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Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140017-9

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CIA/OER EIW 73-6-7

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Economic Intelligence Weekly

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CIA No. 7572/73
7 June 1973

Copy No. 127

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ECONOMIC INTELLIGENCE WEEKLY

Notes

Prospects for Sino-US Trade in 1973

The United States could supplant Hong Kong as China's number two trading partner and move close behind Japan as China's leading supplier. China is expected to import $600 million worth of US products, compared with Chinese exports to this country of $60 million. US agricultural products will account for the bulk of exports; other US exports will include Boeing 707 aircraft, synthetic fibers, scrap metals, fertilizer, and equipment for a satellite earth station. [redacted] 25X1

Japan's Purchases of US Goods Rise

US exports to Japan during the first four months of 1973 reached $2.5 billion, about $1 billion above the comparable 1972 period. Increased volume and higher prices for raw materials such as wheat, feedgrains, soybeans, logs and lumber, and scrap steel accounted for almost all of the gain. Japanese purchases of machinery and industrial equipment also accelerated, but the increase was offset by reduced aircraft deliveries. (UNCLASSIFIED)

Canada's Wheat Available for Export Will Fall

Ottawa's exportable supplies of wheat for 1973/74 may be down by as much as 3 million tons, putting additional pressure on US supplies to meet increasing international demands. Although spring rains have brightened the prospects for Canada's wheat crop -- it may be up nearly 20% from last year -- carryover stocks by the end of July will be at the lowest level in 20 years as a result of the record 16 million tons to be exported in 1972/73. Canadian officials will be reluctant in the coming year to maintain exports at this level and reduce stocks further. [redacted] 25X1

Philippines Will Need US Grain

Manila probably will seek large grain imports from the United States to offset crop shortfalls. The government estimates that 500,000 tons of rice will have to be imported during the next six months. Rice supplies in the traditional exporting countries, especially Thailand and Burma, are already tight, and the United States will have no rice available for export

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until September because heavy rains delayed planting. In the meantime, Manila is likely to rely on the United States for deliveries of substitute grains. [redacted] 25X1

Central America Looks to the United States for Food

Drought in Central America -- the worst in more than 40 years -- will force the region's five countries to look abroad, principally to the United States, for imports of corn, beans, and sorghum this year. El Salvador and Honduras, for example, have reported crop losses as high as 40%-50%. The region's import requirements may reach some 200,000 tons for corn and about half that much for sorghum and beans together. El Salvador, which is unwilling to pay current market prices, is seeking US PL-480 grains. Because of continued drought, Central American import needs probably will be large again next year. [redacted] 25X1

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Articles

Recent Monetary Developments

The dollar rallied on Tuesday and Wednesday, after falling to record lows on major European exchanges early in the week. Despite the recovery, it has depreciated by 4.6% against the mark since 28 May. The pound sterling also rose sharply against the dollar, and gold peaked at $127 per ounce in London on Tuesday. By midweek, the speculative run on the dollar had eased as profit-taking bolstered dollar demand.

Continuing political uncertainties in the United States have resulted in the sharpest jump in major European exchange rates since the February-March crisis. The mark has made the strongest gain, advancing 7.0%; it is now at the top of the European joint float band. The Japanese yen, however, has appreciated by only 0.3% because of a narrowing trade surplus and heavy demand for dollars arising from long-term investment abroad. This small increase suggests that the informal agreement made in March to keep the yen at a higher level of appreciation than the mark has been allowed to lapse.

Despite the substantial appreciation of the European currencies, there has been little official reaction or central bank intervention. For the present, Europeans generally are not too concerned about the impact of their currencies' appreciation on their trade position, since domestic demand is very strong. Nevertheless, at some point they probably will begin to resist further dollar depreciation. So far, only Ottawa and London have entered the market to slow the appreciation of their currencies. 25X1

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US Petroleum Imports from Canada

The US gasoline shortage has sharply increased imports from Canada this year. These deliveries – which go mainly to the Great Lakes area – climbed to 17,000 barrels per day in April, compared with an insignificant 85 b/d the previous April.

Although April deliveries equaled only 3% of Canada's consumption, independent distributors are complaining that the United States is being helped at their expense. Moreover, Canadian consumers are complaining about rising prices, which they attribute partly to the US shortage. Actually, Canadian gasoline prices have been pushed steadily higher by rising prices for imported and domestic crude oil.

If gasoline prices continue to climb and shortages develop, Ottawa will be under heavy pressure to slap on export controls. The government did not hesitate to apply controls to crude oil exports last February, when rapidly rising shipments to the United States caused fears of a shortage. Ottawa is holding crude exports at the January-February level of 1.2 million b/d even though US refineries are now requesting 1.4 billion b/d.

Despite the controls, Canadian crude oil sales in the US market – amounting to $1 billion last year – will set a new record. Even if Ottawa holds exports to about the present level, the volume will be about 27% above 1972 and revenues will amount to at least $1.4 billion.

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Tokyo's Involvement in South American Oil Development

Japan is showing increasing interest in the low-sulfur oil resources of the Andean region. A Japanese-led consortium recently signed two exploration agreements with Lima, patterned on Occidental's contract that launched Peru's oil boom in mid-1971. The agreements cover two 2.4 million-acre tracts, to be developed jointly with a Cities Service subsidiary. The Japanese participants have also offered a $330 million loan, repayable in crude oil, to finance a trans-Andean pipeline to the Pacific. Three other Japanese companies will finance and install a $20 million cracking complex at Talara, and the Bank of Tokyo has offered a $40 million loan to finance the Peruvian state oil company's drilling program.

The Japanese are also eyeing Ecuador's low-sulfur crude but holding off commitments until Quito clarifies its oil policies. Tokyo will carefully study terms received by Texaco-Gulf and other predominantly US-owned oil consortia in upcoming contract revisions. Meanwhile, a Japanese firm has outbid 23 companies for 35,000 barrels per day of government-owned oil during the next two years. The Japanese are also bidding for a refinery construction contract and have offered a $9 million loan to help finance the state oil company's exploration program.

Although recent test drilling in Colombia has proved less successful than that in neighboring countries, a Japanese firm has joined a consortium headed by Cayman Corporation to explore a promising area near the Ecuadorean border. 25X1

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Egyptian Pipeline Project Clears a Hurdle

Egypt has secured sufficient guarantees from potential users to satisfy financial backers of the long-planned Suez-Mediterranean (SUMED) crude oil pipeline. Recent agreements with Texaco and Standard Oil of California raise the guarantees to 1.3 million barrels per day, a little more than required by the French-led group offering the financing last year. Since then the pipeline's estimated cost has jumped from $300 million to more than $400 million. American participation includes 40% of the throughput guarantees and a $15 million loan offer by Amoco and Mobil.

The 200-mile pipeline from the Gulf of Suez to Alexandria will consist of two parallel 42-inch lines with an initial capacity of 1.6 million b/d and an ultimate capacity of 2.4 million b/d. Construction time would take about three years. This line could transport about 8% of Western Europe's estimated oil imports in 1980.

Should financial arrangements come unstuck, Egypt now has the option of turning to oil-producing states in the Persian Gulf for money. [redacted] Preliminary estimates indicate that Egypt would net about $25 million a year during the eight years loans were being repaid and about $120 million annually thereafter. [redacted] 25X1

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South Africa to Build Uranium Enrichment Plant

South Africa's Minister of Mines, Dr. Piet Koornhof, recently announced plans to begin work on a commercial-size uranium enrichment plant. The plant, scheduled for completion in the early 1980s, would employ a still secret process that South Africa claims is unique. Pretoria's move is the latest in a series of developments prompted, in part, by new US contract terms that many consumers consider onerous, as well as by higher US prices for uranium enrichment services.

The proposed plant, which would cost about $800 million, would process 12,000 tons of natural uranium annually and produce 2,400 tons of enriched uranium per year for nuclear powerplant fuel. A plant of comparable size based on US technology would cost more than $1 billion. The South African spokesman claims the plant's output would be worth nearly $250 million and the profit $18.5 million annually. Analysis of South African data suggests an operating cost of about $33.90 per separative work unit and a selling price of about $36.60 -- the new basic US price is $38.50.

South Africa does not now produce enough uranium to operate the proposed plant at capacity, but production from deposits in South-West Africa will make an adequate supply available by the 1980s. Pretoria may also follow the lead of the United States and other potential suppliers in offering to perform toll enrichment services using customer-supplied uranium. South African entry into the enrichment market could help to ease an expected world shortage of enrichment capacity in the 1980s. 25X1

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Publications of Interest

The Economic Situation in South Vietnam, May 1973
(CIA ER IR 73-8, May 1973, [redacted] 25X1

The highlight of the month was President Thieu's announcement on economic projections for 1973-80 and plans for administrative reorganization and economic reform. The latter, if successfully implemented, should further centralize the government's policy control over the economy but allow for a greater latitude in the actual operation of the economy at the local level. The government began to divest itself of state-owned enterprises – a plan long under review. Efforts at reducing graft and corruption focused on a major commercial bank that was closed down because of the alleged illegal activities of its owner.

USSR Pushes Production of Numerical Control Machine Tools
(CIA ER RP 73-6, May 1973, [redacted] 25X1

The USSR in only four years has become the world's largest producer of numerical control machine tools but lags several years behind the United States in technology. To catch up with Western advances, the USSR has entered into cooperative NC production and marketing arrangements with firms in Western Europe and Japan and is negotiating with at least one major US firm for advanced types of NC tools. A major effort is under way in the current plan period to accelerate domestic output.

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COMPARATIVE INDICATORS

DOMESTIC ECONOMIC ACTIVITY

	Latest Data	Index	Percent Change at Annual Rate From Period: 12 Months Earlier	3 Months Earlier	1 Month Earlier
GNP (At Constant Market Prices)*	Quarter	1970=100		(Previous Quarter)	
United States	73 I	114.6	7.9	7.9	
Japan	73 I	126.7	14.9	15.2	
West Germany	72 IV	107.1	4.7	7.4	
France	72 IV	113.0	4.3	7.4	
United Kingdom	73 I	107.7	7.1	6.2	
Italy	72 IV	107.5	2.7	6.6	
Canada	73 I	117.4	5.9	11.6	
INDUSTRIAL PRODUCTION*		1970=100			
United States	Apr 73	116.7	9.8	12.6	13.6
Japan	Apr 73	126.0	18.1	11.2	1.0
West Germany	Feb 73	114.4	10.4	22.7	40.6
France	Mar 73	122.5	10.1	13.2	13.1
United Kingdom	Mar 73	109.7	8.2	12.3	16.2
Italy	Jan 73	101.0	0	-14.4	-37.3
Canada	Dec 72	115.8	8.3	17.2	5.3
RETAIL SALES*		1970=100			
United States	Apr 73	136.2	13.8	7.1	-15.9
Japan	Jan 73	131.3	18.4	35.9	57.8
West Germany	Jan 73	128.5	9.0	23.1	75.6
France	Feb 73	114.0	7.0	18.8	67.6
United Kingdom	Feb 73	112.3	9.7	12.3	25.4
Italy	Jan 73	122.0	11.9	3.3	-64.5
Canada	Dec 72	124.4	9.7	9.9	-6.5
WHOLESALE PRICES		1970=100			
United States	Apr 73	113.1	6.1	15.5	18.0
Japan	Apr 73	110.2	11.4	17.2	6.6
West Germany	Mar 73	112.8	5.6	11.4	6.6
France	Mar 73	116.4	11.0	16.2	16.8
United Kingdom	Apr 73	117.1	4.3	-2.1	-15.4
Italy	Dec 72	107.0	5.3	7.8	11.9
Canada	Mar 73	118.9	12.3	27.3	31.1
CONSUMER PRICES		1970=100			
United States	Apr 73	112.4	5.1	9.7	8.6
Japan	Apr 73	120.7	9.4	23.4	25.3
West Germany	Apr 73	117.2	6.7	5.6	0.7
France	Apr 73	117.2	6.7	6.0	8.6
United Kingdom	Apr 73	126.0	9.2	13.2	25.4
Italy	Apr 73	120.0	10.4	13.7	12.8
Canada	Apr 73	113.6	6.6	8.0	14.0
MONEY SUPPLY*		1970=100			
United States	May 73	123.9	6.7	5.6	12.3
Japan	Feb 73	156.5	26.4	30.6	50.0
West Germany	Mar 73	139.5	15.5	31.0	15.8
France	Mar 73	138.4	9.9	-3.4	10.0
United Kingdom	Apr 73	138.5	13.1	19.3	29.0
Italy	Nov 72	155.3	18.7	23.2	26.4
Canada	Dec 72	141.9	15.8	8.3	3.4

*Seasonally adjusted

EXTERNAL ECONOMIC ACTIVITY

	Latest Data	Index or Amount	Percent Change at Annual Rate From Period: 12 Months Earlier	3 Months Earlier	1 Month Earlier
IMPORT PRICES (National Currency)		1970=100			
United States	Mar 73	119.7	7.8	10.5	-1.8
Japan	Apr 73	105.8	11.7	-4.1	-7.6
West Germany	Apr 73	111.8	13.8	11.4	23.6
France	Dec 72	112.0	0.2	17.0	151.9
United Kingdom	Jan 73	121.4	14.4	36.9	16.4
Italy	Dec 72	114.0	4.9	11.5	11.2
Canada	Dec 72	106.8	4.4	6.6	15.8
EXPORT PRICES (National Currency)		1970=100			
United States	Mar 73	115.0	9.6	16.2	6.8
Japan	Apr 73	101.3	3.9	7.4	18.2
West Germany	Apr 73	113.5	7.0	11.0	9.5
France	Dec 72	110.9	0.5	18.5	74.0
United Kingdom	Jan 73	121.3	7.1	10.3	15.8
Italy	Dec 72	108.0	0.9	3.8	0
Canada	Dec 72	105.1	5.1	10.3	12.6
OFFICIAL RESERVES	End of	Billion US $			
United States	Apr 73	14.4	-2.8	-6.6	0.5
Japan	May 73	15.9	-1.0	-52.7	-50.8
West Germany	Apr 73	32.0	61.6	263.4	49.2
France	Apr 73	11.5	35.8	74.2	40.0
United Kingdom	May 73	6.7	-14.8	68.1	219.0
Italy	Apr 73	6.4	-2.6	52.9	34.5
Canada	May 73	6.0	-1.6	-6.6	8.9

TRADE BALANCE*		Million US $	Cumulative Balance (Million US$)	1973	1972
United States (fob/fob)	Apr 73	196	Jan-Apr	-637	-2,250
Japan (fob/fob)	Apr 73	415	Jan-Apr	2,164	2,961
West Germany (fob/cif)	Apr 73	1,008	Jan-Apr	3,121	2,031
France (fob/fob)	Apr 73	254	Jan-Apr	533	294
United Kingdom (fob/fob)	Apr 73	-111	Jan-Apr	-987	-434
Italy (fob/cif)	Mar 73	-353	Jan-Mar	-982	-45
Canada (fob/fob)	Apr 73	236	Jan-Apr	569	292

EXCHANGE RATES (Spot Rate)		US $ Per Unit	Percent Change From: 18 Dec 71	19 Mar 73	25 May 73
Japan (Yen)	As of 1 June 1973	.00378	16.35	-0.63	-0.03
West Germany (Deutsche Mark)		.3739	20.49	5.59	3.20
France (Franc)		.2312	17.42	4.90	2.35
United Kingdom (Pound Sterling)		2.572	-1.29	4.51	1.26
Italy (Lira)		.00173	0.41	-2.42	1.65
Canada (Dollar)		1.0031	0.53	0.54	0.10

TRADE-WEIGHTED EXCHANGE RATES		Percent Change From: Dec 66	18 Dec 71	19 Mar 73	25 May 73
United States	As of 1 June 1973	-15.30	-7.35	-1.54	-0.96
Japan		30.01	13.02	-1.65	-0.6
West Germany		27.98	8.63	3.29	1.35
France		-7.77	4.73	2.00	-0.19
United Kingdom		-21.90	-10.67	2.13	-0.37
Italy		-12.38	-12.02	-6.09	-0.49
Canada		5.79	-1.3	-0.04	-0.20

7 June 1973

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