries.[14] In recent months, various estimates have been put forward of the import content of the manufactured exports of some of the South-East and East Asian countries. One report indicates that the manufacturing sectors of Indonesia, Thailand, Malaysia and the Philippines use on average 30 per cent imported parts, raw materials and equipment in the production process, with the electronics and motor vehicle assembly sectors deriving 60-90 per cent of their export value from imported parts.[15] Another report suggests that Thailand's exports contain on average 60 per cent imported components and raw materials.[16]

Table 19

SHARE OF LATIN AMERICAN EXPORTS TO OECD COUNTRIES POTENTIALLY VULNERABLE TO ASIAN COMPETITION, BY DESTINATION, 1995

(Percentages)

Market	*Share subject to competition*	*Share in exports of Latin America to OECD*
All products		
OECD (weighted average)	57.8	100.0
of which:		
United States and Canada	61.7	66.5
Japan and Rep. of Korea	70.7	9.4
OECD Europe	41.9	24.1
Manufactures		
OECD (weighted average)	35.7	100.0

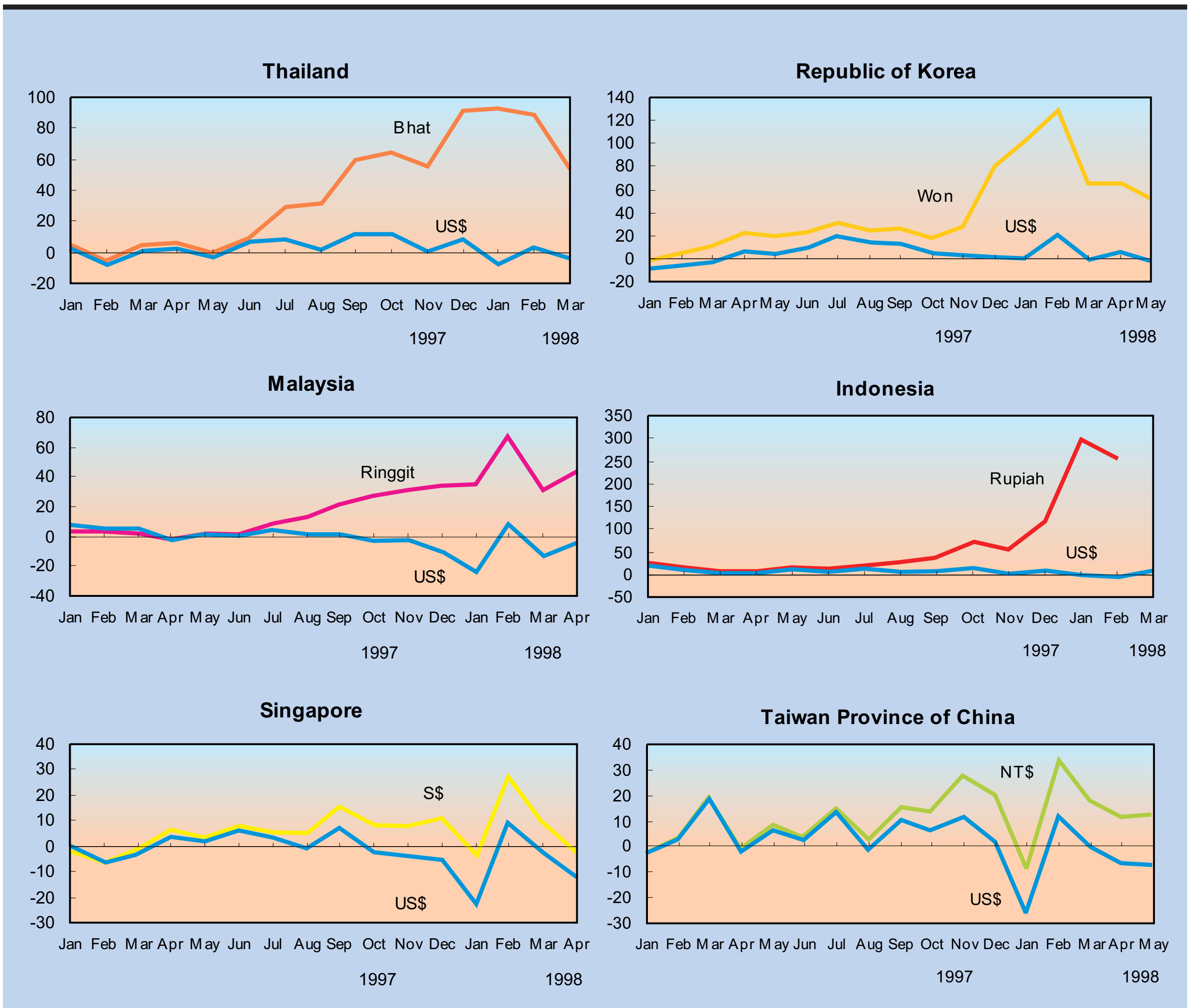
Source: R. E. Saez, "Latin American exporters to the OECD markets potentially more exposed to the Asian Crisis: A first look" (Washington, D.C.: Inter-American Development Bank, March 1998), mimeo.
Note: For explanations see text.

As already mentioned, the improvement in the current account of the countries at the centre of the turmoil is due essentially to import compression rather than to a significant expansion of exports. Indeed, as can be seen from chart 1, monthly exports on a year-to-year basis for Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore and Thailand show that rates of growth in dollar terms since the beginning of 1997, in contrast to those in national currency, have tended to stagnate or decline rather than accelerate.[17]

There may be several reasons related to the crisis that are responsible for the sluggishness of export growth. Given the large share of the regional market in exports (ranging from 41 per cent

Chart 1

EXPORT GROWTH IN SELECTED ASIAN ECONOMIES, IN NATIONAL CURRENCIES AND DOLLARS, 1997 AND 1998



Source: UNCTAD secretariat calculations, based on data from Datastream.

in the Philippines to 57 per cent in Indonesia), the continuing and gathering recession in most countries of South-East and East Asia is a major factor affecting export performance. In addition, the fall in imports (in dollar terms) of basic industrial material, intermediate goods and manufacturing equipment, together with the general contraction of imports in the region, is hurting exports that rely on imported inputs. This may be related to tighter domestic credit conditions and high interest rates due to the process of domestic financial restructuring. These conditions have deprived exporters, especially small and medium-sized enterprises, of funds needed to expand exports. Also, the currency depreciations have reduced the ability of firms to source capital from international markets, owing to the prohibitive cost of repayment. Finally, in some cases, the dollar value of exports may be sluggish because of downward pressure on export prices stemming from the global overcapacity in the electronics and electrical appliance industries. For example, officials of the Ministry of Commerce, Industry and Energy of the Republic of Korea indicate that the poor performance of their country's exports in recent months is due in part to the substantial fall in the prices of leading exports in the first quarter of 1998. The prices of semiconductors fell by 48.6 per cent, those of electronic products by 38.5 per cent and those of petrochemicals by 19.5 per cent.[18]

E. Impact on markets for primary commodities

The rapid expansion of the economies in East Asia has led to a significant increase in their demand for primary commodities. In general, their import potential for such goods had been judged to be high, since initially their consumption of a wide range of commodities, including food, agricultural raw materials, minerals and metals, was relatively low by world standards. The energy- and material-intensive pattern of their economic development contributed to increasing their consumption of agricultural raw materials, minerals and metals during the years of rapid economic expansion. The share of the Asia-5 in world consumption of both agricultural and mineral raw materials more than doubled from 1984 to 1994 for a large number of commodities (table 20). In all of these products except cotton, the Republic of Korea has the largest share among the five countries, with Indonesia having the largest share for cotton.

Table 20

SHARE OF ASIA-5[a] IN WORLD CONSUMPTION OF SELECTED PRIMARY COMMODITIES, 1984 AND 1994

(Percentages)

Product	*1984*	*1994*
Cotton	4.7	7.3
Wool	1.6	4.2
Natural rubber	9.1	15.2
Aluminium (primary)	1.5	5.4
Refined copper	2.7	7.4
Lead metal	2.1	8.1
Nickel (unwrought)	0.4	4.5
Tin (primary)	3.4	11.3
Zinc metal	3.9	7.8

Source: UNCTAD database.
a Indonesia, Republic of Korea, Malaysia, Philippines and Thailand.

Domestic supply capabilities could not keep up with this growth in demand either for food and other agricultural products, or for minerals and metals, in spite of intensified exploration and development in countries with geological potential. Consequently, the increase in demand had to be met largely from imports. For example, all the East Asian countries import most of the cotton and wool they use. The Republic of Korea, which has a smaller endowment than the other countries in natural resources, imports almost all the cotton, natural rubber, aluminium and tin that it uses.

In the mid-1990s, South and East Asia, including China, absorbed about 7 per cent of Latin America's food exports, almost 14 per cent of its exports of agricultural raw materials, and 12 per cent of its exports of ores and metals. The growth of Latin America's exports of primary commodities to Asia was relatively rapid: exports of both food and agricultural raw materials grew at an annual average rate of over 10 per cent during 1980-1994, while the corresponding rate for exports of ores and metals was well over 13 per cent (the corresponding rates of growth of Latin America's exports to the world were 2.5 per cent, 4.0 per cent and 3.1 per cent, respectively). Asia was also a relatively large market for Africa, accounting for about 20 per cent of exports of agricultural raw materials and ores and metals from that region. The growth of these exports (13.8 per cent annually for agricultural materials and over 16 per cent for ores and metals during 1980-1994), far exceeded that of Africa's total exports of these commodities (2.1 per cent and -3.1 per cent, respectively).

The rapid increase in their imports has made the East and South-East Asian economies, particularly the Republic of Korea, important export destinations for many commodities. Their share in world imports is in many cases large enough

Table 21

SHARE OF ASIA-5[a] IN WORLD IMPORTS OF MINERALS, ORES, AND AGRICULTURAL COMMODITIES

(Percentages)

Minerals and ores	*1996*
Lead ore	10.9
Lead metal	19.1
Copper ore	12.5
Copper, refined	14.8
Aluminium	10.1
Zinc ore	8.9
Zinc metal	16.6
Iron ore	9.1
Tin, unwrought	9.2
Manganese ore	6.1
Ferromanganese	4.2
Nickel, unwrought	4.4
Crude petroleum	8.0
Agricultural commodities	*1995*
Meat, bovine	4.6
Fish	3.9
Wheat and flour	9.7
Maize	15.1
Sugar	8.6
Tobacco	6.5
Hides and skins	18.6
Natural rubber	9.7
Non-coniferous wood	10.8[b]
Wool	8.4
Jute and products	2.4[b]
Cotton	22.5

Source: UNCTAD database.
a Indonesia, Republic of Korea, Malaysia, Philippines and Thailand.
b 1994.

for changes in their demand to have a significant impact on world markets (table 21). Four of the five most seriously affected countries are also important suppliers of several commodities to the world market (table 22).

Table 22

SHARE OF ASIA-5 IN WORLD EXPORTS OF SELECTED PRIMARY COMMODITIES, 1995

(Percentages)

Commodity	*Country[a]*	*Share*
Rice	Thailand	26.5
Sugar	Thailand	10.8
Coffee	Indonesia	5.3
Cocoa beans	Indonesia	10.6
Palm oil	Indonesia	16.5
	Malaysia	67.3
Fishery commodities	Thailand	8.6
Natural rubber	Indonesia	28.6
	Malaysia	21.9
	Thailand	35.2
Non-coniferous wood	Indonesia	19.9[b]
	Malaysia	23.2[b]
Hard fibres[c]	Philippines	22.7[b]
Jute and jute products	Thailand	6.0[b]
Copper ore	Indonesia	17.2
Nickel intermediate products	Indonesia	19.6

Source: UNCTAD database.
a Countries with shares greater than 5 per cent.
b 1994.
c Including hard fibres, manufactured.

1. *Overall impact*

Since the East and South-East Asian economies are important both as exporters and importers of commodities, the Asian crisis can affect international commodity markets on both the demand and the supply side.

(a) Supply effects

In general, primary commodities produced in the region have a larger share of domestic value-added than manufactures, which are much more dependent on imported inputs. Therefore, after a devaluation, their relative competitiveness on world markets would increase more than that of manufactures. In spite of this advantage, and the relatively high proportion of world exports supplied by the crisis countries, a significant impact on world markets through increased production by these countries has not yet been felt, and is not very likely. The impact has been principally through reduced domestic consumption because of a decline in real incomes or reduced demand for inputs owing to problems in the export-oriented manufacturing sector. For products imported by these countries, this has diverted important quantities to other markets. For products supplied by these countries themselves, larger exportable surpluses have resulted. So far, it appears that increased commodity production is not widespread; market reports focus almost exclusively on the increase in available supplies due to reductions in regional consumption.

Because of inevitable lags in supply response for most commodities, production cannot be increased markedly in the short run to benefit from increased profit opportunities presented by devaluation. Although some increase may be possible through more intensive production practices in the current production period, such as better care and cultivation in agriculture, an increase in capacity utilization in mining and commodity processing, or an intensification of logging activities in forestry, decisions to increase output significantly would require new plantings and/or new investments, and thus be reflected in supplies only with a certain time lag. Apart from annual crops (rice being the only major one for which the region is a significant exporter), this lag would be several years for both agricultural and mineral commodities even if decisions to invest were made now. However, given the generally low level of commodity prices, and the past success of the region in manufacturing, it is doubtful whether the commodity sector would be accorded higher priority than before in the allocation of scarce investible resources or disrupt commodity markets by considerably increasing production as a result of the crisis.

(b) Demand effects

The decline in commodity imports by the Asia-5 since the advent of the crisis has been substantial. In analysing this decline, a distinction needs to be made between a reduction in imports for domestic consumption and one that is related to inputs for export-oriented activities. The most affected countries have indeed reduced their domestic consumption and, where possible, substituted domestic products for imports. All imports of food and feedstuffs, as well as construction materials are essentially for domestic consumption. With regard to food, the United States Department of Agriculture expects that the Asia-5 will particularly reduce their imports of high-value products such as horticultural products, red meats and poultry, and processed products, which are more price- and income-sensitive than bulk products.

Metals and agricultural raw materials, on the other hand, are mostly imported for use in export-oriented manufacturing. Imports of these products will mainly be determined by the performance of the export sector. Thus, while the import demand for domestically consumed products may be expected to stay low for a relatively long period owing to changes in consumption patterns and domestic import-substituting supply responses, imports of industrial inputs should rebound when exports of manufactured products pick up. In fact, imports of these products may recover (barring finance problems) even earlier than exports, because in the face of import difficulties firms have been running down their stocks of raw materials to keep production going. Moreover, in order to alleviate the import constraint for its manufacturing sector, the Government of the Republic of Korea has released 10,000 tons of copper, 2,200 tons of lead, 700 tons of tin and 700 tons of nickel from its stockpiles, and reduced by 10 per cent the mandatory amount of crude oil that refineries must store, so as to allow the partial use of these strategic reserves during the crisis.[19] When the breathing space permitted by such measures is exhausted, imports will have to increase even with the same level of production and exports.

(c) Financing imports of commodities

A solution to the problem of import financing will be crucial in spurring import growth. The importance of the problem is exemplified by a comparison between the textile sectors of Indonesia and the Republic of Korea. While in the former, financing problems have led to a 35 per cent drop in textile export earnings due to a shortage of raw materials,[20] in the Republic of Korea an important textile-exporting company – Samsung – for which financing problems are less acute is expecting a 30 per cent rise in export earnings.[21]

There have been reports of various assistance measures by industrialized countries to alleviate the import-financing problems of the Asia-5. It has been reported that apart from the general contributions to bailout packages, some financial support has been specifically earmarked for enabling these countries to obtain the necessary raw material imports. In most cases, these are designed to support imports of products originating from the countries providing the financial support. For example, the United States has provided $2.1 billion in export credit guarantees to the Republic of Korea and other Asian countries to enable them to buy farm goods in the United States. A total of $1 billion has been allocated to the Republic of Korea for importing grains and meat[22] and $460 million will be provided as guarantees for Indonesian letters of credit for imports of raw materials by export industries, such as cotton, and other commodities for domestic consumption such as corn, wheat, flour, meat, rice and soybeans. Australia is also providing letter-of-credit guarantees for its commodities such as cotton, meat, dairy products, sugar and aluminium, for which imports into Indonesia have been hampered by financial problems. Germany's contribution is DM 250 million in export credit guarantees to Indonesia for small and medium-sized enterprises facing difficulties in importing raw materials.[23] Such measures are likely to increase the shares in trade with the region of the countries providing financial support, at the expense of other suppliers of commodities, particularly developing ones.

(d) Possible trade liberalization in the Asia-5

One crisis-related factor that may affect agricultural trade is the conditionality regarding trade liberalization imposed by the IMF on the countries in the region. In this respect, it is reported that the Republic of Korea is eliminating restrictive import-licensing practices for various products, including corn grits, soyflakes and peanuts. It is also eliminating trade subsidies, reducing price support for rice and beef, and reducing the number of agricultural products subject to tariff rate quotas.

It is also reported that Indonesia is eliminating import and distribution monopolies covering wheat and wheat flour, soybeans, sugar and garlic. In addition, it is phasing out all quantitative restrictions and other non-tariff barriers except those justified under the WTO regime, reducing tariffs on most imported food products from 20-40 per cent to 5 per cent, and abolishing some domestic content regulations which discourage imports of agricultural products. Reports also mention that Thailand is eliminating tariffs on a number of agricultural products, adapting harmonized import licensing procedures, and establishing more transparent customs valuation procedures.

(e) Are considerably increased commodity exports by the Asia-5 likely?

Considering the part to be played by the commodity sector in the recovery of the region, there are reasons to believe that the countries in the region will not seek to put as much emphasis on expanding their commodity exports as was observed during the debt crisis of the 1980s, when commodity exports from debt-troubled countries increased significantly. In countries without a manufacturing base comparable to that in the East and South-East Asian countries, commodity exports are typically much easier to increase than exports of manufactures. However, when manufacturing capacity is large and idle, the need to increase commodity exports becomes less urgent. Therefore, crisis-induced supply pressure on the commodity markets is unlikely to grow significantly. There are reports from Malaysia that, as a result of the crisis, the Government intends to "exploit the commodity sector more and more",[24] but the aim is to diversify and increase self-sufficiency in order to reduce vulnerability on both the export and the import side, rather than to increase exports of traditional commodities. Moreover, given the recent information on raw material imports, which does not indicate increased purchases, there is reason to believe that Asia's export recovery in 1998, if it takes place at all, is likely to be weak.[25]

2. Recent changes in commodity prices and the impact on developing countries

An overview of changes in monthly prices since the beginning of the crisis is provided in table 23 for products of main export interest to developing countries. From mid-1997 to April 1998, the price of oil fell by 25 per cent, while commodity prices (excluding the price of oil) experienced an overall decline of over 10 per cent, with larger falls in agricultural raw materials and metals than in food and beverages. Price decreases, some of them very pronounced, were observed for many commodities, which altogether accounted for about one-third of the non-oil primary exports of the developing countries. Of course, factors other than the crisis also contributed to these declines.[26] However, there is no doubt that the prices of agricultural raw materials, timber, metals (particularly copper and nickel) and, to a somewhat lesser extent, energy products were adversely affected by the depressed demand resulting from the crisis.[27] The fall in prices was quite widespread and affected both agricultural commodities and metals. However, while the prices of agricultural commodities appeared to have more or less stabilized, albeit at lower levels than those prevailing in mid-1997, most metal prices and the price of petroleum continued to decline as of April 1998.

The greatest short-run impact on world market prices has been felt with regard to commodities for which the region is an important consumer and supplier (table 23). Thus, forestry products such as timber and plywood, as well as rubber, have experienced the sharpest price declines. Some increase in output may have contributed to this situation, although as mentioned above, market reports focus on reduced demand. A significant impact of the crisis should not be expected on the world markets in the short run for products such as coffee and cocoa, which are produced in some Asia-5 countries principally for export, and of which these countries are not major consumers. Most of the output is exported in any case, and no large increase can be achieved rapidly. Therefore, there would be no reason for exporters to accept prices that are below the current world prices; instead, producers and exporters in these countries will make windfall gains in domestic currencies.

An interesting case is that of palm oil. Almost 90 per cent of world exports originate in the Asia-5, which are also important consumers of the product. Thus, it is a prime candidate for a commodity whose international market could be flooded as a result of both expanded production and reduced domestic consumption. However, after Indonesia completely banned exports of palm oil and palm oil products, prices increased instead of falling (see annex).

For other primary commodities, significant price declines have occured since June 1997. Estimates for 1998 export earnings shortfalls resulting from these decreases and their importance in terms of GDP for selected countries for which the respective commodities constitute a significant part of export earnings can be seen from table 24. Assuming that the volumes exported of these products remained the same as the year before, which in itself is probably an excessively optimistic assumption, up to a quarter of export earnings (for Zambia) and slightly more than 12 per cent of GDP (for the Solomon Islands) would be lost as a result of price falls. Other countries whose economies will certainly be seriously affected by commodity price falls include Cambodia and Swaziland (timber), and Cuba and Guatemala (sugar).

Petroleum prices have declined sharply since the beginning of the Asian crisis, and the impact

Table 23

CHANGES IN MONTHLY PRICE INDICES OF SELECTED PRIMARY COMMODITIES, JUNE 1997 - APRIL 1998

Commodity	*Percentage change*
Tropical beverages	-19.3
Food	-6.7
Sugar	-17.7
Wheat	-10.1
Maize	-9.3
Natural rubber	-32.9
Tropical sawnwood	-32.7
Plywood	-27.7
Wool	-31.8
Cotton	-14.6
Jute	-21.2
Hides and skins	-8.1
Minerals, ores, metals	-17.3
Copper	-31.1
Nickel	-23.6
Zinc	-19.0
Lead	-7.0
Aluminium	-9.5
Crude petroleum	-24.6

Source: UNCTAD, *Monthly Commodity Price Bulletin*, May 1998.

Table 24

ESTIMATED SHORTFALLS[a] IN 1998 EXPORT EARNINGS OF SELECTED DEVELOPING COUNTRIES, DUE TO PRICE DECLINES, BY COUNTRY AND COMMODITY

Country and commodity	*Shortfall as percentage of* Export earnings	GDP	*Country and commodity*	*Shortfall as percentage of* Export earnings	GDP
Non-oil commodities			**Petroleum**		
Chile: copper	9.9	2.6	Algeria	12.4	3.4
Equatorial Guinea: wood	2.5	1.4	Angola	24.8	18.3
Gabon: wood	4.6	2.8	Bahrain	16.2	16.2
Ghana: aluminium	1.4	0.4	Cameroon	8.1	2.1
Indonesia: plywood	3.3	0.8	Colombia	3.5	0.5
Jamaica: alumina	4.0	2.8	Ecuador	8.4	2.4
Kazakhstan: copper	5.1	1.8	Egypt	5.9	1.2
Lao People’s Dem. Rep.: wood	2.3	0.3	Gabon	21.1	12.9
Mongolia: copper	10.2	5.7	Indonesia	3.2	0.8
Myanmar: wood	12.0	-	Islamic Rep. of Iran	21.9	6.6
Papua New Guinea: copper	6.1	3.7	Kuwait	25.4	13.6
Papua New Guinea: wood	6.6	4.4	Mexico	2.7	6.8
Paraguay: cotton	3.8	1.3	Nigeria	24.3	3.9
Peru: copper	6.7	0.7	Oman	20.8	10.2
Solomon Islands: wood	22.4	12.1	Syrian Arab Republic	16.5	3.8
Sudan: cotton	4.8	0.2	Trinidad and Tobago	12.2	4.8
Togo: cotton	2.3	0.7	United Arab Emirates	18.9	14.0
United Rep. of Tanzania: cotton	2.7	0.8	Venezuela	20.3	5.5
Zambia: copper	25.5	8.5			

Source: UNCTAD database.
a Assuming 1997 export volumes.

on the export earnings and GDP of petroleum-exporting countries is particularly strong. For example, Angola’s export earnings could fall by one quarter, and its GDP by almost one fifth, on this account.

To recapitulate, the decline in actual consumption of commodities by the Asia-5, either directly for food products, or indirectly for industrial inputs and construction materials, is the main channel through which the impact of the Asian crisis has been felt, and will continue to be felt, in commodity markets. Increased production by these countries of a limited number of commodities also has a direct impact on commodity markets. To the extent that the crisis affects other countries’ income and consumption levels, a secondary impact will be generated as well. This, however, may not be significant, given that the estimates of contagion effects on the industrial countries comprising the main commodity markets are rather low, and the link between the prices of most commodities, except industrial raw materials, and GDP growth in industrialized countries is not very strong. Nevertheless, commodity prices have fallen, in many cases substantially, since June 1997, with important effects on commodity-exporting developing countries.

F. Conclusions

The preceding analysis of the impact of the Asian crisis on the trade of developing countries can be only preliminary at this stage for two reasons. First, the crisis is continuing and the real effects may take some time to show up fully. Second, many relevant statistics (e.g. on imports and exports, by partner country and by commodity group) are available only with a lag of several months or up to a year, and are not necessarily comparable. However, the information currently available allows certain conclusions to be drawn.

The initial effects of the Asian crisis on developing countries' trade are mainly in the form of reduced demand for their exports to East and South-East Asia and a decline in world commodity prices due to the recession in that region. The extent to which an individual country has been affected depends on the share of East and South-East Asia in its exports.[28] It also depends on whether the respective country is a net exporter of commodities that have suffered a substantial price decline, such as non-ferrous metals, timber, rubber and petroleum. So far, it is not clear whether the large nominal depreciations of the region's currencies have significantly altered their international competitiveness outside the region. Nor do the data available so far reveal a significant export boost. It is also unclear to what extent the devaluations may be producing competitive pressures on other developing country exporters in third markets.

The scope for an export-led recovery of the East and South-East Asian economies affected by the crisis is limited by the relatively high import content of their exports (such as electronics), which serves to offset to a significant degree the competitive edge provided by the nominal currency depreciations. Moreover, export expansion depends on the availability of financing for the procurement of raw materials and parts as well as for export marketing.

Finally, as many countries in East and South-East Asia are all faced with a contraction of domestic demand at the same time, the region as a whole may require an expansion of net exports in order to resume the pre-crisis rate of growth. This could cause serious strains on the international trading system. There is already increasing pressure for protective action, and in some cases recourse to anti-dumping actions is likely. Such measures are discriminatory. An alternative would be the use of actions under the WTO Agreement on Safeguards, which would normally have to be applied on a most-favoured-nation basis. However, frequent resort to its "quota modulation" provision could undermine the Agreement, which was one of the most positive outcomes of the Uruguay Round. More generally, there is a risk that the concept of balance and mutual advantage upon which the WTO system is based could be weakened if policy conditionality for assistance in coping with the crisis takes the form of demands for unilateral trade concessions.

Open markets and the continued growth in world trade will be important factors in overcoming the crisis. In this context, it is important that the momentum towards increased trade liberalization in respect of products of interest to developing countries be maintained, and be given priority in the work leading up to the third WTO Ministerial Conference. Resort to discriminatory trade remedies such as anti-dumping duties should be subject to increased surveillance. In addition, consideration should be given to allowing the affected countries to benefit from the possible extension of the provisions for differential and more favourable treatment included in the WTO Agreements, notably the Agreement on Subsidies and Countervailing Measures. ■

Notes

1 For a detailed discussion of the flying geese paradigm and the related trade-*cum*-investment pattern, see, for example, *TDR 1996*, Part Two, chap. II.

2 Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam.

3 For details, see World Tourism Organization, *Yearbook of Tourism Statistics,* 49th ed., Vol.1 (Madrid, 1997).

4 See Japan Tariff Association, *Summary Report on Trade of Japan*, No. 2, 1998; and Bank of Japan, *Monthly Report of Recent Economic and Financial Developments*, June 1998.

5 For further discussion, see "Asia commercial overview – 17 April 1998", United States Department of Commerce, STAT-USA/Internet Service; and "Taiwan: Deteriorating exports", *Oxford Analytica Brief*, 27 May 1998.

6 See "Exports record negative growth in May", *Korea Times Report Page*, 06/01 (http://www.korealink.co.kr).

7 A large body of theoretical literature as well as empirical studies suggest that, contrary to the predictions of textbook analysis, devaluations are in the short to medium term contractionary rather than expansionary. For example, see S. B. Kamin and M. Klau, "Some multi-country evidence on the effects of real exchange rates on output", Working Paper No. 48 (Basle: Bank for International Settlements, 1997).

8 Concerns have also been expressed by some developing countries and some action has been taken. See, for example, ECLAC, "Impact of the Asian crisis on Latin America", LC/G.2026(SES.27/23), Santiago, Chile, 6 May 1998.

9 For further discussion, see SELA, "The impact of the Asian crisis on Latin America" (Caracas, February 1998); and JP Morgan, "Latin American Economic Outlook", New York, 6 March 1998.

10 For further discussion and projections of the effects of the Asian crisis on Eastern Europe, see ECE, *Economic Survey of Europe 1998 (No. 1)* (United Nations publication, Sales No. E.98.II.E.1).

11 These real effective exchange rates are calculated by the IMF with partner weights reflecting (i) the relative importance of bilateral partners in a country's trade in manufactures, primary commodities and tourism services (where significant), and (ii) the importance of competition between countries in third-country markets for trade in manufactures. See A. Zanello and D. Deruelle, "A primer on the IMF's Information Notice System", IMF Working Paper 97/71 (Washington, D.C.: IMF, 1997); and A. Turner and S. Golub, "Multilateral unit-labour-cost-based competitiveness indicators for advanced, developing and transition countries", in *Staff Studies for the World Economic Outlook* (Washington, D.C.: IMF, 1997), pp. 47-60.

12 In the IMF computation consumer price indices are taken as the deflators. It is important to note that the consumer price index is not the best indicator as regards cost developments for traded goods, especially where exports have a high import content. Apart from Indonesia, the increase in the consumer price index has so far been fairly limited in the Asian countries experiencing large currency depreciations. This may be due to significant lags between exchange rate changes and changes in the consumer price index, the effects of price controls or subsidies in some cases, and the strong reduction in domestic demand. Hence, the competitiveness effects of the recent exchange rate may be overstated. On the other hand, potential third-market effects could be understated. It should also be noted that in calculating trade-weighted real effective exchange rates the IMF uses weights based on data for 1988-1990, which do not capture more recent changes in trading patterns, particularly the substantial growth in Asian intraregional trade since the late 1980s. The larger the share of that trade, the smaller would be the depreciations on a real effective basis as compared with those in dollar terms.

13 See R. E. Saez, "Latin American exports to the OECD markets potentially more exposed to the Asian Crisis: A first look" (Washington, D.C.: Inter-American Development Bank, 1998), mimeo.

14 One notable exception is a study of the import content of India's exports which made use of detailed information at the firm and sectoral levels. The study found an overall import intensity of 42 per cent for manufactured exports (i.e. leather and leather products, ready-made garments, chemicals and drugs, and engineering products), and a rise in the import intensity over the period in question (the 1980s) with the growth in and diversification of India's manufacturing exports. See Export-Import Bank of India, "How import intensive are Indian exports?", Occasional Paper No. 16, (New Delhi, 1991).

15 See "Southeast Asia export challenge", *Oxford Analytica Brief*, 31 March 1998.

16 See "Asia commercial overview – 17 April 1998", United States Department of Commerce, STAT-USA/Internet Service.

17 For further discussion see T. Komine, "Currency crisis and financial turmoil in Asia: The potential for future growth", Economic Research Institute, Economic Planning Agency of Japan, March 1998; and JP Morgan, "ASEAN export prospects in 1998", Economic Research Note, Singapore, 30 January 1998.

18 See "Exports record negative growth in May", *Korea Times Report Page*, 06/01 (http://www.korealink.co.kr).

19 "Asian crisis hammers industrial price index; cotton, copper scrap, rubber take a beating worldwide", *Journal of Commerce* (Seoul), 15 January 1998.

20 "Textile export earnings seen to drop about 35%", *Jakarta Post*, 5 March 1998.

21 "Exports play a leading role", *Business Korea*, March 1998.

22 "USDA undersecretary touts IMF backing", *Fresno Bee*, 19 March 1998.

23 "Trading partners agree to give credit guarantees", *Jakarta Post*, 20 February 1998.

24 "Need to fully tap potential of commodities sector", *Business Times*, 29 January 1998.

25 "East Asia's export surge fails to materialize, raising doubts about a recovery", *International Herald Tribune*, 13 April 1998.

26 Except in the case of commodities that have suffered unfavourable weather conditions, the fall in commodity prices is probably due to a combination of factors: the effect of the world business cycle (largely reflecting the industrial slow-down and crisis in Asia), the appreciation of the dollar (which tends to reduce commodity prices expressed in dollars) and supply considerations (particularly new supply facilities for non-ferrous metals coming into production).

27 See IMF, *World Economic Outlook*, May 1998, annex II.

28 Countries where this share is particularly high are Chile, Peru and Ecuador in Latin America; Zambia, the United Republic of Tanzania, Congo and South Africa in Africa; Saudi Arabia in West Asia; and the countries in the region themselves.

Annex to chapter II

IMPACT OF THE ASIAN CRISIS ON SPECIFIC COMMODITIES

Data are not yet available for a meaningful statistical analysis of the impact of the Asian crisis on the markets for specific commodities. However, a picture emerges from recent press reports. Although these originate mostly in developed countries, they give an overview of events that can be generalized, at least in terms of tendencies, to world commodity markets. Estimates of the direct effects of the crisis on trade in specific products, as obtained from such reports, are briefly summarized below.

Beef: United States exports in 1998 are expected to decline by around 5 per cent over 1997. The decline in imports by the Asian countries has led to beef being redirected to alternative markets. It is reported that financial problems have caused even imported beef to be delayed for long periods in refrigerated containers on the docks of the Republic of Korea, and that Canada, Australia and New Zealand, which are the main competitors of the United States in Asian markets, are now sending more beef to the Unites States.[1]

Pork: Regional suppliers such as the Republic of Korea are becoming more competitive, while sales by other exporters such as the United States are expected to fall in 1998 by around 5 per cent compared with 1997. It is noteworthy that this decline is expected in spite of the availability of export credit guarantees.[2]

Fish: Regional suppliers such as Thailand are becoming more competitive, while sales by other exporters such as the United States are expected to fall. Another impact on fish trade is that fishing companies in the Republic of Korea which used to buy fishing licences in many parts of the world can no longer afford them; this will lead to a decline in earnings by the countries issuing the licences. Such losses would not be visible in trade figures.

Vegetable oilseeds and oils: The most affected countries, particularly Indonesia and Malaysia, are very important suppliers of **palm oil**. Their exports could increase, putting significant downward pressure on prices. However, the Indonesian Government banned exports, fearing that cash-starved manufacturers, whose costs are mostly in rupiah and revenues in dollars, would export most of their stock and cause domestic shortages and price rises.[3] This contributed to a significant price rise on the international markets. In March 1998, prices were 19 per cent higher than in December 1997, with similar repercussions on prices of other vegetable oils. Malaysia's export earnings from palm oil are expected to increase significantly. As far as **soybeans** are concerned, the most affected countries have reduced imports, which can be attributed to a reduced demand for meat and thus for feedstuffs. Thus, soybean prices in March 1998 were 7 per cent lower than in December of last year. Trade will also be affected by the situation regarding other oilseeds. For example, the expectation that the ban on palm oil exports by Indonesia would be lifted reduced futures prices for soybeans even further.

Natural rubber: While global consumption growth slowed significantly in the first quarter of 1998, Indonesia, Malaysia and Thailand, which supply more than 80 per cent of world trade, are competing to increase their exports. Thus, although most of the costs in the rubber sector are in local currencies and the receipts are in dollars, international prices are under considerable pressure. A significant increase in the export earnings of these countries is not to be expected; Indonesia expects even a decline in export earnings.[4]

Wood: Timber and plywood trade has been severely hit by the Asian crisis. "Reflecting in part the segmentation of this market, the price decline has been uneven across types of timber and across geographic markets. The price decline for Asian-grown (meranti) hardwood has been greatest."[5] The main reason is that most of these products are used in the construction industry, whose output is a non-tradable good and which experienced a radical slowdown. In addition, as a result of increased supplies from the crisis region, a glut has appeared in the timber and plywood markets, affecting all exporters. For example, it is reported that over half of the logging companies in Papua New Guinea and about one-third of plywood producers in Indonesia have ceased operations, and that 1.2 million cubic metres of unsold Indonesian plywood have accumulated in warehouses over the last few months.[6] The impact of the Asian crisis on the plywood market is felt even in countries as far away from the region as Guyana, whose export earnings from plywood in the first three months of 1998 were down by 60 per cent compared with the same period in 1997, and whose earnings for the whole year are expected to fall by nearly a half.

Aluminium: The market situation has been strongly affected by the decline in demand by the Asian countries. The decrease in demand by the most affected countries has been somewhat counterbalanced by an increase in Western Europe, where demand in 1998 is expected to rise by 5.6 per cent, leading to an overall increase of 1.1 per cent in consumption. However, this represents a significant fall from the earlier expectations of 3.5 per cent growth, which can be attributed to the Asian crisis.[7] Although in 1998 the market will swing from a supply deficit to a surplus and in January 1998 stockpiles of aluminium rose to an 18-month high, market conditions are expected to remain relatively tight.[8]

Copper: The utilization of this commodity is also strongly affected by construction activity. The Asian crisis has created considerable disturbances in the copper market. Assuming zero growth in Asia, the world's copper surplus is expected to rise from 348,000 tons to 603,000 tons in 1998, in spite of a 3 per cent rise in demand in the rest of the world.[9] A significant impact of the Asian crisis has been a cut in investments in the copper sector. Canadian investors are pulling back from the development of copper deposits in Peru, compromising a project which had been expected to earn over $8 billion in foreign exchange over the next few years. More optimistic observers, however, claim that the United States, Central Europe and Mexico had taken over as the engine of growth from the Asian countries even before the beginning of the crisis, and their demand remains strong. Among copper-exporting countries, the experience of Chile merits mention because the price stabilization fund which had been established by the Government has accumulated close to $2 billion. This fund can compensate for several years for lower prices and eliminate most of the negative impact resulting therefrom.[10]

Lead and zinc: As with several of the other metals and minerals, the decline in Asian demand for lead and zinc is being offset to some extent by strong demand in Europe and America. Although the surplus on world markets will increase, lead and zinc mine closures in Canada[11] suggest that this increase will be more muted than initially expected. ■

Notes

1 "Asian fiscal woes reach Alaska", *Anchorage Daily News*, 17 March 1998; and "Estimate of U.S. meat increases 2 percent", *Des Moines Register*, 13 March 1998.

2 "New woes for meat farmers", *News & Observer*, 8 March 1998; and "Asian troubles mean struggle for hog farmers", *Des Moines Register*, 15 March 1998.

3 "The year of living ludicrously", *Economist*, 31 January 1998.

4 "Indonesia losing rubber race", *Financial Times*, 27 February 1998.

5 IMF, *World Economic Outlook*, May 1998, annex II.

6 "Trouble in paradise", *Asian Business*, April 1998; "Plywood industries suffer under Asian woes", *Ja-*

karta Post, 23 February 1998; and “Unsold plywood stock totals 1.2 million cubic meters”, *Jakarta Post*, 4 March 1998.

7 “Aluminium analysts hold differing views on prices”, *Purchasing*, 12 February 1998; and “Aluminium groups differ over production levels”, *Financial Times*, 17 April 1998.

8 “Metals analysts expect drop in most prices”, *Financial Times*, 20 January 1998; “Dollar’s fall knocks Comalco to $2.7m loss”, *Dominion,* 12 March 1998; and “Asian turmoil hits base metals”, *African Business*, January 1998.

9 “Copper’s downward slide beginning - finally!”, *Purchasing,* 12 February 1998.

10 “Peru hangover on horizon”, *Financial Times*, 12 March 1998; “Short copper bear market seen”, *Financial Times*, 13 February 1998; and “Hit by Asia crisis, Chile loses its lure for investors”, *Wall Street Journal*, 21 January 1998.

11 “Lead-zinc mine in Yukon closes”, *Financial Times*, 20 January 1998.