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International Economic & Energy Weekly

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International Economic & Energy Weekly [redacted]

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Synopsis

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Perspective—*The Refugee Problem* [redacted]

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At least 11 million people are currently seeking refuge outside their own countries—victims of war, political/cultural persecution, or natural disaster. [redacted]

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Refugees: Regional Patterns [redacted]

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Despite recent successes with resettling Indochinese refugees and repatriating some of those in Africa, there is no reason to believe that the global problems of refugee migration and the need for assistance will decrease. [redacted]

LDCs: Growing Labor Surpluses in the 1980s [redacted]

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Growing labor forces and slower economic growth will worsen employment problems in developing countries throughout the 1980s. Although Sub-Saharan Africa will be hardest hit, the Central American and Caribbean regions will be close behind and have the most potential to affect the United States. [redacted]

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Eastern Europe: Continuing Slowdown in Trade With the West [redacted]

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Eastern Europe's trade with the Developed West has dropped sharply in the last two years and will likely fall further this year and next. [redacted]

Japanese Energy Imports: Prospects for Enhancing Energy Security [redacted]

Lowered prospects for economic growth and improved energy efficiency have sharply reduced future Japanese energy needs. Nonetheless, with its poor domestic resources, Japan will remain heavily dependent upon imported energy, leaving the country vulnerable to energy supply disruptions. [redacted]

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Perspective

The Refugee Problem

The economic, social, and political costs associated with the refugee situation are enormous. At least 11 million people are currently seeking refuge outside their own countries—victims of war, political/cultural persecution, or natural disaster. Of this number, the State Department identifies more than 7.7 million as requiring protection and assistance from the international community. Compared with a small number of European nations after World War II, there are now 33 countries—mostly in the Third World—that are the principal sources of the world's refugees. By far the largest is Afghanistan, with 3.4-4.5 million of its citizens having fled to Pakistan and Iran. 25X1

On an individual level the toll levied in human misery can barely be comprehended. Fear, malnutrition, disease, and death are both the precipitators and constant companions of refugee flight. Refugee movements can also work hardships at the national level. The generating countries inevitably lose valuable human capital when their citizens flee abroad, and for receiving countries the advent of refugees, especially those of different ethnic backgrounds, is often an unexpected and unwelcome event. 25X1

Despite recent successes with resettling Indo-Chinese refugees and repatriating some of those in Africa, there is no reason to believe that the global problems of refugee migration and the need for assistance will decrease. In almost every region of the world, there is a strong potential for additional, rapid, massive, and costly refugee flight. Central America currently presents the most imminent threat. 25X1

For both political and practical reasons it will continue to be difficult to plan for future refugee situations:

- By the limits of his mandate, the United Nations High Commissioner for Refugees can only react to ongoing refugee situations and only after he is invited by the host government.
- While open conflict caused by international aggression, as in Indochina and Afghanistan, or domestic turmoil, as in Central America, Lebanon, and much of Africa, almost always generates refugee flows, no one can predict the magnitude.
- Making public preparations for expected refugee flows may actually encourage potential refugees to flee their present circumstances and thus precipitate large-scale migrations. 25X1

The burden of providing first asylum has also created international tension as the traditional resettlement countries steadily reduced their refugee "offtake" during the past three years. The present host countries, especially those in Southeast Asia, are concerned that they may inherit large residual refugee populations that cannot be resettled out of the region. At a recent international symposium on refugee movement, there was some discussion of "compassion fatigue" beginning to appear among donor/resettlement countries. If this is indeed the case, the United States, which over the past 10 years has provided funding for 30 to 40 percent of UN refugee programs, will be asked to shoulder an even larger share of the burden. [redacted] 25X1

[redacted]

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Briefs

Energy

Spot Oil Market Trends

Spot oil product prices in the key Rotterdam market have fallen an average of more than $1 per barrel over the last five weeks. Spot crude oil prices also continue to weaken, with spot prices for most crudes now below official prices. Some traders attribute soft market conditions to rising North Sea output and increased Saudi production. One trade publication reported earlier this week that Saudi production is rumored to be as high as 7 million b/d in recent days. Product prices in the Rotterdam market now indicate a value of about $27.50 per barrel for Arab Light and $29.52 per barrel for Bonny Light, versus official prices of $29 and $30, respectively. 25X1

Mexico and Venezuela Hike Heavy Oil Prices

Mexico and Venezuela have increased the price of their heavy crude oils for the second time in two months. The new round of hikes was largely spurred by a relative firming of US spot prices for fuel oil—the principal refined product from these crudes. The increase in spot prices has enabled refiners in recent months to net as much as $4 per barrel from the heavier oil. Effective 1 October, the price of Mexican Mayan crude rose by $1 to $25 per barrel. At current export levels, this should give Mexico City an additional $300 million annually in oil revenue. Venezuela has imposed price increases on 10 grades of its heaviest oils, ranging from 69 cents to $1.25 per barrel. The hikes bring the price of the average barrel of Venezuelan heavy oil to about $23.50. With exports of these crudes currently running at 400,000 to 450,000 b/d, the move could provide as much as $200 million annually in additional revenues for Caracas. 25X1

United Kingdom Oil Production Reaches New High

Oil production in the United Kingdom—including natural gas liquids—hit a new peak of 2.4 million b/d in August, up 240,000 b/d from depressed June levels. The rise reflects completion of scheduled maintenance at Brent and the startup of production at the Brae field. Production should increase even further in September with the addition of output from the Magnus field where production commenced in mid-August and is already close to 80,000 b/d. In addition, Maureen—another new field—started production in mid-September and could reach its expected 72,000-b/d peak output before yearend. For the first nine months of this year, total oil production has averaged more than 2.3 million b/d, or about 6 percent above 1982 levels. 25X1

Sharp Cutback in Algerian LNG Deliveries

US consular officials report that over the past two months technical problems at the LNG plant at Arzew have forced Sonatrach to export only 60 percent of monthly contractual volume of 1.3 billion cubic meters to US and West European customers. Sonatrach has allocated the shortfall by giving priority to West European buyers because they pay a higher contract price than US customers. Trunkline, Sonatrach's major US customer, has not received any deliveries since August. Most of Sonatrach's problems stem from a walkout by key foreign technicians and poor maintenance and operating procedures at the LNG plants. Although Sonatrach recently awarded a multimillion-dollar contract to a US firm for LNG plant maintenance, we believe gas export shortfalls probably will recur given production problems in Algerian gasfields and delays in the development of new production capacity. 25X1

Italy To Maintain Current Gas Production Level

According to the director of AGIP, Italy's state oil and gas procurement firm, Rome has decided to maintain the existing level of domestic natural gas production of about 13 billion cubic meters. The change reflects Rome's belief that it can recover 14 to 15 bcm annually for the next 15 years, rather than the 7 bcm called for in the national energy plan and still maintain reserves of 175 bcm. In addition, the move is designed to improve the profitability of ENI, the state energy company, which lost over $1 billion last year. 25X1

The decision reverses the national energy plan's policy of conserving domestic resources and means that Italy may rely less on imported gas from Siberia and other sources to meet future energy requirements. On the other hand, broader political and economic considerations could still cause Rome to buy more Soviet gas. Many businessmen believe that Soviet purchases of Italian goods will depend on gas contracts, although some government officials believe that if Rome can obtain better pricing terms from the Soviets it could set a useful precedent for negotiations with Algeria in 1986. Even if Rome does not agree to buy more Soviet gas now, probable future supply shortfalls eventually are likely to result in increased purchases from the Soviets. 25X1

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Soviet Interest in Coal Slurry Pipelines

The USSR reportedly is seeking Western assistance in developing and constructing long-distance coal pipelines. Soviet officials have met with Western businessmen to discuss a possible joint venture to construct a 250 to 300-kilometer coal slurry pipeline in Central Siberia. In a separate development, Soviet negotiations with Italian firms on a high-concentration coal slurry pipeline are being delayed because a Soviet ministry has not supplied essential data. the Soviets also have been 25X1 considering the construction of a major coal export pipeline thousands of kilometers long which could be intended for export purposes. 25X1

These projects would be much larger than the longest coal pipelines—about 10 kilometers—currently operating in the USSR. They would require manufacturing and construction capabilities not now available in the USSR. The Soviets have been investigating the possibility of buying Western equipment and technology for projects that could be started during the 1986-90 Five-Year Plan. Pipelines extending thousands of kilometers, however, probably will not be constructed before the 1990s. 25X1

International Finance

Argentine Foreign Exchange Problems Mount

Delays in disbursements of IMF and commercial bank funds have forced the Argentine Central Bank to sharply tighten foreign exchange outflows. Both the sales of foreign currency and the issuing of import licenses were suspended temporarily last weekend pending an expected announcement of import controls and prioritizing debt payments. External interest payments in August and September pushed reserves down sharply leaving Buenos Aires with only about $250 million in liquid foreign currency and prospects of immediate inflows are slim. According to the US Embassy, the IMF has decided to delay a $325 million drawing until two weeks after the 30 October elections.

Commercial banks have delayed disbursement of $500 million, the first tranche of a $1.5 billion medium-term loan, until at least 17 October in the wake of the local court injunction against the rescheduling agreement recently signed for the state airline. Should the central government fail to overturn the injunction, the bank loan will be stalled indefinitely. Without fresh inflows of foreign exchange, Buenos Aires will fall far behind on external interest payments and leave an unmanageable situation for the new government.

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Venezuela Secures Another Debt Repayment Deferral

International lenders have given Caracas a 30-day deferral on the repayment of public debt principal. The bankers plan to give another 90-day extension beginning 1 November provided Venezuela successfully clears interest arrearages on private foreign debt by at least $125 million. The action followed a move last week by Venezuela's Council of Ministers approving a presidential decree permitting Central Bank release of preferential rate dollars for $400-600 million in overdue interest payments on private debt. A special commission has been established by the decree to review applications for access to the subsidized exchange rate. 25X1

Private-sector reaction to the decree has been mixed. Because commission rulings must be unanimous, Venezuelan businessmen fear discrimination against eligibility will be more deeply rooted by the presence on the commission of Central Bank President Diaz Bruzual, who has repeatedly held up debt repayment. Others are more hopeful that the Herrera administration's desperate need for a further rollover next month may force it to facilitate a partial payment of the private debt. 25X1

Thailand Seeks Hong Kong Capital

The Thai Board of Investment last month announced measures aimed at attracting funds from Hong Kong residents concerned about the expiration of the British lease in 1997. Resident visas will be granted to foreigners who invest at least $430,000 in a new project or a minimum of $348,000 in government bonds plus $260,000 for a spouse and $87,000 for each child. These measures are unlikely to increase substantially the transfer of funds from Hong Kong to Thailand, estimated at more than $180 million in the first half of this year. Complicated immigration and residence procedures—including legal prohibitions against foreign property ownership—will limit the number of applicants. In addition, financial analysts believe that Thailand's poorly developed capital market will discourage the inflow of funds. 25X1

Australian Dollar Rebounds

The Australian dollar has appreciated steadily (on a trade weighted basis) over the past several months and has nearly reached the level registered before the 10-percent devaluation last March. Interest rate differentials, which had been sufficient to attract foreign short-term capital, have fallen sharply because of continuing weak private-sector loan demand and rapid monetary growth from capital inflows. Capital inflows totaling $1.3 billion in July and August will help finance the prospective $6 billion current account deficit in 1983. At the same time, the higher level of the dollar has effectively eroded any competitive advantage gained in the devaluation. 25X1

Burma Receives IMF Compensatory Financing

According to press reports, Rangoon has drawn $30.8 million from the IMF's Compensatory Financing Facility, the second such loan in eight months. Burma qualified for the most recent drawing because of a 15-percent drop in export earnings for the year that ended in March. Burma has also asked Japan to provide $10-20 million in balance-of-payments assistance as part of its annual aid package, which totals about $225 million and is looking elsewhere for even more financing. Foreign exchange reserves have dropped to about $35 million, less than one month's imports, because of depressed export earnings, increased imports, and sharply rising debt service payments. Unless the economy worsens substantially, however, we do not believe Rangoon will request an IMF standby loan, which would require Burma to adopt austerity measures. Burmese leader Ne Win has been unwilling to accept multilateral or bilateral aid that mandated changes in Burmese economic policy.

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Global and Regional Developments

Impact of Docker Protests on US-Soviet Trade

The boycott against Soviet ships by east and west coast longshoremen since the downing of the KAL airliner will have little impact on US grain shipments to the USSR under the long-term grain agreement.. About 85 percent of Soviet-purchased grain normally moves on non-Soviet ships under charter to the USSR, and the USSR could easily sustain its movement of US grain using non-Soviet grain carriers already under long-term time charter. As of mid-September, the USSR had already substituted at least two foreign-flag vessels for Soviet ships scheduled to load grain in US ports. 25X1

The longshoremen's protest will increase the cost of moving general cargo in US-Soviet trade. Footdragging by stevedores has caused the diversion of at least three Soviet ships from California to Mexican ports and a fourth from two east coast ports to Canada. Soviet ships visiting the Gulf coast have encountered no problems. If the protests persist, US importers and Soviet purchasers of US goods will be forced to rely on the costly alternative of using Canadian and Mexican ports with overland connections to the United States.

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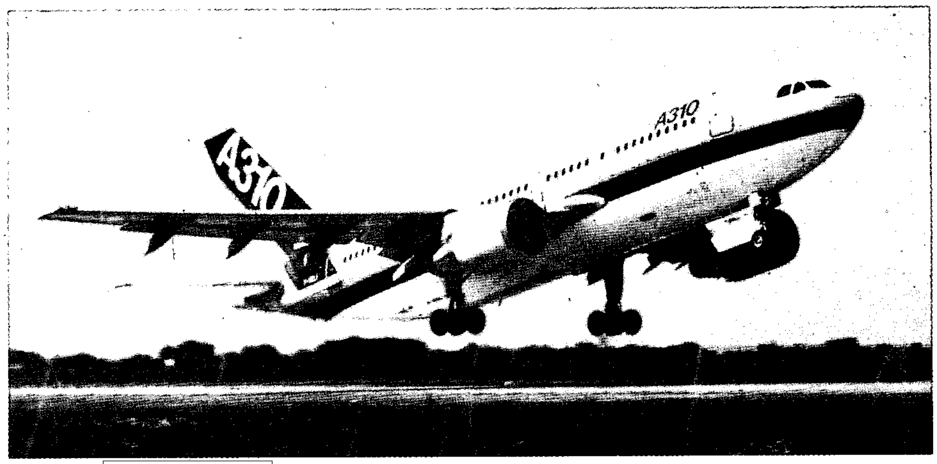
Airbus To Promote Sales in China

Airbus Industrie reportedly is preparing to send an A310 wide-body aircraft on a promotional tour of China in October. The consortium also plans an A310 familiarization program for Chinese pilots before the aircraft's visit. Beijing is modernizing its commercial airline services and improving the military airlift capability of its jet fleet. Since the early 1970s, China has purchased modern jet passenger aircraft from British Aerospace, Boeing, and McDonnell Douglas. The commercial fleet helps augment China's overall military airlift capability. The Chinese so far have been willing to sacrifice the operational efficiencies gained by using a single manufacturer's aircraft in order to maintain access to a broad range of suppliers. [redacted] 25X1



The A310 [redacted] 25X1

The tour provides Airbus with the potential for a high profile sale in the Far East. If Beijing decides to buy the A310, the initial sale is likely to be small—four to six aircraft. An initial order by China's national airline would be important for Airbus because it would mark their first success in the Chinese market and come at a time when Airbus is trying to offset Japanese and Australian airlines recent purchase of Boeing 767s. [redacted] 25X1

Specialty Steel Discussions

Austria has become the first country in the current series of talks to conclude a specialty steel orderly marketing agreement (OMA) with the United States. US negotiators also report that an agreement with Japan is near. The United States is offering to negotiate bilateral OMAs that would guarantee a share of the global import quotas it imposed in July. Austria pledged not to seek trade compensation in the GATT in exchange for a liberal share of the global quota and dismissal of a separate US complaint against Austria. Nontraditional suppliers, such as Spain, South Korea, and Brazil, are seeking advantageous formulas for determining quotas since their historic market shares are low. Brazil has also requested that debtor countries receive higher quotas. The EC has firmly rejected an OMA and instead demanded trade compensation. By addressing only compensation issues, the EC has avoided discussion of steel subsidization and investment, topics which the United States would like to include in OMA talks. Discussions are also being held with Canada, Sweden, Finland, Argentina, and Poland.

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National Developments

Developed Countries

Japanese Leading Indicators Up

The pace of economic activity appears to be quickening in Japan after several quarters of sluggish growth. The Economic Planning Agency's index of leading economic indicators rose again in July, with nine of the 12 components up from June levels. Despite these early signs, we agree with the Japanese Economic Planning Agency and the Bank of Japan who are both cautious about prospects for domestic demand. Private plant and equipment investment remains at low levels. Real private consumption rose only 0.3 percent in the second quarter, and private housing investment plummeted 13.7 percent. Much of the economy's recent strengthening is due to the pickup in exports which began in May. If exports continue to provide most of the fuel for recovery, Prime Minister Nakasone will face increasing pressure to stimulate domestic demand.

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Italian Budget Battle Looming

Prime Minister Craxi unveiled a draft budget for 1984 last week that calls for increased taxes and substantial cuts in social spending. The proposal is designed to reduce the deficit from a projected $88 billion to $58 billion. The package includes cuts in social spending of $5.1 billion, cuts in defense spending of nearly $1 billion, and tax increases totaling $8.1 billion. Although the new measures are regarded as the toughest in decades, the budget deficit will still equal 15 percent of GDP, down only 1 percentage point from this year.

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The proposed budget cuts will hit hard at voter constituencies important to the coalition parties. The Christian Democrats lost heavily in the national election in June, and some of the party's leaders are especially sensitive to proposed cuts in social services. Trade union leaders, including some from Craxi's Socialist Party, also have criticized the proposals. The debate on the budget probably will be protracted, and the final package is likely to be more expansionary and inflationary than the government wants.

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Less Developed Countries

Kampuchea Rice Crop Warnings

Kampuchea's main rice crop may fall 300,000 metric tons short this year, 25X1

Non-Communist aid donors, however, are unlikely to agree to substantially increased food aid without more definitive evidence of an impending shortage. Kampuchean officials apparently have not yet decided on an appeal for help; some officials say it is too early to determine crop size while others anticipate a shortfall of 400,000 tons. 25X1

St. Lucia's Banana Crop Damaged by Storm

Heavy rains and high winds last month destroyed some 40 percent of the island's banana plants, according to preliminary government estimates. Banana production—which accounted for almost 10 percent of GDP and about 40 percent of export earnings in 1982—will be depressed for at least six to nine months. The already troublesome current account deficit will widen as a result of lower export earnings and increased imports of the fertilizers, herbicides, and pesticides necessary to restore production. Moreover, rehabilitation efforts could derail the government's efforts to reduce the budget deficit. The Compton administration has begun seeking aid from multilateral and bilateral donors, including the United States, to help defray these costs. 25X1

Communist

Soviet Economic Performance

Economic performance in the USSR improved during the first eight months of 1983 in almost all sectors, and GNP probably will grow by 3.5-4 percent by the end of the year—well above the 2-percent annual growth rate achieved in 1981-82. The biggest improvement has been in agriculture, and total farm output could reach a record level. The grain harvest probably will be the best in five years, other crops are doing well, and livestock production is at an alltime high. 25X1

Growth of industrial production is likely to reach 3 percent by the end of the year. Although this would be higher than rates achieved in the past few years, it largely reflects a short-term recovery from the performance registered in early 1982. Performance in the consumer sector has been mixed. Food supplies were greater through August than during the same period last year, and a record high in per capita meat consumption should be achieved if recent high levels of imports continue. The consumer has fared less well in the availability of nonfood items as production of these goods continues to increase slowly. 25X1

The anticipated higher growth levels this year are unlikely to continue throughout the decade. Much of the improvement, particularly in agriculture and transportation, is the result of the mild winter of 1982-83 and favorable growing conditions so far this year. The factors constraining growth since the late 1970s—smaller additions to the labor force, sluggish growth of the capital stock, raw materials shortages, and transportation bottlenecks—probably will not be resolved soon. These same factors are likely to keep average growth for the 1980s below the levels achieved this year. 25X1

Soviet Lipservice to Consumers

The Andropov regime continues to stress the provision of consumer goods and services, but the leadership remains unwilling to shift additional resources to the consumer sector. According to Soviet press reports, the Politburo acknowledged that the provision of consumer goods and services "still lags behind the requirements of Soviet people and gives rise to just censure on the part of the working people." The members demanded improvement—but on the basis of current equipment and technology and through fuller use of existing capacity. A recent Council of Ministers resolution also castigated failings of consumer goods manufacturers and the retail trade network. The resolution reportedly lists measures to remedy these deficiencies, but gives no details.

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China Issues Equity Joint-Venture Regulations

Beijing last month issued detailed regulations for its equity joint-venture program, codifying several important concessions aimed at attracting more foreign investment. The regulations allow some of these ventures to sell in China's domestic market. Previously they had only been allowed to produce for export. The regulations also require the Chinese to provide enough foreign exchange to meet these joint ventures' expenses and provides for tax and customs exemptions on certain imported materials and the ventures' exports. Beijing hopes that formalizing these changes will reassure investors and generate the high level of investment that has eluded the program so far. Since the program's inception in 1979, China has attracted 105 equity joint ventures worth approximately $200 million in foreign investment, only 12 percent of total foreign investment in China.

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Refugees: Regional Patterns

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Most refugees originate in developing countries. They are the unhappy byproducts of wars, civil unrest, and social and economic uncertainty. A recent estimate of global refugees places the number of people currently in need of protection and care from the international community at 7.7 million. This figure excludes those several million more who receive assistance from national or local rather than international sources and those who have means of their own. The cost of these refugee movements is large; the United States spent over $1 billion in 1983.

Refugees: A Definition

The 1951 UN Convention Relating to the Status of Refugees defines a refugee as a person who, "... owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group, *or* political opinion *is outside the country of his nationality (or habitual residence) and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country." Despite a 1961 General Assembly resolution that extends this definition by encouraging the United Nations High Commissioner for Refugees "to pursue his activities on behalf of refugees within his mandate or those for whom he extends his good offices," the definition of refugees remains a highly restrictive one and does not include millions of internally displaced persons who have fled persecution or the ravages of war, but have not crossed an international boundary.* 25X1

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Regional Survey

Africa. In most cases refugee problems in Africa have been caused by the instability associated with the process of consolidating disparate ethnic, social, and cultural groups into independent states. The 1.8 million refugees and 1 million displaced persons currently adrift on the continent have fled from civil strife, economic disruption, and political/cultural persecution that are endemic in this process. Relatively small in numbers by Third World standards, in many cases these refugees do not constitute serious domestic political problems for the host countries and more often than elsewhere in the world are successfully repatriated. An exception, however, is the situation in the Horn of Africa where the 1974 coup in Ethiopia and the ongoing struggle for territorial control have sent over 400,000 Ethiopians and Eritreans fleeing to Sudan and an equal number of ethnic Somalis to Somalia.

We believe the probability is low that the causes of refugee flight in Africa will be corrected in the short term. Political and economic stability are not likely to be achieved any time soon. In Ethiopia the Communist regime is still engaged with strong separatist and opposition forces, and until these struggles cease they will continue to have the strong potential for generating additional refugee flight. A renewed threat exists in Chad where during the last few years over 100,000 refugees took flight and were subsequently repatriated. If the Libyan campaign causes open warfare in the heavily populated southern regions, huge numbers of refugees may once again cross the borders into Cameroon and Nigeria. 25X1

East Asia. Since the fall of Saigon in April of 1975, Vietnam, Laos, and Kampuchea have been the primary sources of refugees in East Asia. Under 25X1

Hanoi's direction the harsh restructuring of these societies along traditional Marxist-Leninist lines has severely restricted individual freedom and systematically persecuted many of those who were associated with former regimes or with the US effort in Indochina. In addition, armed conflict between Vietnam and resistance forces continues in Kampuchea, presenting a constant threat to large numbers of Kampuchean civilians. As a consequence, more than 1.5 million refugees have fled Indochina since 1975. The flow has diminished in recent years, but each month several thousand people manage to escape and seek refuge in neighboring, non-Communist countries. [redacted] 25X1

The prospects for improved political and economic conditions in Indochina are not bright. The political consolidation of South Vietnam continues, as does the "reeducation" campaign. In Kampuchea the food situation has improved, but the continuing weakness of the Kampuchean Government in the face of resistance forces and the growing evidence of an extensive influx of Vietnamese settlers ensures the continued presence of Vietnamese forces. This military threat against Khmer nationals has created an internally displaced population along the Thai border of over 200,000. [redacted] 25X1

Under these conditions the pressure on disaffected Vietnamese, Khmer, and Lao to seek refuge beyond the region probably will not diminish. However, the enforcement of more stringent refugee admission requirements by the traditional resettlement countries in concert with Thailand's policy of "humane deterrence" reduces the hope of successful escape and the actual number of new arrivals. Nonetheless, the potential for a renewed surge of refugees from Indochina remains great should resettlement opportunities improve, repression intensify, or Hanoi adopt a policy of generating refugees as it did in 1978-79 when it forced out ethnic Chinese. [redacted] 25X1

Other Southeast Asian countries also have the potential to generate refugee flows. If a military regime were to come to power in the Philippines, aggressive measures would likely be taken against

Refugees Requiring Protection and Assistance: Principal Generating and Asylum Countries, 1983 [a]

Generating Countries	Thousand Persons	Asylum Countries	Thousand Persons
Africa			
Angola	273.0	Angola	96.2
Burundi	160.0	Burundi	58.0
Ethiopia	833.1	Djibouti	31.5
Namibia	74.8	Rwanda	45.0
Rwanda	102.0	Somalia	400.0
Uganda	287.0	Sudan	600.0
Zaire	51.4	Tanzania	168.7
		Zaire	269.4
		Zambia	88.0
East Asia			
Kampuchea	98.0	Hong Kong	13.6
Laos	75.8	Indonesia	9.3
Vietnam	49.7	Malaysia	11.5
		Philippines	17.2
		Thailand	144.7
		Vietnam	30.0
Latin America			
Chile	30.0	Costa Rica	36.0
El Salvador	63.7	Honduras	45.6
Guatemala	41.5	Mexico	45.5
Nicaragua	77.0	Nicaragua	18.0
Middle East			
Iraq	100.0	Algeria	54.0
Palestinians	1,954.0	Iran	560.0-1,500.0
Western Sahara	50.0	Jordan	759.0
		Lebanon	246.5
		Syria	225.0
		Gaza Strip	381.0
		West Bank	345.0
South Asia			
Afghanistan	3,400.0-4,500.0	Pakistan	2,900.0
Europe			
Eastern Europe/USSR	100.0+	Austria	10.0
		Italy	10.0

[a] Because of the difficulties associated with defining and enumerating refugees, these figures represent only one of several estimates and should be regarded as orders of magnitude.

[redacted] 25X1

the opposition, and hundreds of thousands of Filipinos could be displaced. All probably would need assistance from the international community, and many could turn to other countries for asylum or resettlement. Further down the road, a possible Chinese takeover of all Hong Kong when the New Territories Lease expires in 1997 could initiate a massive outmigration of Chinese reluctant to live under Beijing's jurisdiction.

Latin America. Of the 225,000 Latin American/Caribbean refugees currently receiving protection and assistance, over 80 percent originated in Central America. The Nicaraguan, Salvadoran, and Guatemalan conflicts have resulted in an unprecedented refugee flight from these three countries. The latest figures indicate that over 180,000 people are receiving assistance in foreign countries, principally Honduras, Mexico, and Costa Rica, but reports vary and the total number of refugees may be much larger. One US Government source estimates that there are only 30,000 to 40,000 refugees in Mexico, while a paper discussed at a recent symposium suggests that the number may be as high as 250,000. Throughout the region an additional 740,000 are internally displaced, and large numbers of additional refugees may be uncounted.

In addition, it is possible that during the next 12 months there will be increased conflict in Guatemala, and violence in El Salvador probably will continue at present levels, if not intensify. These events could sharply increase the number of refugees in this region over this period.

Middle East. Palestinians make up the oldest continuing refugee group in the world today. Most fled present-day Israel following the 1948 Arab-Israeli war. Of the estimated 4 million Palestinians in the Middle East, 2.0 million are registered as refugees with the United Nations Relief and Works Agency. The greatest number of registered Palestinian refugees, 760,000, is in Jordan where they are afforded indefinite residence privileges and the right to seek citizenship. An additional 244,000 are in Lebanon, 225,000 are in Syria, and 726,000 remain in Gaza and on the West Bank, which were occupied by Israel during the June 1967 war. In the short term it seems certain that most Palestinians 25X1 will continue to live as frustrated and frequently unwelcome residents of Israeli-occupied territory and the countries bordering Israel.

A significant number of Lebanese have also been displaced by the war in their country. The fighting 25X1 between the Druze and the Lebanese Army has forced 150,000 to flee into Israeli-occupied southern Lebanon. If the fighting intensifies so too does the probability of large-scale refugee flight. Syria and Israel would be the most likely destination for these people. 25X1

South Asia. The 1978 Marxist coup in Afghanistan followed by the Soviet invasion and the subsequent war between Soviet/Democratic Republic of Afghanistan forces and the Mujahadeen freedom fighters have created the largest current refugee population in the world. Fleeing from political repression, the threat of religious persecution, and the ravages of war, an estimated 3 million Afghans have found sanctuary in Pakistan and perhaps 1.5 million are in Iran. The prospects for peace and successful large-scale repatriation will remain slight unless the Soviets withdraw and an Islamic 25X1 government acceptable to the refugees and the Mujahadeen is established in Kabul. These conditions seem unlikely in the near future, and the Afghan refugee populations probably will remain in 25X1 asylum and continue to increase.

Elsewhere in the region, communal animosities in 25X1 Pakistan, India, and Sri Lanka pose a constant threat to public order. The recent communal riots in Assam and Sri Lanka underscore the potential of this threat. Religious, racial, and economic jealousies are likely to spark renewed violence, producing heavy refugee flows. 25X1

Europe. European refugee flows originate exclusively in Eastern Europe and, for the most part, are a response to the oppressiveness of Communist

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systems rather than to widespread persecution. Closed borders and close control over internal mobility generally eliminate the possibility of rapid, large-scale flight. While illegal exit is possible, most of those who reach the West do so with permission. Thus the volume of refugee flow will fluctuate with changes in emigration policy. 25X1

Events such as the introduction of martial law in Poland should be considered an exception; an estimated 200,000 Poles were out of the country when the decree was announced. While many chose to return to Poland, over 40,000 applied for temporary asylum in Austria and more than 10,000 decided not to return. For most East European refugees, Austria is the country of first asylum. Five to 10 percent settle there while others are resettled in third countries, primarily France, the United States, Canada, and Australia. 25X1

Prospects. In all refugee situations voluntary repatriation is the preferred solution. Among the major refugee generating regions, only in Africa—where more than 50,000 Chadians, Ethiopians, and Ugandans were able to return home—was it an effective method of dealing with the problem during 1983. Elsewhere the numbers of returnees were much smaller, and there seems to be little expectation that repatriation will become a viable alternative in the near future. 25X1

When repatriation is not possible, resettlement to a third country may be the best outcome for refugees. This alternative is expensive, however, and as admissions programs continue to shrink, so do the opportunities. If present trends continue, the opportunity for third-country resettlement may be available to only a very few of the world's refugees. 25X1

Failing repatriation or resettlement, the options that remain open are continued asylum, and perhaps eventual assimilation, or forced repatriation. In many situations assimilation is a real possibility, but for large populations—such as the Afghans in Pakistan—or where ethnic or racial tension is strong the prospects are not bright and forced repatriation is a real threat. 25X1

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LDCs: Growing Labor Surpluses in the 1980s 25X1

Growing labor forces and slower economic growth will worsen employment problems in developing countries throughout the 1980s. Although Sub-Saharan Africa will be hardest hit, the Central American and Caribbean regions will be close behind and have the most potential to affect the United States. Outcomes of the faster working-age population growth will probably include:

- Increased tensions between ethnic and religious groups as economic pressures intensify.
- Prolongation of the international financial crisis as Third World governments respond to domestic pressures to relax austerity and provide jobs and welfare assistance.
- Accelerated emigration, illegal and legal, to developed countries.
- Faster rural to urban migration with the accompanying difficulties of more rapid urbanization.

Accelerating Labor Force Growth and Weakening Economic Performance

Of the 605-million increase in the world's adult population in the 1980s, 545 million will occur in developing countries, an increase of 110 million more persons than were added in the 1970s.[1] According to UN estimates, more than two-thirds of the increase will be in Asia and the remainder split almost evenly between Africa and Latin America. The substantial growth of working-age population in the developing countries is largely the result of continued high fertility rates combined with rapid declines in mortality rates that began during the 1950s and 1960s. As a result, large juvenile populations are now entering LDC work forces. 25X1

The growth of working-age populations during the 1980s will be occurring at a time when most forecasters anticipate slower economic expansion. Real GNP growth in the LDCs is projected to be well below historical levels. Many LDCs face lingering international debt problems, others suffer from the decline in oil revenues, and all face probable slower growth in exports to developed countries. Wharton Econometric Forecasting Associates (WEFA) projects LDC output to rise by 3.2 percent annually through 1988—barely half the 6.2-percent yearly pace enjoyed during the 1970s. The World Bank and IMF agree that LDC economic growth will remain below the levels of the 1976-79 recovery for the next several years. Consequently, the expansion in employment opportunities will be insufficient to absorb all new labor force participants. 25X1 25X1

Africa

Africa will be hardest pressed overall by the combination of rapid population growth[2] and poor economic performance. The non-oil-producing countries in Sub-Saharan Africa, containing about two-thirds of Africa's population, will bear the worst of the fallout. Kenya, Zimbabwe, Botswana, and Zambia will experience working-age population growth rates of 3.3 to 3.9 percent a year in the 1980s; during the 1970s it ranged from 2.4 to

[1] Population estimates and projections are taken from the medium scenario of Demographic Indicators of Countries, United Nations, 1982. Working-age population includes all persons aged 15 to 64.

[2] The table at the end of this article presents working-age population growth rates for each of the nearly 100 countries examined in this study. 25X1

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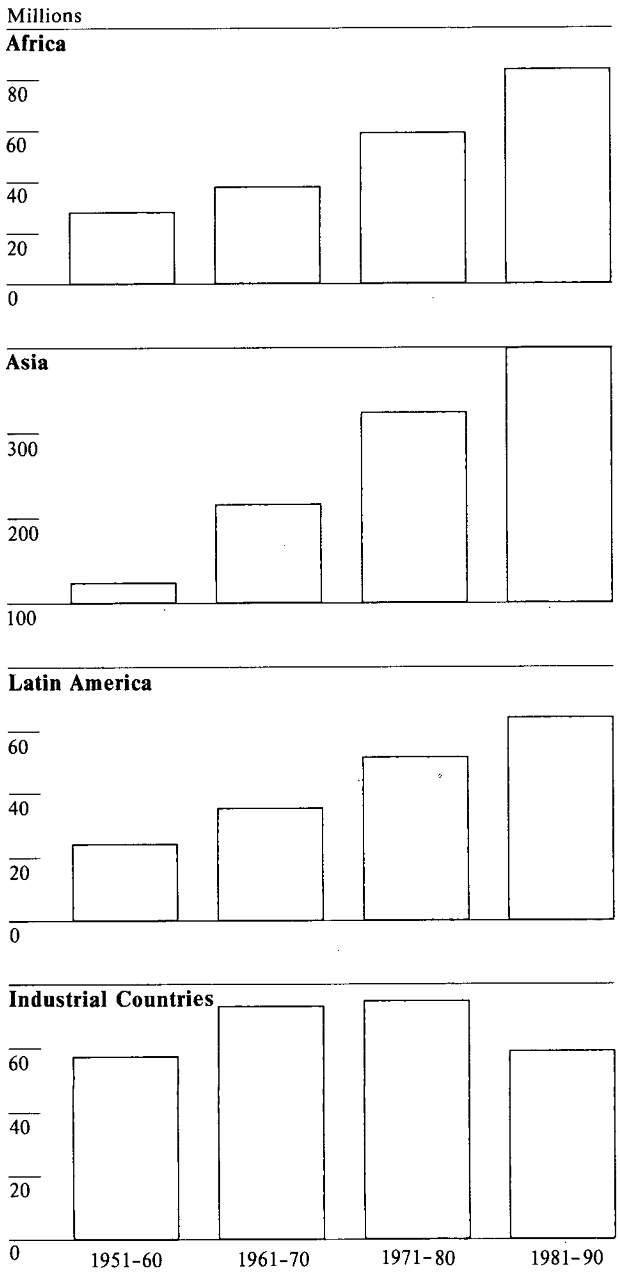
Changes in Global Working-Age Population



Source: United Nations

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3.3 percent. Prospects for economic expansion are slim; the World Bank projects only slightly positive GNP growth over the medium term for Africa, and WEFA forecasts 1.1-percent annual growth through 1988. High rural underemployment already is a problem in many African nations and will get much worse. 25X1

Latin America

Parts of Latin America, especially Central American and Caribbean countries, face growing economic pressure from extremely rapid working-age population growth. The labor forces in El Salvador, Suriname, Honduras, Nicaragua, Mexico, and Venezuela will grow by at least 3.5 percent annually during the 1980s; they will grow nearly as fast in the Dominican Republic, Ecuador, Peru, Guyana, Panama, Costa Rica, and Jamaica. In nearly half of the Latin American countries, the pace of the 1980s will be at least as rapid as growth during the 1970s; only in Costa Rica will 1980s adult population growth rates be significantly lower than their 1970s pace. 25X1

We estimate that the combined unemployed and underemployed exceed 50 percent of the labor forces in El Salvador, Guatemala, and Honduras, and 25 percent in Nicaragua; unemployment levels in the Caribbean countries average more than 25 percent. Given expectations of slow real GNP growth—WEFA projects only an annual growth rate of 2.6 percent in Latin America during 1983-88—sharp increases in unemployment seem inevitable. 25X1

Middle East–Asia

According to the United Nations, the most rapidly growing working-age populations will be in the Middle East, with adult population growth rates for countries in the Persian Gulf region ranging from 3.0 to 4.6 percent annually. These projections

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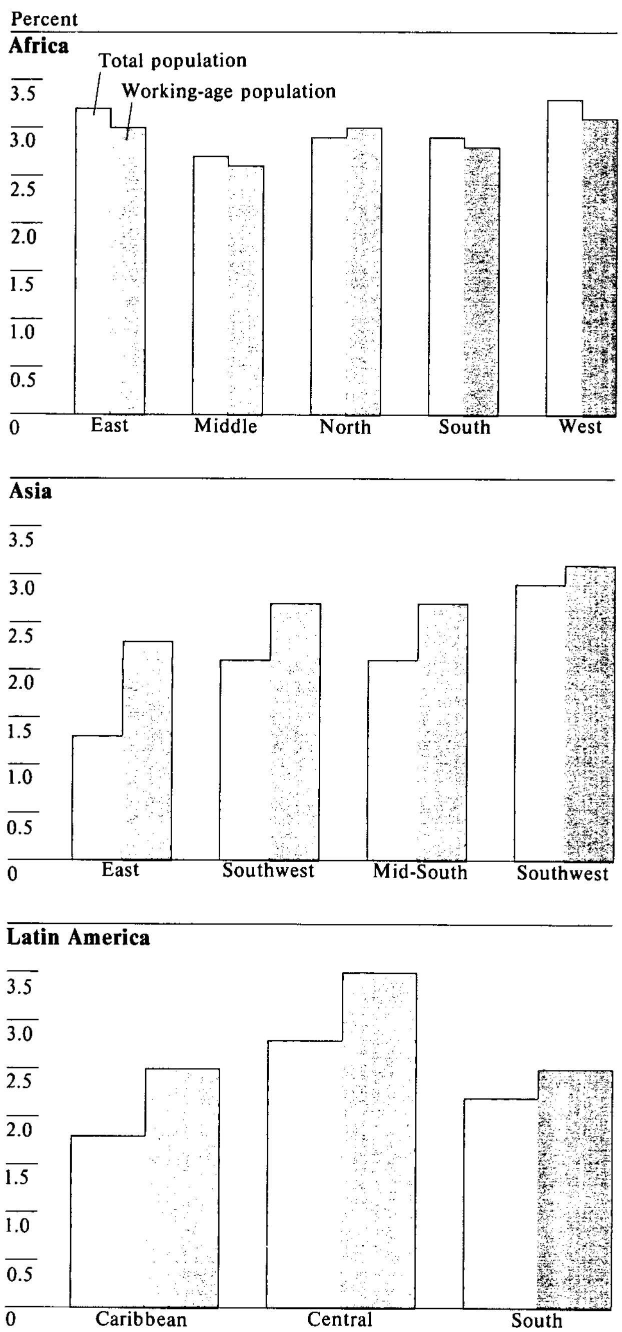
Developing Countries: Population Growth, 1981-90[a]



[a]Geographic divisions conform with United Nations' conventions.
Source: United Nations

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incorporate UN assumptions that significant immigration continues. To date, these countries have welcomed rapid working-age population increases to facilitate ambitious development programs. Thus, the Gulf countries can mitigate any surplus labor problems that might occur should development slow by restricting the inflow of workers. To the extent this occurs, however, the burden will be shifted to the labor exporting countries—including Egypt, Syria, Pakistan, and Jordan—that will be hard pressed to cope. 25X1

Domestic labor force growth will be high in several other Asian countries. India has slowed overall population expansion to under 2 percent—thanks to concerted efforts in promoting family planning practices—but the adult populations will continue to swell by about 2.5 percent, or 11 million persons a year, during this decade. In Pakistan and Bangladesh, adult population growth will average 3 percent or more each year as it will in Thailand, Malaysia, and the Philippines. Economic growth—forecast at between 4 and 7 percent annually for the whole of Asia and the Middle East—will ease the consequences of rapid adult population growth more than in other regions. 25X1

Strains From Increased Labor Surplus

Labor surpluses in developing countries will leave governments hard pressed for solutions to such problems as rapid urbanization. Rural underemployment will continue to drive urban migration; high urban unemployment is unlikely to significantly alter these trends because, in our judgment, the migrants will continue to perceive that their chances of improving their living standards are better in metropolitan than in rural areas.

Rapid urbanization and overcrowding will heighten tensions between various ethnic and racial groups competing for scarce jobs, food, and housing. People with different languages, religions, and ethnic heritage often are barely tolerant of one another. The recent flareup between Tamils and Sinhalese 25X1

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Major LDC Debtors:
Selected Indicators of Economic Performance

	Total Debt, 1982 *(billion US $)*	GNP Per Capita *(1980 US $)*	GNP Growth 1971-80 *(percent)*	Working-Age Population 1980 *(thousand persons)*	Average Annual Working-Age Population Growth, 1971-80 *(percent)*	Average Annaul Working-Age Population Growth, 1981-90 *(percent)*
Algeria	17.2	1,480	7.6	9,296	3.6	3.7
Argentina	36.7	2,050	2.5	17,133	1.3	1.1
Brazil	85.4	2,070	8.8	69,448	3.1	2.7
Costa Rica	2.6	1,680	5.6	1,295	4.0	2.8
Ecuador	6.6	1,050	8.0	4,173	3.3	3.3
Egypt	21.5	570	4.6	23,807	2.8	2.6
India	21.5	200	2.8	389,378	2.6	2.5
Indonesia	23.5	420	12.9	85,242	2.5	2.4
Ivory Coast	6.1	930	6.1	4,291	3.9	3.0
Malaysia	9.9	1,360	7.3	7,900	3.5	3.0
Mexico	83.2	2,040	5.7	36,170	3.5	3.5
Morocco	10.1	600	4.3	10,340	3.5	3.5
Nigeria	10.0	700	11.0	38,663	3.0	3.3
Pakistan	10.3	240	4.5	45,299	3.2	3.2
Peru	11.7	1,200	3.6	9,580	3.2	3.0
Philippines	16.2	600	6.4	27,219	3.4	3.0
Sudan	5.9	340	3.2	9,734	2.6	2.8
Thailand	11.1	600	7.1	26,238	3.3	3.1
Venezuela	33.7	3,400	7.3	8,601	4.3	3.5

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in Sri Lanka is an example of what is likely to occur throughout the Third World as larger numbers of idle workers multiply opportunities for friction. These conflicts will spill over into the political arena, and may, at times, escalate to regime-threatening proportions.

International migrant flows are likely to become a more politically sensitive issue during the next several years. Problems between receiving and originating country governments will include workers' rights, remittance flows, and displaced employment of host countries' indigenous workers. Illegal migration, already on the rise, will be of particular concern as countries act to control unchecked movements of workers. India, for example, has announced its intention to fence the nearly 2,300-kilometer border with Bangladesh to control illegal immigration and to prevent a repeat of the violence that occurred in Assam earlier this year when Bangladeshis crossed the border into the Brahmaputra valley. 25X1

Major Problem Countries

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LDC debtor countries will be caught in a vice between the ill effects of too-rapid labor force growth and the need to continue austerity measures. Many of these countries already are showing economic and social strains. 25X1

LDCs: Selected Demographic Trends

	Total Population, 1980 (*thousand persons*)	Average Annual Growth of Working-Age Population (*percent*)	
		1971-80	1981-90
Algeria	18,919	3.6	3.7
Angola	7,078	2.2	2.5
Argentina	27,036	1.3	1.1
Bahrain	313	4.7	3.1
Bangladesh	88,164	2.7	3.1
Barbados	263	2.3	1.5
Benin	3,530	2.7	3.0
Bhutan	1,296	2.2	2.4
Bolivia	5,570	2.5	2.7
Botswana	807	2.4	3.4
Brazil	122,320	3.1	2.7
Burma	35,289	2.2	2.6
Burundi	4,241	2.1	2.2
Cameroon	8,444	2.0	2.3
Cape Verde	324	3.3	2.5
Central African Republic	2,294	1.8	2.4
Chad	4,455	1.9	2.1
Chile	11,104	2.5	1.9
Colombia	25,794	3.2	2.6
Comoros	358	2.9	2.9
Congo	1,537	2.3	2.6
Costa Rica	2,213	4.0	2.8
Cuba	9,732	2.0	1.9
Dominican Republic	5,947	3.6	3.4
Ecuador	8,021	3.3	3.3
Egypt	41,963	2.8	2.6
El Salvador	4,797	3.4	4.1
Equatorial Guinea	363	2.0	2.3
Ethiopia	31,468	2.1	2.7
Gabon	548	0.8	1.1
Gambia, The	603	2.9	2.6
Guatemala	7,262	3.4	3.3
Guinea	5,017	2.2	2.6
Guyana	883	3.6	2.9
Haiti	5,809	2.3	2.6
Honduras	3,691	3.3	3.8
Hong Kong	5,106	4.1	1.8
India	684,460	2.6	2.5
Indonesia	148,033	2.5	2.4
Iran	38,126	3.1	3.3
Iraq	13,072	3.4	3.6
Ivory Coast	8,034	3.9	3.0
Jamaica	2,188	2.8	2.8
Jordan	3,244	3.2	3.9
Kenya	16,466	3.3	3.9
Kuwait	1,353	5.6	4.6
Lebanon	2,658	1.5	3.1
Lesotho	1,341	2.2	2.4
Liberia	1,976	3.3	3.5
Libya	2,978	3.9	4.0
Madagascar	8,742	2.4	2.6
Malaysia	14,068	3.5	3.0
Mali	6,940	2.5	2.7
Mauritania	1,634	2.6	2.8
Mexico	69,752	3.5	3.5
Morocco	20,296	3.5	3.5
Mozambique	10,473	2.3	2.7
Namibia	1,009	2.7	2.9
Nepal	14,288	2.2	2.4
Nicaragua	2,733	3.4	3.6
Niger	5,318	2.8	2.9
Nigeria	77,082	3.0	3.3
North Yemen	5,812	1.3	2.7
Oman	891	2.9	3.1
Pakistan	86,899	3.2	3.2
Panama	1,896	3.2	2.9
Paraguay	3,168	3.9	3.2
Peru	17,625	3.2	3.0
Philippines	49,211	3.4	3.0
Qatar	237	8.6	3.0
Reunion	525	3.4	2.4
Rwanda	4,797	2.8	3.1
Saudi Arabia	8,960	4.7	3.8
Senegal	5,661	2.7	2.6
Sierra Leone	3,474	2.4	2.7
Singapore	2,390	3.0	1.6
Somalia	4,637	4.9	1.8
South Korea	38,455	3.2	2.1
South Yemen	1,858	2.1	3.1
Sri Lanka	14,815	2.6	2.5
Sudan	18,371	2.6	2.8
Suriname	388	0.2	4.2
Swaziland	557	2.4	2.9
Syria	8,977	4.2	3.9
Tanzania	17,934	2.7	3.2
Thailand	47,063	3.3	3.1
Togo	2,625	2.6	3.0
Trinidad and Tobago	1,168	2.6	2.1
Tunisia	6,354	3.1	3.0
United Arab Emirates	726	13.3	3.0
Uganda	13,201	2.8	3.1
Upper Volta	6,908	2.3	2.6
Uruguay	2,924	0.2	0.7
Venezuela	15,620	4.3	3.5
Zaire	28,291	2.7	2.9
Zambia	5,766	2.9	3.3
Zimbabwe	7,396	3.2	3.5

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More than two-thirds of *Mexico's* 76 million people live in metropolitan areas and nearly one-third of all urban dwellers live in Mexico City. Unemployment and crime are becoming a way of life for many city dwellers. Restrictive policies designed to stabilize the economy will keep economic expansion well below 1970's norms, aggravating the impact of continued rapid adult population growth on surplus labor.

Joblessness and underemployment already is a serious problem for *Nigeria's* nearly 45 million adults. Four-fifths of the populace depend on seasonal agricultural work, and only 20 to 30 percent of Nigeria's new secondary school graduates report finding jobs. Nonetheless, Ghanaian migrants are starting to pour back in because conditions are worse in their own country. These problems will worsen over the course of this decade.

Almost one-third of *Pakistan's* nearly 95 million people live in overcrowded cities. Pakistan faces problems of ethnic, cultural, and linguistic differences between Pushtuns, Sindhis, Baluchs, and Punjabis, as well as about 3 million Afghan refugees. Unemployment and underemployment has made Pakistan a major source of temporary workers throughout the region, but weakening economic conditions in Gulf countries may remove this safety valve.

Underemployment probably will be the worst economic problem facing *Indonesia's* estimated 156 million inhabitants in this decade. Nearly 2.3 million juveniles will reach adulthood each year during the remainder of the 1980s and school leavers face poor job prospects. Adjusted unemployment, according to World Bank estimates, already exceeds 40 percent of the labor force and probably will worsen.

The fragile economies of Central America and the Caribbean also will be facing heightened strains from their rapidly growing work forces. They have been unable to support urban labor force growth in the past, and their performance seems likely to deteriorate in the medium term. In the Dominican Republic, for example, the nonagricultural labor force grew 5 percent yearly from 1960 to 1975 while nonagricultural job growth was only 4 percent; Jamaica's performance was even worse. Consequently, many Latin American and Caribbean governments have for years tacitly or openly encouraged immigration as an avenue to relieve unemployment and population pressure.

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The problem is likely to worsen in this region as adult-population growth rates remain high or accelerate. In El Salvador the annual growth rate has jumped to over 4 percent from 3.4 percent during the 1970s. Honduran population growth has risen from 3.3 to 3.8 percent and in Nicaragua from 3.0 to 3.3 percent. Along with slow job growth in industry and services in most of Central America and the Caribbean, the scarcity of arable land is hastening peasant migration to urban centers or abroad.

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Implications for the United States

Rapid Third World labor force growth during the 1980s will have several adverse consequences for US interests:

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- As the Mexican and Central American economies face increased difficulties in providing employment opportunities, many workers will view migration to the United States as the best alternative. We estimate three-fourths of United States illegal immigrants presently come from Mexico, El Salvador, Guatemala, or Honduras.

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- In many LDCs, tensions over stagnant or declining real incomes could be exploited by radical opposition groups that could blame the US for economic problems and would oppose US interests.

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- The present international financial crisis could be prolonged by mounting domestic pressure in debt-ridden LDCs to provide jobs and increase welfare expenditures rather than sticking to tough economic austerity programs.

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Eastern Europe: Continuing Slowdown In Trade With the West

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Eastern Europe's trade with the Developed West has dropped sharply in the last two years and will likely fall further this year and next. Prospects for growth during the following three or four years is modest at best, even with an improving world economy. East European planners must weigh the possible benefits of reviving trade with the West against the severe problems their economies have experienced from the 1981-82 credit squeeze. Where possible they will seek substitutes for Western goods from suppliers within the Soviet Bloc.

A Soaring Trade Deficit

Eastern Europe's trade with the Developed West expanded rapidly during the 1970s, aided by the advent of detente. As political relations warmed, Eastern Europe welcomed the opportunity to import Western goods and technology, much of it financed by Western credits. Imports from the West grew by an average 20 percent annually from 1972 to 1978, with the bulk of the increase occurring in 1973-74. Manufactured goods consistently accounted for about three-fourths of these imports; foodstuffs made up the second-largest category, averaging about 11 percent.[1]

Eastern Europe made some gains as a result of growing East-West trade, particularly in the standard of living:

- Imports of feedgrains and breeding cattle improved the protein content of East European diets.
- Turnkey manufacturing plants equipped with advanced Western machinery and equipment were constructed.
- Modern production lines to upgrade or expand productive capacity were installed in existing plants.

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In general, however, Eastern Europe was not able to use its manufactured goods imports effectively. Managers often lacked the experience to anticipate the problems involved in putting into production large amounts of new equipment, procedures, and technology. Furthermore, construction and startup difficulties frequently prevented full utilization of the new equipment. As a result, Eastern Europe increasingly found it difficult to realize the anticipated returns from their investment; export sales from these installations often proved disappointing, particularly in hard currency markets.

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As a result of sharply rising imports, Europe's hard currency trade deficit jumped from \$2.1 billion in 1972 to \$9.4 billion in 1975; for the remainder of the decade the deficit averaged \$9.0 billion annually. Although export growth was good—averaging 17 percent annually between 1972 and 1978—it failed to match the increase in imports.

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1978-83: Slow Adjustment

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Recognizing the trade imbalance, the East Europeans first responded by trying to boost exports and then later resorted to slashing imports. The adjustment effort was complicated, however, by Western recession and by Eastern Europe's slow response to the oil crisis.

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[1] Trade figures are derived from official East European statistics, except for data on the commodity composition of trade with the Developed West, which is derived from partner (OECD) statistics.

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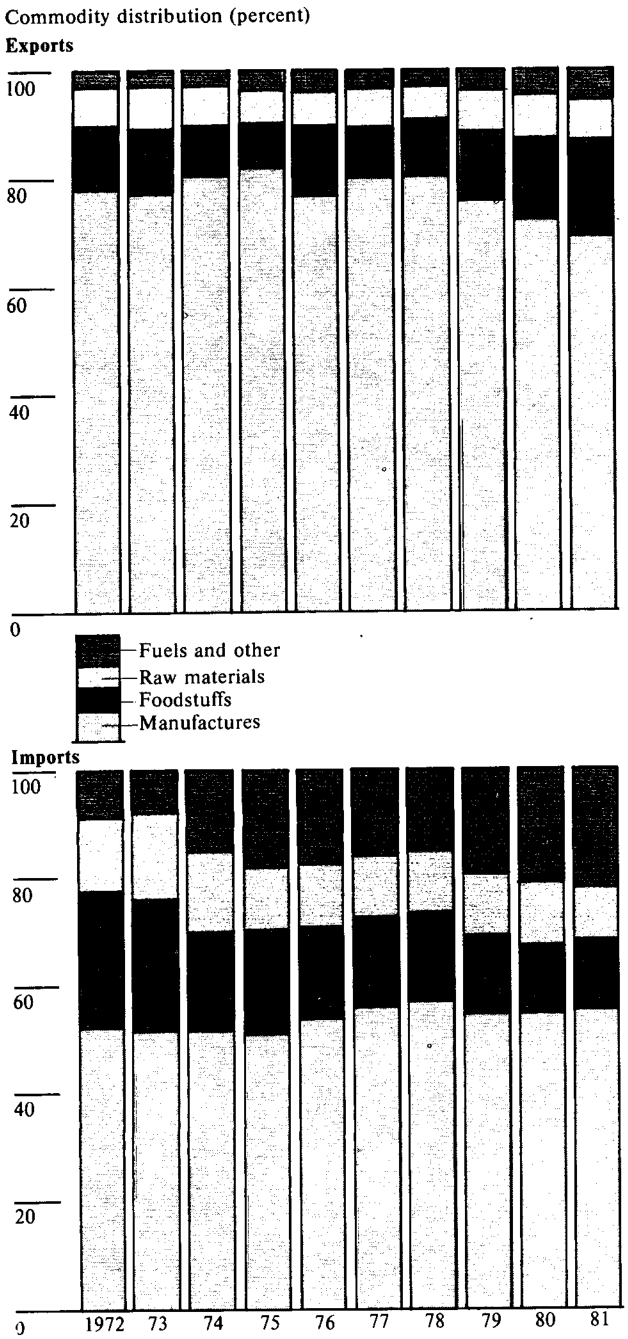
Eastern Europe: Commodity Distribution of Trade With the OECD



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The slowdown in the availability of Western credits in 1981, followed by large cuts in lending in 1982, forced most of the East European countries to intensify adjustment measures. They reduced hard currency imports by 8 percent in 1981 and by another 22 percent last year. The most severe import reductions during 1981-82 were made by Romania (55 percent), Poland (48 percent), and East Germany (32 percent). According to Western statistics, imports from the Developed Western countries during the first six months of 1983 were down a further 12.6 percent from the year-earlier period. 25X1

East European planners focused import cuts on those items that would have the least immediate impact on their economies and populations. Purchases of capital equipment were denied or postponed wherever possible, since the loss of these items would not seriously jeopardize current production. As a result, the share of machinery and transport equipment in imports from the Developed West fell from 40 percent in 1977 to 31 percent in 1981. Restrictions were less severe on imports of raw materials, chemicals, and other semifinished goods needed for production. Most East European regimes have been cautious about reducing purchases of consumer goods and foodstuffs, and the import share of these goods consequently rose from 12 to 22 percent between 1977 and 1981. 25X1

The tough austerity measures led to a dramatic turnaround in Eastern Europe's hard currency trade balance. In 1982 the deficit shrank by $5.5 billion; East Germany and Romania contributed the most to this improvement. 25X1

Outlook

As Eastern Europe recovers from the economic adjustments of the last several years and as the world economy improves, East-West trade will revive. After the harsh experience of recent adjustments, however, Eastern Europe is not likely to

Eastern Europe: Hard Currency Trade [a] *Million US $*

	1972	1975	1980	1981	1982
Exports	**7,209**	**13,222**	**28,622**	**26,456**	**24,824**
Bulgaria	347	586	1,638	1,354	1,257
Czechoslovakia	973	1,672	3,226	3,281	2,718
East Germany	1,425	2,631	5,199	5,446	5,598
Hungary	824	1,327	4,063	3,845	3,726
Poland	1,507	3,278	5,857	4,274	4,404
Romania	909	1,854	4,453	3,783	3,408
Yugoslavia	1,224	1,874	4,186	4,473	3,713
Imports	**9,299**	**22,659**	**35,687**	**32,784**	**25,687**
Bulgaria	391	1,289	1,657	2,054	1,909
Czechoslovakia	1,098	2,244	3,692	3,603	2,856
East Germany	1,970	3,695	6,857	5,892	4,663
Hungary	890	1,966	3,784	3,572	3,119
Poland	1,821	6,199	6,699	4,498	3,508
Romania	1,085	2,218	4,250	3,525	1,933
Yugoslavia	2,044	5,048	8,748	9,640	7,699
Balance	**−2,090**	**−9,437**	**−7,065**	**−6,328**	**−863**
Bulgaria	−44	−703	−19	−700	−652
Czechoslovakia	−125	−572	−466	−322	−138
East Germany	−545	−1,064	−1,658	−446	935
Hungary	−66	−639	279	273	607
Poland	−314	−2,921	−842	−224	896
Romania	−176	−364	203	258	1,475
Yugoslavia	−820	−3,174	−4,562	−5,167	−3,986

[a] Excluding trade with the LDCs.

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encourage a return to the freewheeling trade boom of the 1970s but instead will follow a more cautious policy.

East European trade with the West during the next two or three years will remain below the peak 1980 level. The East European economies will be struggling to recover from supply shortages and other economic distortions generated by rigorous adjustments. In addition, exports of key commodities—steel, machinery, chemicals, and textiles—will encounter stiff competition in Western markets.

We expect trade growth to remain modest for the rest of the decade. Western economic growth is likely to remain low by postwar standards while the trend toward protectionism continues in various Western countries—particularly with respect to basic industries such as steel. If translated into tighter import quotas or higher tariffs, growing protectionism will further limit Eastern Europe's ability to earn the hard currency to repay debts to the West and to purchase Western imports. In an

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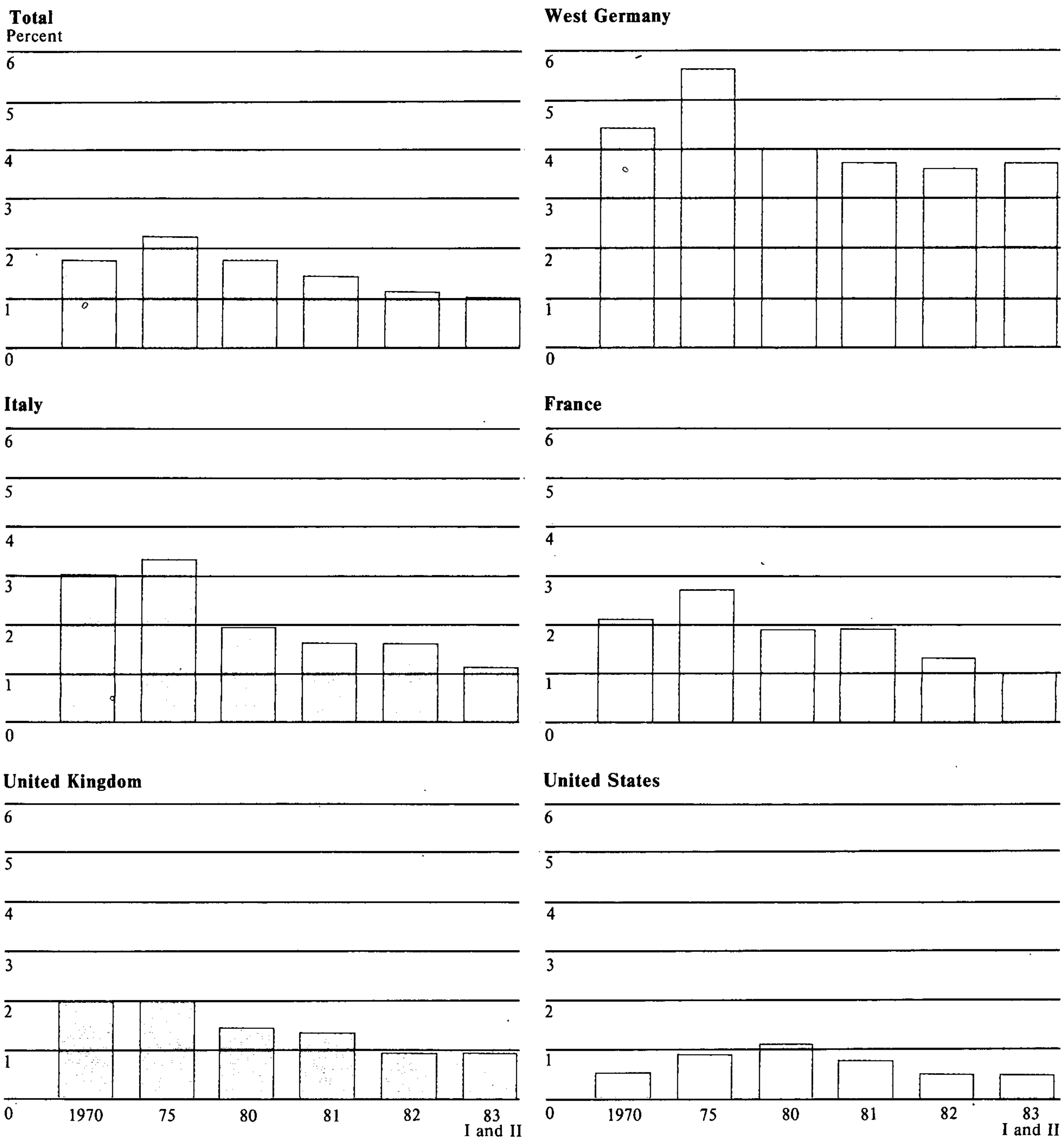
OECD: Share of Exports Going to Eastern Europe



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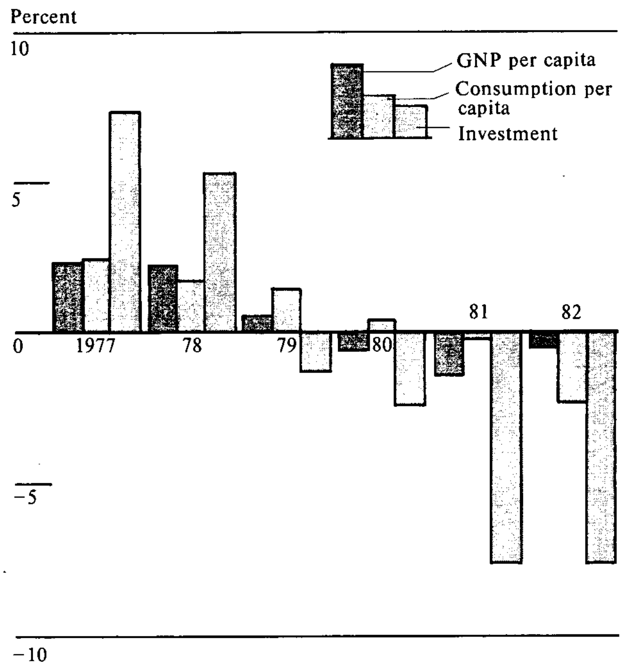
Eastern Europe: Domestic Economic Indicators



[redacted]

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effort to limit the effects of Western protectionist actions on their exports, both Hungary and Czechoslovakia this year approached EC and West European government officials for exploratory trade talks. Hungary is seeking a broad trade agreement similar to the one it has with Finland, while the Czechoslovaks have put forward requests on specific manufactured goods. Progress is not expected soon on either inquiry. [redacted]

Cuts in imports of capital equipment from the Developed West during the past two years will have a serious impact on future East European industrial production and exports. The longer the East European countries continue to delay modernization, the further behind the West they will be technologically. The ensuing lack of competitiveness in world markets will make it harder to expand exports. [redacted]

Persistent East European hard currency debt problems and the lingering effects of the credit crunch will limit any rebound in East European imports from the West in 1984 and 1985. Even if there is an easing of East European financial problems, we expect central planners to maintain a tight lid on purchases of industrial goods from the West at least through 1984. Imports will consist primarily of items needed for current production. Consumer good imports also will continue to be curtailed. Agricultural imports, especially those which support vital export industries (for example, feedgrains and cotton), will tend to get higher priority. [redacted]

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East European central planners are trying to utilize Soviet Bloc trading partners wherever possible as sources for imports. Most intra-CEMA trade is settled on a clearing account basis, thus minimizing hard currency outlays. In addition, the East European countries have turned increasingly to countertrade during the last two or three years. These moves have met with limited success. The value of buyback countertrade contracts for East European exports during 1981-82 has been estimated at $2.7 billion by the Secretariat of the Economic Commission for Europe. These contracts comprised about 6.6 percent of East European exports to the Developed West during the period. Western firms have resisted using countertrade because it forces them to take on Eastern Europe's marketing difficulties. [redacted]

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Japanese Energy Imports: Prospects for Enhancing Energy Security

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Lowered prospects for economic growth and improved energy efficiency have sharply reduced future Japanese energy needs. Nonetheless, with its poor domestic resources, Japan will remain heavily dependent upon imported energy, leaving the country vulnerable to energy supply disruptions. Increased imports of US energy could enhance Japanese energy security and improve the bilateral trade balance problem. We believe expanded purchases of US energy products probably would require a much more rapid growth in Japanese energy requirements than most forecasts now expect. Alternatively, Japan could increase imports of US energy at the expense of other suppliers if US energy sources—particularly coal—became more price competitive or the Japanese Government undertook a commitment to expand US imports.

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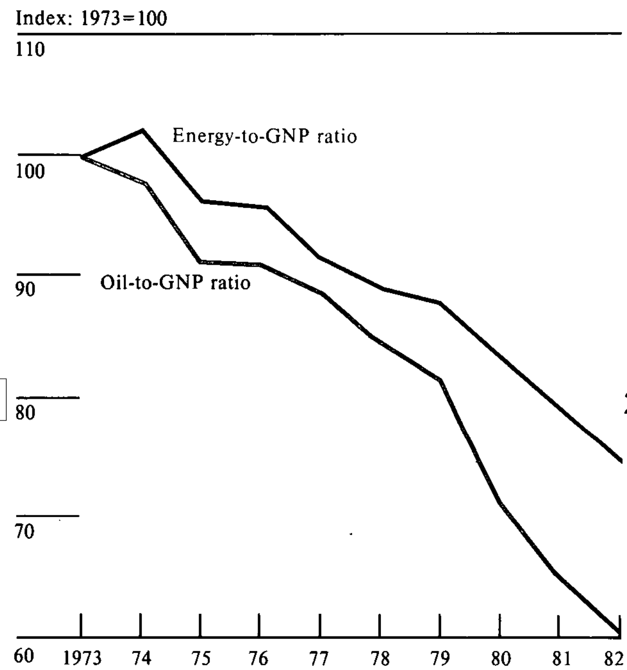
Japan: Measures of Efficiency



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Recent Trends

Japanese energy consumption rose sharply during the 1960s and early 1970s—jumping from 1.9 million barrels per day of oil equivalent (b/doe) in 1960 to 7 million b/doe in 1973. Rapid growth in energy demand ended abruptly following the 1973 oil crisis. Through 1982, total energy consumption increased by less than 300,000 b/doe, and oil use declined by 900,000 b/d.

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Sluggish growth in energy demand and the falloff in oil use can be traced to slower economic growth and sharply higher oil prices. Annual economic growth averaged 3.4 percent between 1973 and 1982—approximately one-third the rate of the 1961-72 period. On the price front, imported crude oil prices increased ninefold after 1973—spurring major improvements in energy efficiency. The energy-to-GNP ratio—a measure of an economy's energy efficiency—has fallen 25 percent since 1973 and is the lowest of any major industrialized country. The ratio of oil to GNP has fallen even faster. Contributing to these declines has been a structural shift in the economy away from heavy, energy-intensive industries, such as steel and shipbuilding, to processing and assembling industries with low energy inputs, such as electronics. Interfuel substitution has also reduced oil demand.

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Demand Outlook: Diminished Expectations

Energy efficiency improvements, together with lowered prospects for economic growth, have sharply reduced energy demand projections:

- The Japanese Government currently projects 1990 requirements at between 8.2 and 8.7 million b/doe—roughly 20 percent below its April 1982 forecast.
- The Petroleum Association of Japan places 1990 requirements at 8.1 million b/doe—10 percent below last year's projection.
- Major US oil companies have trimmed forecasts of Japanese energy needs by 5 to 10 percent compared with year-earlier projections.

These revised forecasts suggest that Japanese energy demand will increase from about 7.3 million b/doe in 1982 to about 8.0-8.8 million b/doe in 1990 and to about 9.0-10.0 million b/doe in the year 2000. These projections assume a modest rate of economic growth in Japan—averaging about 3 to 4 percent during the 1980s, declining to about 2.5 to 3.5 percent annually in the 1990s. The forecasts also assume declining real oil prices to 1985, flat real prices from 1985 to 1990, and real price increases of 1.5 to 3.0 percent per year through the year 2000.

Oil. Despite prospects for slow growth in energy consumption, Japan will remain heavily dependent on oil over the next two decades. Based on recent industry estimates, we believe oil consumption will approximate 4.5-4.7 million b/doe in 1990 and around 4.3-4.8 million b/doe in the year 2000. As a result, imported oil will account for nearly 55 percent of Japan's energy requirements in 1990 and about 50 percent by the end of the century.

Natural Gas. Because of Japanese efforts to reduce oil use and the clean burning properties of gas, demand for natural gas is likely to grow more rapidly than the demand for any other major fuel during the 1980s. Based on recent forecasts, we believe Japan's gas needs will rise from current levels of around 500,000 b/doe to approximately 900,000 b/doe in 1990. This demand is substantially less than the Japanese were expecting when they initiated many of their gas supply projects in the mid-1970s. Consequently, government officials concede that planned LNG projects will probably be delayed by about four or five years.

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From 1990 to the end of the century, growth in gas demand is likely to be sluggish, increasing by only around 200,000 b/doe, according to most recent forecasts. Current price trends and contract terms will likely restrain demand growth. The price of imported LNG is tied to crude oil prices in existing contracts, and, consequently, heavy fuel oil—a lower quality byproduct of crude oil and a major fuel in electric utilities and industry—is cheaper than LNG. Moreover, LNG contracts contain inflexible "take or pay" clauses, which the Japanese are now reluctant to accept. As a result, industry sources foresee little growth in gas use for electricity generation beyond 1990, and the projected increase in industrial gas use is minimal because the price is high relative to alternative fuels. The lack of a significant distribution infrastructure outside of Japan's major cities will limit residential/commercial gas demand.

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Coal has borne the brunt of cutbacks in future energy needs. The current government projection has slashed coal requirements in 1990 by around 25 percent compared with its April 1982 assessment, largely as the result of reduced electricity needs and coal's position as a residual fuel in electricity generation. Because of existing "take or pay" LNG contracts and large investments in nuclear power plants under construction, the bulk of the reduction in new power plant construction has fallen on coal. US Embassy reporting indicates a total of 350,000 to 450,000 b/doe of steam coal under contract for delivery in 1990 has been postponed due to plant delays or cancellations.

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Nuclear Power. Japan has an aggressive nuclear power program ranking in size only behind those of the United States and France. Future growth in nuclear power, however, will be constrained by reduced prospects for economic growth, reduced

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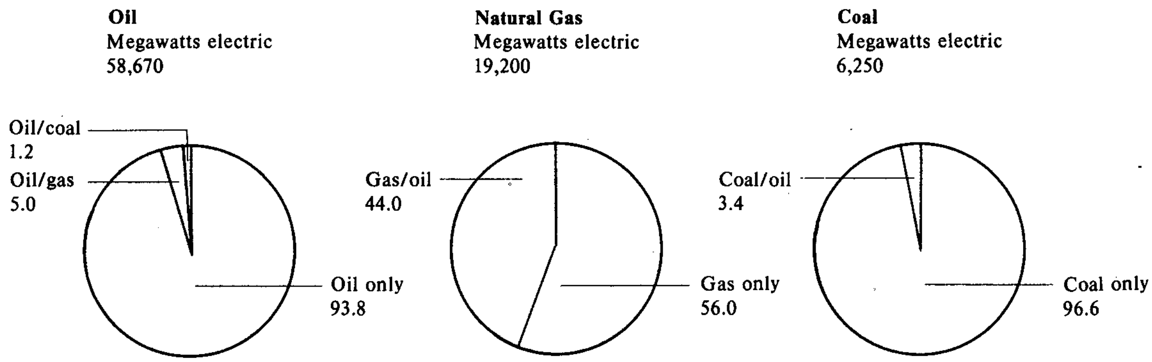
Japan: Electricity Generation Dual Switching Capability[a]

Yearend Fiscal 1982

Percent



[a] At large electric power stations.

[redacted]

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growth rates for electricity demand, public opposition, and siting difficulties. Given current construction status and the long leadtimes required, we project Japanese nuclear-electric generating capacity to reach only about 27,500 MWe by 1990. As a result, we expect nuclear power output to represent the equivalent of about 650,000 to 700,000 b/doe. By the year 2000, Japanese plans call for nuclear power output equivalent to about 1.8 million b/doe. We believe that Japan may fall as much as 700,000 b/doe below this level for the year 2000. [redacted]

Import Dependence Implications

Although future energy requirements will be sharply below levels expected one to two years ago, Japan will still rely on imports for over 80 percent of energy needs. Japan will have to rely on imports for nearly all of its oil requirements through the year 2000, and the bulk of these supplies probably will continue to come from Persian Gulf sources. Thus, Japan will remain extremely vulnerable to Middle East oil supply disruptions over the next two decades. [redacted]

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The electric power sector, which consumes around one-third of Japanese final oil use, has only a limited capability to switch to alternate fuels in the event of an energy supply disruption. At yearend 1982, Japan had an installed electricity generating capacity of 134,000 MWe. Only 9 percent of this capacity, however, can be switched to alternate fuels. Some two-thirds of the fuel switching capability uses oil as a backup fuel at gas-fired power plants. Only 6 percent of oil-fired generating capacity can be switched to gas or coal as alternate fuels. Thus, a prolonged oil supply disruption would adversely affect about 40 percent of Japan's electric power generating capacity; a simultaneous disruption of both oil and gas supplies would affect nearly 60 percent. [redacted]

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Japan: Changing Fuel Mix for Electricity Generation

	1980 [a]	1990		2000	
	(percent)	(TWh [b])	(Percent)	(TWh) [b]	(Percent)
Total	**100.0**	**695**	**100.0**	**955**	**100.0**
Nuclear	16.6	155	22.3	380	39.8
Hydro/geothermal	18.7	115	16.5	160	16.8
Coal	9.6	65	9.4	150	15.7
Natural gas/LNG/other gases	13.5	180	25.9	180	18.8
Petroleum	41.6	180	25.9	85	8.9

[a] Based on fuel inputs, a consistent detailed breakdown for 1980 is not currently available.
[b] Terawatt-hours.

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Enhancing Japanese Energy Security

Given the high level of dependence on oil in electric utilities and the lack of fuel switching capability, we believe Japan could take several steps to enhance its energy security in this sector. While continued conservation gains, prospects for less robust economic growth, and increasing real electricity prices will hold down the growth rate for electricity demand, we still expect demand to grow an average 3.2 percent annually based on estimated GNP growth of about 4.0 percent. As a result, we expect Japanese gross electricity requirements in 1990 to approximate 695 terawatt-hours (TWh),[1] up 20 percent compared to 1980. Our analysis indicates that Japan is likely to require 955 TWh by the year 2000, up 37 percent over the decade. To limit oil dependence, Japan already is planning to build nuclear and LNG-fired electricity capacity to meet the majority of the increase with the remaining portion being filled mostly by coal and hydro. Still, oil will account for over 25 percent of electricity generation in 1990. Coal will provide only around 9 percent of 1990 electricity needs, the same as in 1980 despite construction of new coal-fired capacity.

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To enhance energy security, Japan could place greater emphasis on coal for electricity generation. Coal is a secure fuel, avoids many of the problems associated with nuclear power, and is the cheapest means of conventional thermal power generation in Japan. Forecasters, moreover, expect coal to maintain its price advantage over competing fuels. Although it is not currently economic to build new coal power generating capacity to replace existing oil-fired capacity, coal capacity will be substituted for oil-fired units at the end of their economic life. This trend could be accelerated through government subsidies and incentives to offset the high capital costs of switching to coal. Such a policy would lessen Japan's dependence on imported oil in the late 1980s and early 1990s and increase the potential market for imported coal.

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[1] One terawatt-hour represents the primary energy equivalent of 0.25 metric ton oil equivalent or 0.38 metric ton coal equivalent.

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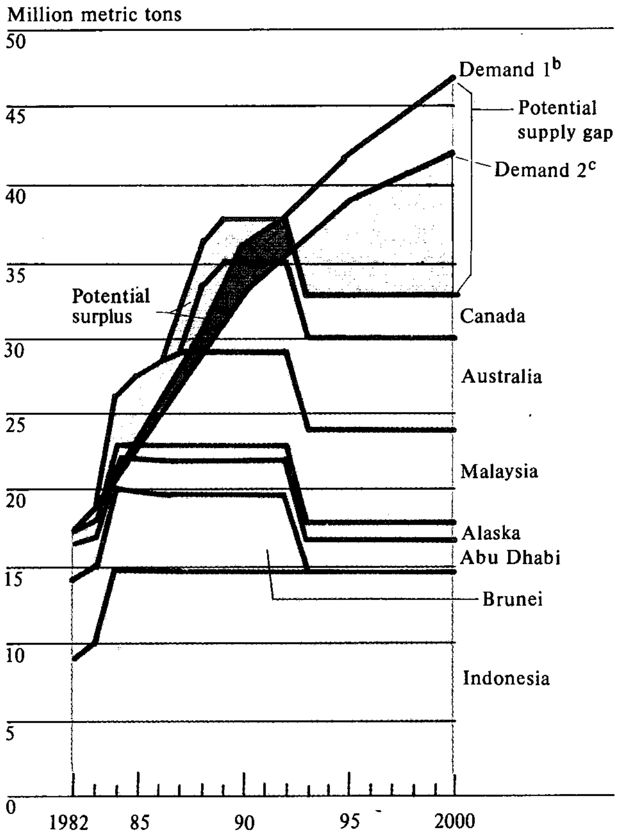
Japan: LNG Supply[a] and Demand



[a] Based on projects under construction or agreed to.
[b] MITI projection extrapolated from 1995 to 2000.
[c] Petroleum Association of Japan forecast.

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Japan: Imported Coal Prices *US $ per metric ton*

	1980	1981	1982
Steam Coal			
Average [a]	52.62	65.67	64.77
South Africa	38.98	55.39	60.82
Canada	53.05	62.93	62.94
Australia	53.73	65.69	64.93
China	48.09	65.97	66.32
United States	66.02	73.20	70.60
Metallurgical Coal			
Average [a]	65.79	71.30	73.93
South Africa	52.92	64.13	66.98
Australia	59.28	65.68	68.11
China	55.54	65.74	68.61
Canada	61.73	64.67	70.41
USSR	57.35	63.83	70.85
United States	80.11	83.48	82.91

[a] Weighted.

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Potential for US Exports

Sharp cutbacks in Japanese energy demand, combined with existing long-term supply arrangements, have reduced the potential for additional Japanese energy purchases, including imports from the United States. Increased imports of US energy could enhance Japanese energy security and improve the bilateral trade balance problem. We believe, however, expanded US exports probably would require a much more rapid growth in Japanese energy requirements than most forecasts now expect. Alternatively, Japan could increase imports of US energy at the expense of other supplies if US energy sources—particularly coal—became more price competitive or export restrictions on oil were lifted. 25X1

Japanese refiners recently expressed an interest in purchasing up to 50,000 b/d of Alaskan oil. This would require the lifting of the export ban on Alaskan oil sales as has been proposed by the Reagan administration. Imports of Alaskan oil will help Japan reduce its bilateral trade surplus with the United States and marginally reduce its reliance on Middle East oil. 25X1

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Although current gas supply contracts appear to meet Japanese needs through the early 1990s, we believe additional contracts will be needed in subsequent years. Alaskan North Slope gas would significantly enhance Japanese energy security; under current agreements Indonesia and Malaysia will provide Japan with nearly two-thirds of its contracted gas supplies in the mid-1990s. The export of Alaskan North Slope gas to Japan, however, will depend upon its price competitiveness with other suppliers and the willingness of other buyers—particularly South Korea and Taiwan—to contract for some of the gas to support the proposed capacity of the pipeline. At present, most Japanese gas suppliers have a decided advantage over Alaskan gas in the cost of transporting LNG to Tokyo.

Additional Japanese purchases of US coal will likely depend upon Japanese efforts to accelerate coal use in electricity generation or a substantial decrease in the delivered price of US coal to Japan. US coal is currently the most expensive purchased by Japan, and the Japanese are reluctant to sign long-term contracts with US suppliers until prices are more competitive. The absence of long-term contracts, however, has deterred US suppliers from constructing the necessary infrastructure to reduce transport costs.

Concern over the bilateral trade balance with the United States, however, has caused the Japanese and Prime Minister Nakasone to seek ways, including purchases of US energy, to reduce the deficit. Government-to-government discussions seeking to resolve this issue before President Reagan's visit to Japan in November are under way. Japanese energy users, including industry and utilities, have been reluctant to sign long-term energy purchase agreements with the United States because of the high cost of US energy compared to other potential suppliers. Unless US energy supplies become more competitive, it is doubtful that much additional coal or LNG could be sold to the Japanese on a strictly commercial basis. We believe significant increases in US energy sales to Japan will require changes in Japanese Government policy strongly pushing industry and utilities to enhance Japanese energy security despite the price or through some means of formal energy price subsidy.

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