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DIRECTORATE OF
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Economic Intelligence Weekly Report

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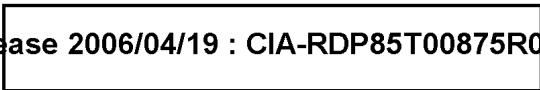
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Note: This report was prepared by the Office of Economic Research. Questions regarding its contents may be directed to OER,

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ECONOMIC NOTES**Weather Conditions Endanger Crops in the USSR and Eastern Europe**

A lack of protective snow cover is threatening prospects for winter grain harvests in the USSR and the East European countries of Hungary, East Germany, Czechoslovakia, and Poland. In the USSR a combination of winterkill and the 20% shortfall in last fall's planting may reduce the winter grain area to the lowest total in years. Soil moisture levels in the other four countries are 25% or more below normal. If the Soviets fail to meet a record high spring seeding schedule and if growing conditions for winter sown grains fail to improve substantially in both the USSR and Eastern Europe, the area as a whole may again require massive imports of grain in fiscal year 1974. As a result of crop shortfalls in 1972, net imports of grain in fiscal year 1973 will reach a record 27-1/2 million tons for Eastern Europe and the USSR together.

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Worsening Food Situation in India Foreshadows Additional Purchases of Grain

India will be able to remain out of the market only under ideal conditions – a record spring harvest combined with favorable monsoon rains next summer. So far, in December and January, India has bought 2 million metric tons of grain on commercial terms, mainly from the United States, Canada, and Argentina. These purchases have used up the equivalent of one-fifth of India's foreign exchange reserves of approximately \$1 billion. Because of the high and rising price of grain and the depletion of inventories worldwide, India may decide to ask for large amounts of US grain on concessionary terms. Otherwise, New Delhi would be forced into a heavy drawdown of foreign exchange reserves and/or tighter import restrictions.

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China Buys Second Whole Plant on Credit

A willingness to accept medium-term credits for whole plant purchases will increase China's prospective import demand. A Japanese firm has just concluded negotiations with the Chinese for a \$30 million ethylene plant, China's second such purchase from Japan in recent weeks. Both purchases are being financed on five-year terms by a combination of Japanese Export-Import Bank and commercial credits. At Chinese insistence, the

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[REDACTED]

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second contract was quoted in Chinese currency. With the yen now floating, the contract currency could become a point of contention in future plant negotiations between China and Japan. [REDACTED]

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Chile Needs Wheat

Santiago sees the United States and Canada as the only possible sources for the balance of Chile's 1973 wheat import needs. A poor harvest has raised import requirements to about 1.3 million metric tons. Contracts have been signed for about half this amount. Efforts to buy another 600,000 tons to 700,000 tons will intensify pressure on world wheat prices. Since a severe import squeeze is shaping up, Chile will be looking for credits to finance these wheat purchases, estimated to cost \$60 million to \$70 million. [REDACTED]

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A Floor Under Copper Prices?

Chilean President Allende claimed last week that CIPEC (an association that includes Chile, Peru, Zambia, and Zaire and supplies about 60% of the world's primary copper exports) had agreed on a minimum copper export price of 53 cents a pound. Even if such a step has been taken, there is no immediate problem, since the London Metal Exchange price is hovering around 54 cents. Should the market soften, holding a 53-cent price would require stockpiling or production cutbacks, actions that member countries have been unwilling to take since CIPEC's formation five years ago. [REDACTED]

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OECD's Current Account Predictions Now Questionable

Forecasts by the Organization for Economic Cooperation and Development of a moderately improved US current account balance and less robust balances for Japan and the enlarged European Community this year probably are now somewhat optimistic, because the dollar's devaluation initially will have the opposite effects. Prior to the devaluation, the OECD had expected that the US deficit would drop by \$2.7 billion to \$5.8 billion this year, while the Japanese surplus would decrease by about \$1 billion to \$5.75 billion. The United Kingdom was expected to have a \$1.2 billion deficit, which would help reduce the enlarged EC's current account surplus to \$4 billion from the \$5.9 billion registered last year. [REDACTED]

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[REDACTED]

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REVIEW ARTICLES

Yugoslav Economic Policymaker Visits the United States*

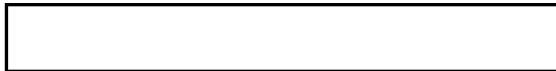
Jakov Sirotkovic, Vice President of Yugoslavia's Federal Executive Council and the architect of Yugoslavia's current economic policy, is in Washington this week. In talks with representatives from the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) as well as from the Export-Import Bank, Treasury, State, and the White House, Sirotkovic will discuss the status of US-Yugoslav economic relations and current prospects for Yugoslavia's economy.

After two years in charge of Yugoslav economic policymaking, Jakov Sirotkovic is beginning to see some results in combating one of the country's worst periods of economic crisis. A rare balance-of-payments surplus was generated in 1972, and new measures to curb wage controls were imposed at the end of the year. The country is still in a continuing battle against inflation and enterprise insolvency. The government has no means out of the woods but current talks in Washington are expected to result in measures to improve US-Yugoslav commercial relations rather than to request emergency US financial assistance.

Since 1965 the US policy has shifted from one of providing direct aid in support of economic growth and reform to efforts to expand normal trade and commercial relations. Trade has not yet responded to the change in policy; overall trade, except for special large US export deals such as recent wheat and aircraft sales, nearly stagnated during the last half of the 1960s. In contrast, Yugoslav trade with the USSR has revived sharply since 1970, reflecting Yugoslavia's hard currency balance-of-payments difficulties. The upsurge in trade was accompanied by \$540 million in Soviet credits for resource development in Yugoslavia's backward areas.

Neither Sirotkovic's latest package of stabilization measures nor the current liberalization of Yugoslav imports is expected to have a significant effect on US-Yugoslav trade in the next year or two. In the longer run, trade expansion would be encouraged by US support for joint ventures

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and long-term credit arrangements, particularly those that promote Yugoslav exports. Prospects for trade would be brighter if Sirotkovic could convert his emergency stabilization program into a systematic set of rules for the economy, designed to prevent instability and speculation, not merely to react to crises already under way. But the odds are against this, especially now that the republics have primary responsibility for implementing federal policies. Once the economic picture improves, nearly everyone will again demand that controls be dismantled. This will put the economy into another cycle of instability and probably will put Yugoslav policymakers on the road to Washington for another round of talks on debt rescheduling.

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International Monetary Developments

With a few expected exceptions, nearly all foreign reaction to the US dollar devaluation has been favorable. When official currency markets reopened Wednesday, the Bank of Japan was forced to intervene heavily to hold down the yen appreciation; early trading in European markets was light and the dollar was strong.

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West European reaction to the dollar devaluation has been generally favorable, although there is some caution concerning long-term prospects and the continuing danger of monetary speculation. Bonn is happy that it did not have to act unilaterally to float the Deutschmark or revalue relative to most of its trade partners. Its attitudes toward the United States clearly have improved from two weeks ago, when Washington was being accused in German inner circles of fomenting the monetary crisis. French and British public comments have also been complimentary to the US move. Some tensions, albeit slight, have developed within the European Community over the Italian decision to float the commercial lira and the failure of the major members to consult with the smaller states. More important, however, was the close Franco-German cooperation that produced speedy agreement on a common EC position in marked contrast to 1971, when the failure of Paris and Bonn to agree prolonged the monetary crisis.

Most of the less developed countries are sitting tight. Many have not yet decided if they will leave the gold parity of their currency unchanged thereby appreciating relative to the dollar.

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[REDACTED]

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Most major foreign currency markets were closed on Monday and Tuesday.

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[REDACTED] at the close of trading on Wednesday, the yen was effectively revalued by almost 14% relative to the dollar's new parity. In Europe, trading was slow and steady on Wednesday. The effective mark revaluation in Frankfurt was about 7% relative to the dollar; sterling showed an effective revaluation of 3% relative to the dollar.

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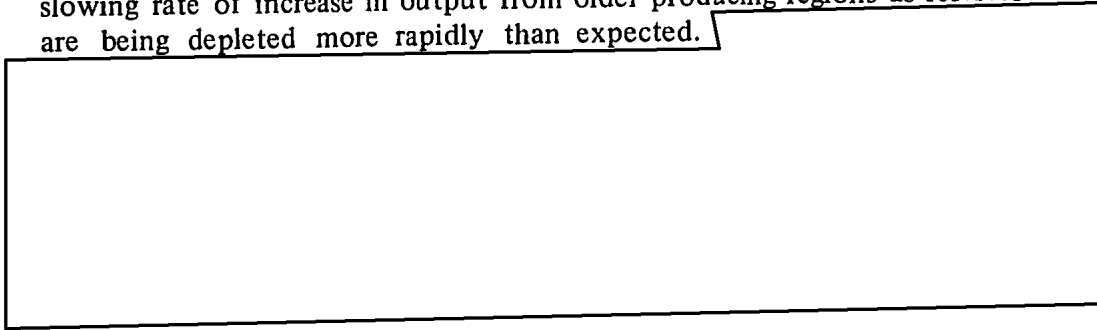
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Soviet Petroleum Industry Needs Western Equipment

Several recent Soviet announcements raise questions concerning the reliability of the USSR as a long-range supplier of energy and make increasingly apparent its need for Western petroleum industry equipment. Production of oil and gas in 1972 was below planned levels, reflecting a slowing rate of increase in output from older producing regions as reserves are being depleted more rapidly than expected.

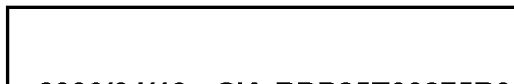


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To overcome the current lag in output of oil and gas, the Soviets will have to find deeper deposits in old producing regions in the Western part of the country and accelerate development of new fields in Central Asia and especially in Siberia. However, Soviet equipment is not well suited either for exploring greater depths in the Urals-Volga and other older producing regions or for developing new fields in Siberia. As a result, Soviet technicians are showing increasing interest in Western technology and equipment. In the past two years, the USSR has placed orders for Western petroleum equipment totaling about \$350 million, including some \$60 million to \$70 million in the United States, primarily for oilfield and pipeline equipment. Opportunity probably exists for sizable additional sales.

The degree of success that the USSR has in developing its own reserves may determine the extent to which it will, in the future, (1) compete with Western companies for oil from the Middle East and Asia and (2) be able to export oil and gas to the industrialized countries of the West. US equipment and technology undoubtedly could facilitate development of the Soviet reserves.

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Tokyo Reexamines Export Controls

Tokyo probably will drastically alter or disband recently imposed export controls and postpone further import liberalization because of the new currency realignment.

Japanese officials have repeatedly stated that the export restrictions would be ended if the yen were floated or revalued. The control program, initiated in the fall of 1972, ostensibly was designed to reduce the trade surplus with the United States. Its elimination would not significantly affect Japan's export growth, however, since the program never was very restrictive. After it was introduced, Japanese exports accelerated, recording the largest monthly gain of 1972 in December. Exports continued to increase fairly rapidly last month.

Other measures to reduce the huge trade surplus seem unlikely while the yen is floating. Indeed, recent proposals for easing formal import restriction probably will be shelved for a while. Prime Minister Tanaka was expected to seek Diet approval for substantial tariff reductions within the next few weeks. But it is doubtful that he will now pursue the matter since he is already being criticized sharply by his political opposition for floating the yen.

Opposition within the government to new trade measures to accommodate foreign countries remains strong. The powerful Ministry of International Trade and Industry, which speaks for many small and medium-sized firms that will be affected most adversely by the currency change, no doubt will continue to oppose import liberalization. The Ministry of Agriculture and Forestry also opposes such action. Even if progress toward easing formal import restriction is made, foreign access to the Japanese market still will be hampered seriously by the vast array of informal controls. In fact, some of these may well be strengthened to limit the domestic impact of yen revaluation.

Meanwhile, the government reportedly is preparing a program to ease the effects of the currency revaluation. Some financial assistance no doubt will be provided to industries such as textiles, where Japan's competitive position already is being eroded by low-cost East Asian producers. In certain instances the government probably will purchase excess equipment from firms that have lost foreign markets. The larger, most competitive Japanese industries - such as steel, automobiles, and electronics - should be able to cope with the revaluation without much difficulty.

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