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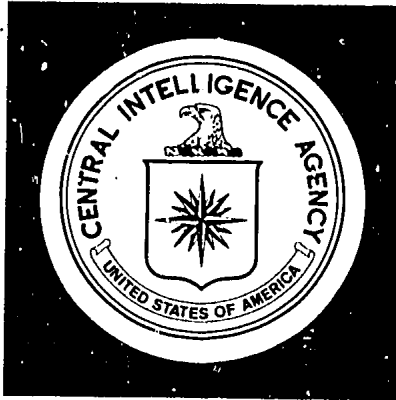
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Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

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## ECONOMIC INTELLIGENCE WEEKLY

### Notes

#### Soviets Still in Market for US Machinery

The USSR Deputy Minister of Foreign Trade has said that despite large outlays for US grain there will be no cutback in purchases of American machinery. Soviet orders of US equipment reached a record \$465 million last year. Most contracts were for machine tools and automotive equipment, although large orders for tractors and grain-handling equipment also were received. Additional sizable contracts for automotive equipment for the Kama River truck plant are likely this year. [REDACTED]

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#### Another Industrial Plant for China

China's most recent purchase of a \$30-million petrochemical plant from Japan raises total plant purchases from the West so far this year to a record level of almost \$150 million. Other installations include three urea plants from the Netherlands and two ethylene plants from Japan. Negotiations are continuing for a broad range of additional plants, some involving US technology. [REDACTED]

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#### US-Soviet Insurance Agreements May Stimulate Trade

Two recent US-Soviet insurance agreements should ease US businessmen's apprehensions about the risks involved in dealing with the USSR. One covers losses by US exporters from the cancellation of US export licenses, Soviet order cancellations, and Soviet non-payment. The other provides for a Soviet company to act as an agent for insurance written by a US firm to cover US property and investments in the USSR. In the past, there has been little in the way of risk insurance underwritten by US insurance firms, except for exports covered by Export-Import Bank financing. [REDACTED]

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#### India Hopes Foreign Aid Will Rise

New Delhi's budget for the fiscal year beginning 1 April calls for a 19% increase in foreign economic aid to \$880 million, belying the government's stated intention to end its reliance on such assistance. New Delhi will draw \$12 million of aid previously provided by the United States, compared with \$61 million in the preceding year. Economic aid drawings from the USSR are scheduled to increase from \$21 million to \$27 million.

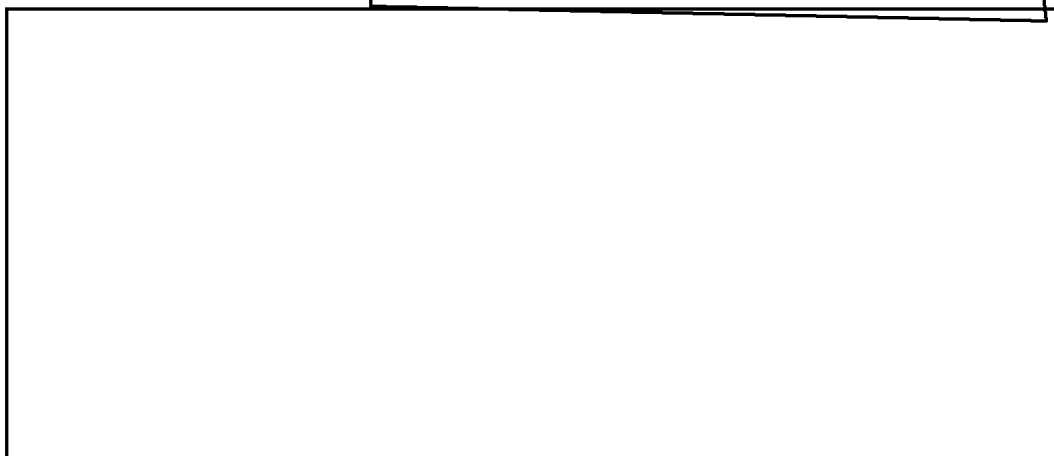
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Net foreign aid probably will total only \$300 million because of scheduled large debt repayments.

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## Articles

### Chinese Economy Slowed in 1972\*

Based on Peking's own candid admissions and other indicators, economic growth slowed in 1972.

- Agricultural production declined by perhaps as much as 5%.
- Industrial growth slowed to about 8%.
- GNP barely kept pace with the relentless 2% population growth.

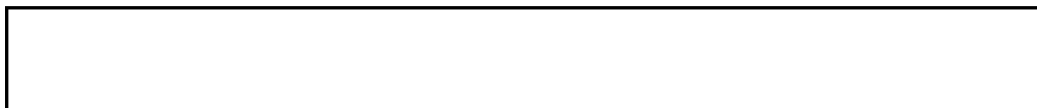
These growth estimates are necessarily rough-hewn because China discloses only a few selected economic statistics.

Some slowdown had been expected as the economy had already taken up the slack created by the downturn during the Cultural Revolution (1966-69). The slowdown was greater than had been expected because agriculture was hit by poor weather, industrial raw materials were in short supply, and key construction projects lagged.

Peking, as a result, has found it necessary to make a number of adjustments.

- The cotton cloth ration has been cut.
- Measures to conserve food have been strengthened.
- Increased emphasis has been given to mining.
- Controls have been tightened on local construction projects.

China has shown a greater willingness to increase imports to support agriculture and maintain living standards. Imports of grain, cotton, and other farm products rose in 1972 and included the first purchases from the United States in more than two decades. Chinese imports from the United States reached a total of \$60 million. In 1973, imports of agricultural commodities



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will be at or near record levels. Likewise, since the first of the year Peking has contracted for six Western plants worth almost \$150 million to expand production of fertilizer and synthetic fibers.

Agriculture is the crucial element in China's economic future. Peking gives every indication that it will try to ensure the forward momentum of this key sector. With reasonably good weather, the 1972 setback should prove temporary. The continuation of recent pragmatic economic policies is also crucial if China is to feed and clothe its huge population and still make progress in developing an industrial-technical base, with its heavy orientation toward modern weapons development.

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**International Monetary Developments**

EC members compromised to reach an agreement on a Community approach to the current monetary crisis. Six -- West Germany, France, the Netherlands, Belgium, Luxembourg, and Denmark -- will float jointly. The United Kingdom, Ireland, and Italy will continue their independent floats.

UK participation in the joint float foundered on London's preconditions, including a guarantee of unlimited financial support by other members in the event of a run on sterling. Although willing to make a substantial contribution, Bonn decided London's price was too high. Paris originally demanded UK participation. It hoped the weakness of the pound would inhibit too rapid appreciation of the franc in a joint float, but settled for a small German revaluation. Reaction to the float has generally been favorable. Austria, Norway, and Sweden have decided to associate themselves with the EC float; Switzerland is still undecided.

The EC will present its new plan to the enlarged Group of Ten in Paris tomorrow. The Community expects that the US and Japan will cooperate: Washington by agreeing to intervene to support the dollar and Tokyo by allowing the yen to appreciate further. On Tuesday, Tokyo announced that it would hold its direct intervention to a minimum when its exchange market reopens next Monday. The EC nations' own intervention plans have not been spelled out, but they clearly plan a controlled float.

Light interbank trading in Europe since official intervention ceased in early March has not led to much change in exchange rates. Strengthening of the dollar earlier this week may indicate, however, that money managers and speculators will hold off on dollar sales, at least temporarily, when official foreign exchange markets reopen next week. Indeed, a sharp fall in Eurodollar rates on Tuesday indicates some dollar repayments by borrowers who earlier used them to buy the strong European currencies.

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### World Rice Market Tightens Further

The world rice shortage will persist at least until this fall's harvest in Asia.

- World rice production for the entire crop year ending in June is expected to fall 5% to 10% below the previous year, largely because of the effects of last summer's erratic monsoon on major Asian producers.

- Exportable surpluses from the Asian crop just harvested are nearly all committed.

- The world price of rice, which last month exceeded \$200 per metric tons (60% higher than a year ago), continues to climb as demand remains strong.

Total world rice exports this year probably will fall short of 7 million tons, compared with a peak of 8 million tons exported in 1972. The gap between supply and demand will be even greater than last year, when unfilled demand exceeded 500,000 tons.

- The United States, with possibly 2 million tons for sale again this year, probably will be the world's leading exporter.

- Thailand probably will have a minimum of 1 million tons available compared with last year's 2 million tons.

- Burma's rice exports are not likely to exceed 300,000 tons, down from 520,000 tons last year.

- Japan, which exported 500,000 tons last year, plans to limit exports to about 350,000 tons of rice still available from previous crops.

- China is expected to maintain and may even be tempted by high prices to exceed the 800,000 tons exported last year.

The tightening world rice situation has increased the demand for cheaper substitute grains on the world market, notably wheat, corn, and grain sorghum.

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### East Asian Textile Boom Continues

Taiwan, South Korea, and Hong Kong expanded textile exports substantially in 1972 even though sales to the United States grew only moderately because of new restraints. Exports from Taiwan and South Korea each increased by roughly 35%, reaching \$860 million and \$640 million, respectively. Hong Kong's exports rose 12% to \$1.3 billion. The gain for the three countries combined about matched that in 1971.

Rapid growth was sustained through market diversification. Dramatic gains were made in sales to the EC, despite existing restrictions on textile imports from Asia. Hong Kong boosted its exports to the Community some 45%, while Taiwan and South Korea doubled sales. In addition, all three expanded exports to Australia, Canada, and other developed countries.

South Korea and Taiwan also registered big export gains in Japan, which is steadily losing its once strong competitive position in textiles. If the growth of South Korean sales continues in 1973, Japan will surpass the United States as South Korea's leading textile customer. The increase in Japanese purchases from South Korea consisted mostly of raw silk and intermediate clothing products.

The expansion and modernization of their textile industries has helped the East Asian countries to move into more expensive product lines. The process is expected to continue, and the outlook for East Asia's textile industry is bright. The pace of export expansion, however, will slow from the very high rate of recent years.

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