



**Directorate of  
Intelligence**

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**International  
Economic & Energy  
Weekly** 

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**20 June 1986**

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**International  
Economic & Energy Weekly**

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**Late Item**

**Mexico: Preparing for Bold Action on Debt**

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President de la Madrid continues to set the stage for a unilateral suspension of foreign debt payments—possibly in early July—should Mexico fail to obtain an IMF agreement and new international bank loans. The most likely measure would be a delay in interest payments

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Observers see the ouster on Tuesday of Finance Minister Silva Herzog—the leading proponent of meeting all of Mexico's debt obligations—as another sign of de la Madrid's toughening attitude. The change in finance ministers probably indicates that de la Madrid wants to reduce strains in relations in his economic team and make it easier to obtain a consensus for possible stronger action. Silva Herzog's removal had long been rumored. He is associated by many Mexicans with unpopular austerity measures and is viewed by some as too close to the United States. His successor, Gustavo Petrocioli, has a reputation as a moderate, experienced technocrat that should enable him to continue negotiations with the IMF. Nonetheless, he is unlikely to oppose hardliners in the cabinet, and de la Madrid may see Mexico as gaining an edge in negotiations with an international financial community unsettled by the sudden personnel shift.

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Negotiations with the IMF are continuing,

[Redacted]

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Even if an agreement with the Fund is reached soon, Mexican officials are concerned that the government still may be forced to draw down foreign exchange reserves—liquid reserves currently total \$1.5-2.5 billion, equivalent to about two months import coverage—to an unacceptable level.

[Redacted]

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Absence of movement on an IMF agreement by the end of the month probably would prompt the government to miss payments due in early July—roughly \$750 million. Such a move would be designed to force the United States and creditors to develop a nonconditional loan package. Mexico City probably believes that the threat of even stronger actions will force Washington to arrange more concessions from Mexico's international creditors.

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If de la Madrid were to suspend payments, he probably would defend the action by arguing that Mexico has made all the economic reforms it can. In support, officials probably would point to Mexico's liberalizing of trade regulations, holding the line on wages, raising government prices for food and utilities, and closing a major public steel complex. [Redacted]

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All Latin American leaders are watching the Mexican financial situation closely. Latin debtors—particularly Argentina and Venezuela—most likely will seek concessions similar to any granted Mexico. If Mexico's negotiating position becomes increasingly hard line and a unilateral payments moratorium is announced, other debtors could, over time, assume more confrontational stances with creditors—particularly if Mexico is seen to be benefiting. [Redacted]

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**International  
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Indicators

*Comments and queries regarding this publication are welcome. They may be directed to [Redacted] Directorate of Intelligence, [Redacted]*

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**Synopsis**

1	<b>Perspective—OPEC: Seeking To Reestablish Its Strategy</b>	25X1
	At next Wednesday's meeting in Brioni, Yugoslavia, OPEC oil ministers are likely to face problems reconciling their short-term goal of boosting prices to \$17 to \$19 per barrel and their longer-term strategy of increasing market share. Even if the members agree to an overall production ceiling, they still face the difficult task of allocating individual country quotas.	25X1
3	<b>OPEC Economies: Growing Pressure for Adjustments</b>	25X1
	OPEC producers are undertaking economic measures to offset the financial damage resulting from the fall in oil prices. Budget cutbacks and reduced government spending will continue to slow economic growth and exacerbate domestic political tension.	25X1
9	<b>LDCs: Increasing Financing Needs and Sources</b>	25X1
	Aggregate LDC financing needs will jump sharply this year, primarily because of the deteriorating export prospects of oil-exporting countries. Overall, creditors will continue to provide the minimum funds necessary to keep individual LDCs solvent.	25X1
13	<b>Brazil's Informatics Law: Challenge to a Protectionist Policy</b>	25X1
	Most Brazilians strongly support government efforts to develop a domestic computer industry by restricting the participation of foreign firms, but growing opposition from Brazilian businessmen, economists, and top-level policymakers and US threats of trade retaliation are spurring calls for more flexibility. Nevertheless, we believe Brazilian economic nationalism, entrenched vested interests, and upcoming political elections will militate against a near-term resolution of the dispute favorable to US interests, although some easing of restrictions is likely.	25X1
17	<b>Austria: Nationalized Industries on Trial</b>	25X1
	The near failure of steelmaker Voest-Alpine, Austria's largest company and flagship of the nationalized sector, has highlighted Vienna's inability to supervise its mammoth public sector. While the opposition People's Party hopes that the fiasco will spur some privatization and a coherent reform strategy for nationalized industry, the government's policy has been to patch up the existing system by tightening management practices.	25X1

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**European Community: Strategy for MFA Negotiations**



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The European Community, long a hardliner on textile issues, is breaking tradition and favoring a more liberal Multifiber Arrangement (MFA). While the talks may drag on beyond the 31 July expiration date, the EC believes the MFA will be renewed because LDCs are likely to face even more stringent restrictions if the MFA is abandoned.



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**Perspective**

***OPEC: Seeking To Reestablish Its Strategy***

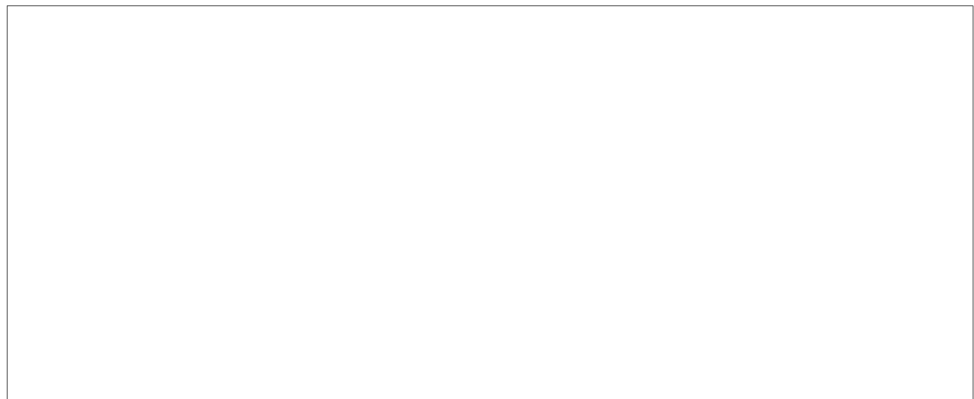


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At next Wednesday's meeting in Brioni, Yugoslavia, OPEC oil ministers are likely to face problems reconciling their short-term goal of boosting prices to \$17 to \$19 per barrel and their longer-term strategy of increasing market share. Saudi Oil Minister Yamani appears to be pressing for adherence to the longer-term goal, but seems willing to go along with a temporary production restraint scheme in the third quarter to meet the price objective. An OPEC committee will reportedly make recommendations in Brioni for an overall production ceiling of about 17.3 million b/d in the third quarter compared to current production of about 18 million b/d. Even if the members agree to an overall production ceiling, they still face the difficult task of allocating individual country quotas.



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Nevertheless, much time in Brioni probably will be spent on trying to finalize third- and fourth-quarter production quotas to raise world prices above the current \$14 per barrel level.



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Without an agreement to restrain output and raise prices, Iran will most likely become increasingly frustrated—Tehran halted attacks on Saudi oil tankers transiting the Gulf to improve relations with Riyadh and work toward higher oil prices. If Iran does not get its way, it is likely to resume attacks on Saudi tankers, and eventually would resort to stronger measures.



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Although the "commitments" OPEC has received thus far from non-OPEC producers to cut output will provide a psychological boost at Brioni, we doubt that significant additional production cutbacks are likely. Competitive factors and marketing and pricing problems may have already cut non-OPEC production by as much as 1 million b/d since yearend 1985. To date, at least seven non-OPEC nations have indicated some willingness to cooperate with OPEC, and, in what would be a major policy turnaround, Norway has also said it would consider ways to help OPEC firm prices. Few non-OPEC producers, however, have promised to voluntarily reduce output beyond what has already been cut. Indeed, production in a number of countries has rebounded slightly as a result of more flexible pricing and sales arrangements. In addition, enthusiasm for cooperation could wane once non-OPEC producers discover that third-quarter OPEC production targets have been raised above the 16.3 million b/d level mentioned at the April OPEC meeting. [redacted]

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Market factors—such as stock levels and speculation—will most likely cause continued price volatility over the near term. In our view, there is less than an even chance that OPEC can agree unanimously to a production scheme that would be adhered to, and, without full cooperation, prices will likely remain weak over the summer months. The expected seasonal rebound in demand later this year, however, could make it easier for OPEC to allocate production quotas needed to raise prices to near \$20 per barrel. [redacted]

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**OPEC Economies:  
Growing Pressure  
for Adjustments**

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OPEC producers are undertaking economic measures to offset the financial damage resulting from the fall in oil prices. The cash-surplus Gulf states, buoyed by a relatively strong foreign asset picture, are less affected and will be able to continue to compensate for revenue losses through a combination of reserve drawdowns and budget cuts. Their reserve cushion will also enhance their creditworthiness should these countries choose to borrow. Some of the OPEC debtor countries, however, may be exhausting the borrowing option and may have to look to creditors for rescheduling or resort to more countertrade to conserve foreign exchange. For already debt-troubled OPEC countries, particularly Nigeria and Iraq, few easy options exist. Heightened financial pressures and the further slowdown in GDP growth will add to the existing domestic political tension. Moreover, we believe the increasing financial strains on some individual countries will also make it hard for OPEC to agree on or maintain a production agreement.

- We estimate OPEC countries—primarily Saudi Arabia, Libya, and Iran—will draw down \$25 billion in official assets by yearend 1986. Kuwait, UAE, and Qatar will add \$5 billion to their holdings this year, however, because of increased oil production and further import cuts.
- We estimate imports will be cut about 16 percent in 1986 in response to revenues and assets. OPEC total imports have fallen for five consecutive years, and are now more than 40 percent lower than in 1981.

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**Adjusting to Lower Revenues**

OPEC producers have made major financial and economic adjustments to counteract losses in export revenues since the sharp drop in world oil prices began in December 1985. In general, these LDCs have cut government spending by canceling or scaling back development projects. In addition, financial support for parastatals has been cut and consumer subsidies and price supports reduced in many countries. Efforts also have been made to increase nonoil revenues through domestic tax hikes, raising import fees, and promoting nontraditional exports. In most cases, however, these reforms will be insufficient to fully balance this year's revenue losses, and additional adjustments will depend on the country's financial holdings and access to foreign credit.

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**Further Deterioration in OPEC Finances**

We expect the deterioration in OPEC's financial situation to accelerate in 1986:

- OPEC's current account deficit—totaling between \$10 billion and \$15 billion in 1984 and 1985—will approach \$40 billion in 1986, according to our estimates. Only Kuwait, the United Arab Emirates (UAE), Nigeria, and Qatar will remain in surplus.
- Oil export revenues will total only \$84 billion in 1986, down more than 40 percent from 1985 levels—the lowest total since before the 1973 price shock. In real terms, oil exports are down more than 60 percent from 1974 and nearly 80 percent from peak earnings in 1980.

*Cash-surplus countries.* In Saudi Arabia, Kuwait, and the UAE, revenue savings from budget cut-backs will be supplemented with reserve drawdowns or investment income:

- *Saudi Arabia's* actions for the remainder of this year depend on its foreign asset holdings—a figure currently in question. If liquid assets total

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## OPEC: Current Account Balances, 1981-86

Billion US \$

	1981	1982	1983	1984	1985 *	1986 *
<b>Total</b>	<b>37.5</b>	<b>-21.8</b>	<b>-21.1</b>	<b>-15.1</b>	<b>-9.8</b>	<b>-36.5</b>
Algeria	0.1	-0.2	-0.1	0.1	-1.3	-3.7
Ecuador	-1.0	-1.2	-0.1	-0.2	-0.1	-0.5
Gabon	0.4	0.3	0	0.6	0.1	-0.2
Indonesia	-0.6	-5.3	-6.3	-2.1	-2.1	-4.6
Iran	-2.4	6.2	-0.9	-3.8	0.2	-3.0
Iraq	-17.1	-19.9	-8.8	-4.8	-4.0	-4.0
Kuwait	13.8	4.9	5.1	5.6	5.2	3.8
Libya	-4.0	-1.6	-1.6	-1.8	-0.1	-2.8
Nigeria	-6.2	-7.2	-4.2	0.3	1.1	0.6
Qatar	2.7	1.0	1.2	2.3	1.6	0.8
Saudi Arabia	38.4	-1.0	-16.3	-24.0	-19.9	-22.4
UAE	9.4	6.4	6.5	7.4	5.6	1.8
Venezuela	4.0	-4.2	4.4	5.3	3.9	-2.3

\* Estimated.

\$80-100 billion, as Riyadh claims, the Saudis will continue to draw on these funds to meet financial requirements. But, if the value is closer to our estimate of \$50-60 billion, we believe there is a greater chance the Saudis would supplement the drawdown of assets with foreign commercial borrowing.

Riyadh could also look internally for funding, either by tapping domestic savings or encouraging the repatriation of flight capital.

- Bolstered by strengthening foreign payments positions and further cuts in government spending, Kuwait and the UAE will probably use their investment income to meet financial requirements this year. Kuwait is unlikely to require additional measures this year. While the UAE federation should see an increase in total assets, separately Abu Dhabi may borrow on the local

and international markets if budgetary shortages appear this year, according to the US Embassy. Its currency, the dirham, may also be devalued to boost revenues.

**Debtor countries.** Most other OPEC members face tough choices, in large part because substantial austerity measures already have been taken over the past few years. Budgets and imports have been pared for all but essential goods and services. As a result, debtors must either turn to official and commercial creditors for new financing or take more politically sensitive austerity measures to maintain financial solvency.

We believe Algeria and Indonesia will most likely meet their financial shortages through increased commercial borrowing this year, while Venezuela

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**OPEC: Foreign Official Asset Holdings, 1981-86<sup>a</sup>**

Billion US \$

	1981	1982	1983	1984	1985 <sup>b</sup>	1986 <sup>b</sup>
<b>Total</b>	<b>321</b>	<b>322</b>	<b>295</b>	<b>281</b>	<b>274</b>	<b>249</b>
Saudi Arabia	144	153	135	126	106	84
Kuwait	62	69	67	70	74	77
UAE	33	35	39	35	39	40
Venezuela	13	12	12	14	14	13
Qatar	8	8	9	10	11	12
Indonesia	9	6	7	8	10	9
Iran	10	14	9	6	5	3
Libya	10	9	7	5	5	3
Iraq	21	8	4	2	2	1
Algeria	6	5	4	3	5	4
Nigeria	4	2	1	1	2	2
Ecuador	1	1	1	1	1	1
Gabon	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL

<sup>a</sup> Yearend data.<sup>b</sup> Estimated.

will seek to revise the terms of its February debt rescheduling agreement:

- *Algeria* is currently seeking new financing—letters of credit and suppliers' credits—and is no longer using cash for most of its trade financing. We believe additional lending may be limited, however, because of Algeria's slipping credit rating. Nonetheless, the Embassy feels a rescheduling will be unnecessary this year as Algiers has a large foreign reserve cushion. Algiers may also encourage additional foreign direct investment and will most likely push for new countertrade arrangements to conserve foreign exchange.
- We expect *Indonesia* to draw on nearly \$2.0 billion in underutilized commercial loans this year to offset the effects of lower oil revenues. Jakarta may also opt to continue to gradually depreciate the rupiah, draw down deposits held in local banks, and impose new tax or import rate

hikes. Some private economists believe that Jakarta will probably use its sizable foreign exchange reserves to maintain the value of the rupiah at least until August, when it may devalue.

- *Venezuela* will try to negotiate revisions to the \$21.2 billion debt deal signed in February, but talks are likely to be difficult and drawn out. Caracas has indicated it wants a rescheduling of \$2.3 billion in principal due in 1986-87, interest rate concessions, and \$3 billion in new money. Although we believe creditors may meet the rescheduling request, banks are unlikely to come up with new money or grant interest rate concessions unless Venezuela sets up an IMF or World Bank program and assumes the debts of two failed banks—steps the Lusinchi government has rejected in the past. Caracas has ruled out a devaluation because the resulting inflation would have negative political repercussions.

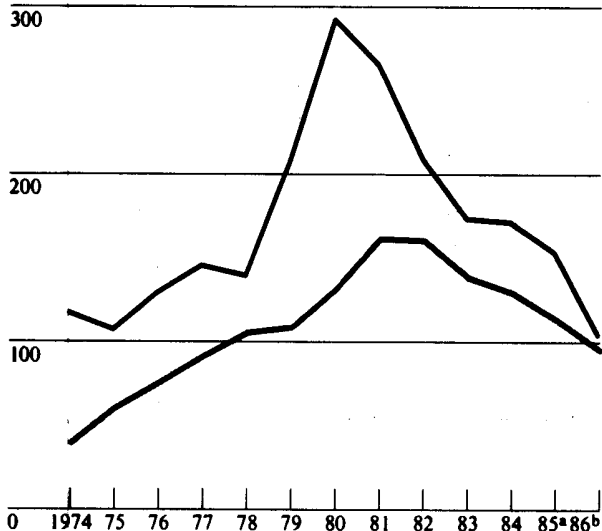
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Billion US \$

— Exports, f.o.b.  
 — Imports, f.o.b.



<sup>a</sup> Estimated.  
<sup>b</sup> Projected.

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For financially troubled OPEC debtors—Nigeria and Iraq—few easy options remain:

- *Nigeria's* rejection of an IMF agreement and failure to obtain a debt rescheduling has pushed the country to the brink of financial default. We believe the Babangida government will stop or slow most of its debt payments in an attempt to avoid more import cuts and a politically unacceptable IMF accord. Lenders, however, have already cut credit lines to Lagos, and even a unilateral moratorium probably will not totally offset the export revenue decline. Consequently, additional import cuts appear inevitable.

**Saudi Foreign Asset Value in Dispute**

Questions have arisen recently as to the net worth of Saudi foreign asset holdings. Although most estimates, including our own, place the current value of liquid reserves at \$50-60 billion,

press reports indicate that, through updating and revising its 1981-84 current accounts and balance of payments, Saudi Arabia "found" about \$17 billion in reserves.

The announcement of a higher reserve level may be politically motivated—to signal other producers that Riyadh has the financial means to persevere with its oil price strategy—and may result from using a different accounting principle. If the holdings are based on the current market value of the asset and not the commonly used book value, an appreciation in nondollar assets and US stocks in the Saudi portfolio may account for the increase in value.

- *Iraq* probably will be able to reschedule much of its \$3.0 billion in official bilateral medium- and long-term debt through agreements with creditors, but so far has faced resistance to the rescheduling of commercial loans. Creditor banks have already restricted credit facilities and cut exposure in Iraq because of the crumbling financial picture and growing arrearages. Because of the war, Baghdad must make further import and budget cuts, both of which are likely to be extremely unpopular.

*Libya* and *Iran* also have few easy options remaining to negate the decline in oil revenues. With some of its assets frozen in US banks, Tripoli faces an

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almost unmanageable cash shortage unless consumer imports are cut further or foreign credits are found. We doubt that Qadhafi will risk cutting military imports because of his heavy reliance on security forces for protection. In our view, Tehran will try to limit adjustments to further nonessential import cuts. Iran may seek short-term credit financing and tap domestic savings this year if necessary, but will draw down its foreign assets only as a last resort.

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### **Implications of Reduced Revenues**

Budget cutbacks and reduced government spending will continue to slow economic growth and exacerbate domestic political tensions. In addition, the cancellation of infrastructure and development projects undercuts longer term economic plans and hampers efforts to lessen dependence on oil exports. Liquidating foreign reserve assets lowers future investment income and can place serious pressures on the ability of debtors to meet debt-servicing obligations. In terms of OPEC cohesion, these financial constraints are likely to seriously undermine the cartel's ability to reach or maintain a production-limiting agreement.

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### LDCs: Increasing Financing Needs and Sources

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Aggregate LDC financing needs will jump sharply this year, primarily because of the deteriorating export prospects of oil-exporting countries. At the same time, lower world interest rates are keeping the needs from rising even higher. Following major cutbacks in lending from private creditors and the IMF in 1985, we expect net private lending to increase this year, largely because of greater use of new and existing credit lines by oil exporters. Overall, creditors will continue to provide the minimum funds necessary to keep individual LDCs solvent.

#### Surge in Financing Needs

After a slight improvement in the aggregate LDC current account in 1985, we estimate that the deficit will jump by more than 50 percent this year to \$50 billion. Although lower world interest rates have tempered the extent of the current account deterioration, the benefits have been negated by continued stagnant commodity prices and limited industrial country demand for LDC exports. Nearly all of the surge in financing needs will be accounted for by oil-exporting LDCs, which face export shortfalls as a result of the drop in world oil prices. Algeria, Egypt, Indonesia, Mexico, Nigeria, and Venezuela together will experience an estimated \$13.9 billion drop in their current account balance. For several oil exporters—Mexico, Nigeria, and Egypt—the lower oil prices come on top of already serious domestic economic problems.

The current account prospects for the nonoil LDCs will be mixed. South Korea and Brazil are major beneficiaries of the lower oil prices and interest rates. Meanwhile, low commodity prices will prevent countries such as Chile and the Philippines from realizing substantial current account deficit reductions. The largest deteriorations among major nonoil debtors will occur in Malaysia, Argentina, and Peru, all of which were hurt by falling export

#### Selected LDCs:

Billion US \$

#### Current Account Balances <sup>a</sup>

	1984	1985	1986 <sup>b</sup>
<b>Total LDCs</b>	<b>-33.0</b>	<b>-32.0</b>	<b>-50.0</b>
LDCs with deteriorating positions			
Algeria	0.1	-1.3	-3.7
Argentina	-2.4	-1.2	-2.3
Chile	-2.1	-1.3	-1.4
Egypt	-2.1	-1.9	-2.7
Indonesia	-2.1	-2.1	-4.6
Malaysia	-1.6	-0.9	-2.2
Mexico	4.0	-0.5	-2.0
Nigeria	0.3	1.1	0.6
Peru	-0.3	-0.2	-0.6
Venezuela	5.3	3.9	-2.3
LDCs with improving or stable positions			
Brazil	0.1	-1.2	0
Colombia	-2.1	-1.3	-1.3
Philippines	-1.3	-0.9	-0.8
South Korea	-1.4	-0.9	0.6

<sup>a</sup> Exclusive of official transfers.<sup>b</sup> Estimated.

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prices; the latter two are attempting to work their way out of severe domestic economic problems.

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In addition to financing the current account, LDC money needs will be augmented by their desire to rebuild foreign exchange reserves. During 1985, the lack of new lending from private creditors led to drawdowns of reserves by many countries, although overall reserves registered a small increase. We

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believe that LDCs will attempt to add some \$5 billion to reserves during 1986, much of which will be accounted for by the more creditworthy Asian borrowers and those LDCs with reserve targets in their IMF-supported adjustment programs. Without sufficient growth in private lending, however, LDCs may again be forced to draw down reserves to obtain higher economic growth.

#### Drawing on All Sources of Funds

LDC financing efforts continue to be complicated by the downward trend in bank lending over the last four years. Net lending from private foreign creditors—primarily commercial banks—dropped to only \$3 billion in 1985. The main reason was a major reduction of short-term credit lines for the second straight year, largely to financially troubled Latin American countries but also to some more creditworthy LDC borrowers, such as the Asian countries. In addition, a number of Latin countries had portions of their short-term credits restructured into medium-term credits. For 1986, we expect the current level of short-term lending to be maintained, as lenders have reached what they consider acceptable short-term exposure.

Medium- and long-term lending did increase last year, but at a slower pace than in 1984. Of the \$11 billion total in 1985, about half could be categorized as "involuntary" lending—loans made in conjunction with IMF-supported adjustment and restructuring packages. The major LDCs involved were Argentina, Chile, Colombia, Ecuador, and Ivory Coast. The remainder of the medium- and long-term total was accounted for by countries such as South Korea, Algeria, and Saudi Arabia that were able to tap the markets regularly and at favorable terms. The picture for 1986 is somewhat similar, with continued voluntary lending to Asian and some of the more creditworthy Middle Eastern LDCs. Many of the oil-exporting countries will be more active borrowers, both by seeking new loans as well as drawing down existing unused credit lines. Involuntary lending also will play a part, with Mexico most likely being the major recipient.

#### LDCs: Financing Needs and Sources, 1984-86

Billion US \$

	1984	1985	1986
<b>Needs</b>	51	33	55
Current account deficit	33	32	50
Increase in reserves	18	1	5
<b>Sources</b>	51	33	55
Net direct investment	10	10	11
Official loans and grants, net	31	32	34
Private loans, net	10	3	13
Medium and long term	19	11	13
Short term	-9	-8	0
IMF lending, net	5	1	-1
Other net flows <sup>a</sup>	-5	-13	-2

<sup>a</sup> Including arrears, capital flight, and errors and omissions.

With private creditors continuing to restrict their new lending to LDCs, official creditors are assuming a greater share of the financing burden. Official loans and grants continue to increase at a slow but steady pace, providing LDCs with their only consistent stream of inflows. Official lending, which accounted for only about one-third of LDC financing needs in the late 1970s, in recent years has provided at least 60 percent. We expect official lending to continue to increase at a slow pace this year because of developed-country budget restrictions, which will affect both bilateral assistance and contributions to multilateral organizations such as the World Bank.

Direct investment as a source of capital may take on an enhanced, albeit still small, role this year. The amount of net direct investment in LDCs leveled off in 1985, but we estimate a slight increase in 1986. Investor confidence, which has been shaken by the debt problems of LDCs, has not recovered fully, and the countries themselves have

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been very reluctant to fully open their doors to foreign investors. In our judgment, however, a slight easing of investment restrictions, particularly in Latin America, will begin to attract some new investment this year. [redacted]

particularly their government budget deficits. Controlling spending and inflation and managing the exchange rate continue to be the top priorities for most LDC governments. [redacted]

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On the down side, net lending by the IMF to LDCs this year is expected to be negative, continuing the decline in such lending over the past several years. Repayments to the IMF from loans extended in 1982-84 are accelerating, although the Fund's liquidity position still is restricted by the large amount of outstanding credits. New IMF loan disbursements will be slow, largely because of the absence of new loans to Mexico and Brazil, which previously have been major recipients. The unwillingness of many other LDCs to agree to an IMF-supported adjustment program also has drawn out negotiations and slowed the pace of IMF lending.

Meanwhile, the global economic environment offers little prospect of large-scale relief for the LDCs. The IMF forecasts industrial country growth to be 2.9 percent in 1987, only slightly higher than the figures for 1985 and 1986, which will not greatly increase demand for LDC exports. Moreover, we believe global interest rates will increase in 1987, adding to an interest payment burden that already is high for some countries. There could be a resurgence in commodity prices but probably not enough to have a major impact for most LDCs. For oil prices, many forecasters expect a leveling off and even an increase by 1987, an outcome that on a net basis would be beneficial to LDCs because of the severe problems of oil-exporting debtors. [redacted]

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**Outlook Beyond 1986**

The prospects for continued economic and financial problems in the LDCs over the next several years indicate that creditors will remain reluctant to increase lending beyond what they consider the minimum necessary to allow the LDCs to maintain the flow of interest payments. Short-term, trade-related credits will be preferred to medium- and long-term loans because of the lower degree of risk and the expected growth of LDC exports. Medium-term lending will continue, although it will be concentrated in those countries with good credit ratings that have not experienced debt servicing problems over the past five years. Nearly all private lending to Latin America will be done on an involuntary basis, tied to IMF-supported packages.

[redacted]

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The burden will therefore fall on the LDCs to lower their financing needs by reducing current account deficits. A number of countries—most notably Brazil—have been very successful in adjusting their external accounts through higher exports and sharply reduced imports. To sustain this progress, debtors must adjust their domestic economies and

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**Brazil's Informatics Law:  
Challenge to a Protectionist Policy**

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Most Brazilians strongly support government efforts to develop a domestic computer industry by restricting the participation of foreign firms, but a growing opposition from Brazilian businessmen, economists, and top-level policymakers and US threats of trade retaliation are spurring calls for more flexibility. To defuse a potential confrontation, President Sarney has agreed to discuss future modifications of Brazil's informatics policy, and US and Brazilian negotiators are scheduled to meet in July in Paris to discuss differences. Nevertheless, we believe Brazilian economic nationalism, entrenched vested interests, and upcoming political elections will militate against a near-term resolution of the dispute favorable to US interests, although some easing of restrictions is likely.

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**Key Events in US-Brazil Informatics Dispute**

*December 1984* Informatics Law unanimously passes Brazilian Congress.

*June 1985* US-Brazil bilateral consultations in GATT. No resolution.

*September 1985* United States files Section 301 unfair trade practices case.

*February 1986* US-Brazil bilateral consultation in Caracas on Section 301 case. No resolution.

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**The Controversy . . .**

Brazil has used a variety of protectionist tactics to develop its economy, and its current informatics policy is deeply rooted in this tradition. High tariff barriers and tough import controls have sheltered its "infant industries" from foreign competition. Despite high costs and inefficiencies, protectionist policies have enabled Brasilia to successfully develop its automobile and steel industries. On the basis of this experience, Brasilia has increased protection of its fledgling high-technology industries since the early 1970s culminating in the passage of the Informatics Law in 1984.

*April 1986* Brasilia approves Informatics Plan.

*April/May 1986* US Secretary of State and Brazilian Foreign Minister exchange series of letters.

*May 1986* US Economic Policy Council announces preparation of retaliatory measures.

*US Under Secretary of State visits Brazil to discuss informatics with President Sarney and Foreign Minister Sodre. Brasilia agrees to pursue discussions.*

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The Brazilian law is vague, but grants to Brazilian "computer" companies the exclusive right to manufacture and sell products in the information industries. US Embassy reporting indicates that the legislation now affects every company involved with the production or distribution of computers—including integrated circuits and software. Moreover, the law is being used to justify protection for industrial automation equipment and, most recently, any product with electronic or digital components.

*June 1986* Efforts to set up working group begin.

*July 1986* Bilateral conference in Paris.

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The Special Secretariat for Informatics (SEI)—largely because of the lack of government consensus about the law's coverage—has been allowed virtual free rein in regulating joint ventures and direct investment, allocating import quotas, and licensing technology transfer for the sector. [redacted]

[redacted] the SEI, a bureaucracy consisting of strident economic nationalists, subjects each new foreign investment or import proposal to the "national similars" test. It prohibits new multinational investment, joint ventures, or imports if the product can be manufactured domestically, or if a Brazilian firm promises to produce it. [redacted]

**... Comes to a Boil**

The SEI publicly defends its implementation of the Informatics Law, citing the development of Brazil's domestic computer industry. In May, it released its most recent industry survey that indicated that Brazilian firms over the last four years tripled sales to \$1.2 billion, increasing their share of the Brazilian market for computers and peripherals to 50 percent. Moreover, domestic firms more than tripled their work force to more than 28,000, providing new opportunities for college graduates to engage in local research and development. The study also claims that Brazilian computer firms have increased local content from 78 to 92 percent of sales since 1981. [redacted]

Brazilian private businessmen, however, are increasingly taking exception to SEI's policies. According to the Consulate in Sao Paulo, many prominent industrialists—including the country's leading arms exporter—now state that SEI's policies are cutting off their access to low-cost advanced industrial technologies necessary to bolster their competitiveness. For example, Brazilian mini-computers currently cost four to 10 times as much as US products, making systems that embody domestic technology uncompetitive in world markets. US Embassy reporting also indicates that SEI is impeding Brazilian firms from modernizing and developing new, low-cost products by blocking the import of high-tech products, parts, machinery, test equipment, and production controls. Rather than

fight the SEI bureaucracy, these businessmen have tried to evade restrictions, leading to a \$250 million black market in computers, parts, and electronic gear, according to the US Embassy. [redacted]

SEI's market reserve policy is cutting into the domestic sales of some US multinationals. Burroughs recently shut down a Sao Paulo plant employing 1,200 people when SEI reserved the market for bank teller machines to Brazilian firms, and National Semiconductor shut down two integrated circuit plants when it was unable to import more efficient production equipment. Westinghouse and Honeywell have ceased manufacturing products requiring advanced technology in favor of simple mechanical products. Despite their grievances, these firms quietly accept such market losses, according to the US Embassy, fearing difficulty reentering Brazil if they leave completely. [redacted]

**The Politics of Reform**

Official demarches and the recent US announcement of trade retaliation, in our opinion, are convincing Brasilia that Washington is serious about seeking changes in the administration of the Informatics Law. US pressure is sparking a spirited internal political debate. The hardliners—those pushing for continued strict adherence to SEI's line—are composed of an active minority of highly nationalistic military officers, the leftist parties, and a few, albeit influential, domestic computer executives—principal among them Sarney's close friend Matias Machline. US Embassy reporting indicates that this group receives backing from the politically powerful Minister of Science and Technology Archer and most of the Congress—one senator has recently introduced a bill that would enable Brazil to retaliate against the multinationals of countries who impose trade restrictions on Brazilian exports. This group—with the assistance of the local press that has distorted official statements—has successfully exploited nationalistic sentiments by portraying Washington as meddling in Brazil's sovereign right to promote economic development. [redacted]

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Despite the past strength of the hardliners, the supporters of a more flexible interpretation of the Informatics Law are now becoming more vocal. Motivated by fears that the policy is hindering industrial development and might be extended to other sectors, a growing number of businessmen have been lobbying the government to curb SEI's activities and address US concerns. This group is receiving backing from some well-known Brazilian economists, Foreign Minister Sodre, Finance Minister Funaro, and Murillo Mendes, a prominent member of Sarney's "kitchen cabinet." We believe these individuals are gaining influence with the President. [redacted]

**Enter Sarney**

According to the Embassy, Sarney has heretofore been unconcerned with—and largely uninformed about—the informatics issue. [redacted]

After receiving several high-level US visits, however, he apparently now desires to avoid a confrontation and engage in discussions aimed at bringing about a more flexible interpretation of the law, according to the US Embassy. [redacted]

Subsequently, Brasilia has agreed to set up a bilateral working group to discuss the problem, and the negotiating teams are tentatively scheduled to begin talks the first week in July in Paris. In addition, we believe Brasilia will take some concrete steps to calm bilateral tensions by easing some of its protectionist restrictions against foreign technology. For example, the government has recently dropped its demand that a US aluminum company use Brazilian process control equipment in a planned plant expansion. We also believe Brasilia will soften its protectionist restrictions on high-tech imports and piggyback on a recent ruling by a Sao Paulo court that Brazilian copyright law provides some protection for US software producers. [redacted]

**Major Concessions Unlikely Before November**

In our view, the computer market reserve policy will remain a contentious issue in bilateral relations over the near term. Sarney will remain under considerable pressure to take a tough stance toward modifying the Informatics Law even at the risk of confrontation with the United States. He recognizes that there is broad public support for the protectionist policy, and that an emboldened leftist opposition is eager to capitalize on any misstep. If he were to appear overly accommodating to US concerns on the informatics issue, we believe he could face a serious political backlash that would benefit the leftist parties in the crucial November congressional elections. [redacted]

Against this political backdrop, we believe Washington faces the prospect of long and complex negotiations on the issue. In our view, Brasilia may seek US concessions on other trade matters in exchange for more flexibility on the Informatics Law, a tactic to fend off hardliners and placate public opinion. Although Brasilia will move forward with discussions, we believe it will not announce major shifts in its stance until after the November congressional elections. [redacted]

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## Austria: Nationalized Industries on Trial

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The near failure of steelmaker Voest-Alpine, Austria's largest company and flagship of the nationalized sector, has highlighted Vienna's inability to supervise its mammoth public sector. Voest-Alpine's problems seriously tarnished the image of efficiency that Chancellor Sinowatz sought when he took office in 1983, and contributed to his decision to resign this month following Waldheim's victory in the presidential election. The socialist-liberal coalition will be hard put to refurbish its image before the next election, which must be held by April 1987. Financial aid for Voest-Alpine is likely to stretch an already taut federal budget, all but eliminating Vienna's room for fiscal maneuver. While the opposition People's Party hopes that the fiasco will spur some privatization and a coherent reform strategy for nationalized industry, the government's policy has been to patch up the existing system by tightening management practices.

### A Flagship Founders

The Voest-Alpine crisis has been the dominant topic on the Austrian economic scene this year. After 10 consecutive years of losses—subsidized by the government—the company's deficit soared to \$700 million last year. This was almost double the original projection and equals nearly 45 percent of the total subsidies handed out to the entire nationalized sector since 1980:

<i>Million US \$</i>	
<b>Total</b>	<b>1,630</b>
1981	280
1982	215
1983	390
1984	400
1985	345

### Austria's Public Sector

*The share of nationalized industry in the Austrian economy is among the largest in the OECD. Academics, using a broader definition, have estimated that public-sector industry accounts for about one-fifth of industrial output and a similar proportion of the industrial labor force. The government also owns virtually all of the country's transportation, communications, and power industries; a number of state monopolies including alcohol, tobacco, and salt; the two largest insurance companies; two of the largest commercial banks; and a host of other financial institutions. The two nationalized banks control industrial enterprises accounting for an additional 14 percent of Austria's overall industrial production. The importance of these two banks is enhanced by their holdings of other banking firms and by indirect control of a large number of other commercial enterprises.*

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Voest-Alpine's subsidiary, Intertrading, set up in 1978 to meet the growing demand by cash-strapped Third World and East Bloc countries for barter deals, accounted for most of last year's red ink. Handling virtually all kinds of raw materials and finished products, Intertrading rapidly became one of the world's largest barter companies; its 1984 sales of \$6.7 billion outstripped that of its parent company. Intertrading also moved into oil and commodity market speculation, however, and, when oil prices fell, its profits collapsed. Losses in 1985 totaled \$225 million.

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Other factors causing Voest-Alpine's difficulties include:

- The collapse of the world steel market in the late 1970s and continuing worldwide excess capacity.

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Voest has made modest efforts to restructure—reducing its work force from 85,000 to 70,000 since 1975—but still depends on steel for 42 percent of its sales.

- Weak management, resulting from patronage appointments to the nationalized industries' supervisory boards handed out by the major political parties in the same proportion as their strength in parliament.
- Poor investments, including an ill-fated steel mill in the United States and a money-losing project with a US company to manufacture semiconductors. Voest also sustained substantial losses from involvement in construction of Libya's Misurata steel mill, according to sources of the US Embassy.
- Insistence by Austrian politicians that several Voest-Alpine factories stay open to preserve jobs.

#### Government Response

When the extent of Voest-Alpine's losses became known, Vienna acted quickly to tighten supervision of the company, replacing Voest's entire upper management. Vienna also agreed to pour \$200 million in emergency subsidies into Voest-Alpine and brought charges of criminal negligence against three former managers of Intertrading.

To rehabilitate Austria's overall nationalized sector, Chancellor Sinowatz pushed through parliament a nine-point program that includes:

- Consolidating all directly nationalized enterprises into one conglomerate under a more active state-owned holding company.
- Restructuring of corporate managements to provide for greater internal controls and clear fixing of responsibility at every level.
- Cutting the size of supervisory boards to produce greater efficiency in oversight and tying salaries of top management to company performance.

#### Share of Nationalized Industry in Selected OECD Economies

Percent of total

	Employees	GNP	Investment
Austria	12.4	5.3	19.7
United Kingdom	8.2	3.5	18.3
Sweden	8.0	3.5	16.6
West Germany	7.9	2.7	12.6
Italy	6.4	3.3	15.5
Ireland	5.7	3.6	NA
Belgium	5.2	3.3	15.4
Canada	4.5	3.7	15.7
France	4.4	2.5	10.8
Norway	4.2	6.5	19.8
United States	1.6	0.9	4.7

- Putting an end to speculation in crude oil. Subsequent legislation also ostensibly ended the patronage system. Supervisory board appointments will now be made by the Minister for Public Economy, who will bear direct responsibility for the board's actions. Finally, Vienna also plans to set up a central trading company that may eventually take over all international countertrade activities of government-owned firms.

#### Outlook for Voest-Alpine

Voest-Alpine's new rationalization plan, to be ready by the end of June, promises to cut jobs and expenditures and to reexamine fully the company's diversification policy. The steel mill in the United States will be sold at a loss. Diversification into electronics will continue but be more focused on specific areas. In addition, Voest's venture with a US company to manufacture microchips probably will be an early victim.

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**Austria: Major Nationalized Companies, 1984**

	Sales (million US \$)	Employees	Activities
Voest-Alpine	3,000	38,094	Steel, engineering, plant construction, electronics, trading
<b>Major subsidiaries <sup>a</sup></b>			
Voest-Alpine Intertrading	6,730	219	Trading
Vereinigte Edelstahlwerke (VEW)	600	12,203	Specialty steels
Voest-Alpine Stahlhandel	305	1,231	Metallurgical products
Simmering Graz Pauker	170	4,116	Railway vehicles, engineering
Austria Metall	460	3,822	Aluminum, copper
Bleiberg Bergwerks Union	100	1,568	Lead, zinc, chemicals
Wolsegg-Traunthaler Kohlenwerks	22	776	Coal mining
OMV (Austrian National Oil Company)	3,975	7,297	Oil, gas, petrochemicals
Chemie Linz	1,050	6,710	Chemicals, petrochemicals, pharmaceuticals
Elin Union	495	6,970	Electrical engineering, contracting
Siemens Oesterreich <sup>b</sup>	695	10,212	Electronics, telecommunications

<sup>a</sup> At the end of 1984, Voest-Alpine listed 139 companies as subsidiaries or minority investments.

<sup>b</sup> 43.6 percent Austrian ownership.

The reforms announced so far should prevent a repeat of last year's financial disaster, but probably will not be enough to make Voest a competitive, profitable company. Consequently, the state holding company will have to borrow, as it has in the past, with a government guarantee to handle Voest-Alpine's losses. Whether Voest can earn sufficient profits to repay the loans is doubtful, unless major lossmakers are shut down. Vienna, therefore, is likely to be called on to fulfill its guarantee out of the federal budget, which will run a deficit of 4.7 percent of GDP this year. [redacted]

Employment is likely to be the main stumbling-block, even though Voest-Alpine's new board chairman believes he will have the support of the Chancellor if confrontations over job cuts erupt among powerful local politicians or the unions. The Sinowatz government, for all of its talk of reform

and restructuring, took care to reassure the 100,000 workers in the nationalized industries that jobs will be protected. In separate speeches to rallies of Voest-Alpine workers, both Sinowatz and Public Economy Minister Lacina said that workers would not be made victims of irresponsible management and that reform would not leave industries in ruins. Newly appointed Chancellor Vranitsky has not yet had an opportunity to address the nationalized industries' problems, but is a firm believer in the goal of full employment. However, his philosophy is that full employment should be attained through creation of an economic environment conducive to the operation of healthy, profitable firms and not through subsidies to inefficient or moribund industries. [redacted]

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**Prospects for the Nationalized Sector**

Prospects for the nationalized sector as a whole are similar to those for Voest-Alpine. Although Austrian leaders are increasingly aware of the need to limit government involvement in the economy, encourage private-sector initiative, and reduce subsidies, they are still unwilling to take bold action. The current attempt at management reform is basically an effort to patch up the existing system and does not address the broader issue of what role the government should play in the economy. The biggest obstacle to serious reform is that Austrian policymakers continue to regard job preservation as their top economic priority. [redacted]

Whether the new law eliminating proportionality for supervisory board appointments will reduce party influence in the nationalized industries' management is questionable, given the pervasiveness of party politics in Austrian life. The opposition People's Party has criticized the law on the grounds that the changes will not necessarily eliminate political patronage in management but will only restrict such patronage to the governing parties. The party has also been pushing the concept of limited privatization as an aid to rehabilitating the nationalized sector. Nonetheless, privatization does not play a major role in Vienna's program. To compensate for oil trading losses, the government has instructed the state holding company to sell holdings that do not fit into its corporate strategy, but we doubt that this will evolve into a major trend. [redacted]

**Political Implications**

The Voest-Alpine crisis has seriously tarnished the image of efficient management that the governing coalition had sought to project. Reestablishing this image before the national elections—which must be held by next April—will be a difficult task. Meanwhile, the burden of financing growing losses of state companies is aggravating an already troublesome federal budget deficit. Vienna has downplayed the danger of having to raise taxes before the 1987 election, but plans for major tax cuts and tax reforms almost certainly will be shelved indefinitely. Moreover, the government will be left with virtually no scope for expansionary fiscal policy if the economy stalls. [redacted]

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**European Community:  
Strategy for MFA  
Negotiations**

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The European Community, long a hardliner on textile issues, is breaking tradition and favoring a more liberal Multifiber Arrangement (MFA). The change in the EC position is a result of signs that the West European textile industry is getting back on its feet after years of contraction. Increased automation, a leaner work force, and production agreements with LDCs are enhancing EC competitiveness. Nevertheless, the Community is still looking to MFA renewal as protection against low-cost producers and as a bridge to including textiles in the GATT. Community strategy during the current renewal negotiations in Geneva is to position itself between the United States, which the EC views as wanting tighter restrictions, and the LDCs, which seek greater access to developed-country markets. While the talks may drag on beyond the 31 July expiration date, the EC believes the MFA will be renewed because LDCs are likely to face even more stringent restrictions if the MFA is abandoned.

**EC Goals: Loosening the Strings**

EC negotiators are seeking a renewal of the MFA for four or five years in a form similar to the present one. The EC, which pushed for tighter restrictions in 1977 and 1981, is now offering greater preferential treatment to new exporters and poorer LDCs and no cutbacks for the major LDC suppliers:

- Increasing textile import quotas above the 1986 levels by up to 1 percent annually for Hong Kong, Macau, and South Korea; from 4 to 6 percent for other suppliers depending on the product; and as much as 7 to 10 percent for the poorest LDCs or new suppliers.
- Allowing transfers of unused quotas from one part of the EC market to another if no more than 12 percent of the total trade is affected.

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**The MFA**

*Textile trade between most importing industrialized countries, including the EC, and most low-cost exporting countries has been governed since 1974 by the Multifiber Arrangement (MFA). The agreement currently has 45 signatories and regulates over \$60 billion in world textile trade through bilateral agreements that set volume quotas for various categories of textiles and clothing. The MFA is a derogation from GATT's free trade principle. This exception is, in principle, temporary and is designed to enable importing countries to restructure their textile sectors while allowing orderly growth of LDC textile exports. The MFA has been extended twice, in 1977 and 1981.*

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- Reducing the number of import quotas and number of bilateral agreements with textile-exporting countries.
- Returning textile trade to GATT rules after the next MFA expires.

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The EC continues to favor global ceilings for imports of sensitive products such as cotton and synthetic fabrics from all MFA suppliers. Although the Community also wants an antisurge mechanism to counter sudden rises in imports, it has indicated to LDCs that the antisurge clause could be excluded.

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**Factors Behind the EC Position**

The EC textile industry has suffered from years of recession caused by slow domestic economic growth and import competition. During the period 1976-84, textile production fell 6 percent and real EC

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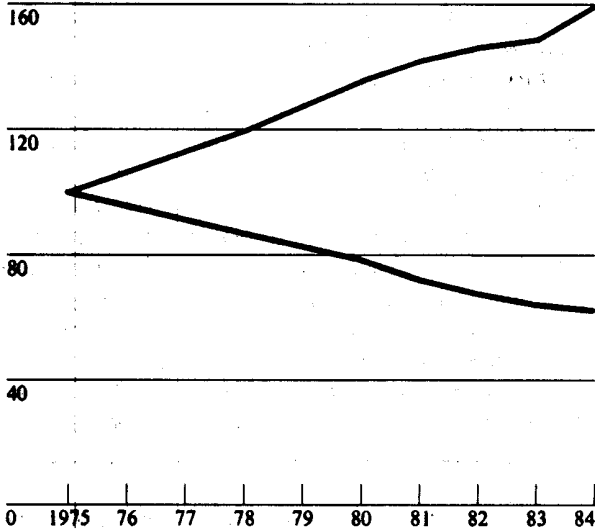
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**European Community: Selected Textile Industry Indicators, 1975-84**

Index: 1975=100

— Labor productivity  
— Employment



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GDP rose only 2.5 percent per year. Industry employment is down almost 40 percent with about 700,000 jobs lost since 1975 and roughly 4,000 firms out of business. Meanwhile, EC imports of textiles have steadily increased during the last decade, more than tripling in value (ECU terms) from 1975 to 1984, while rising 45 percent in volume over the period.

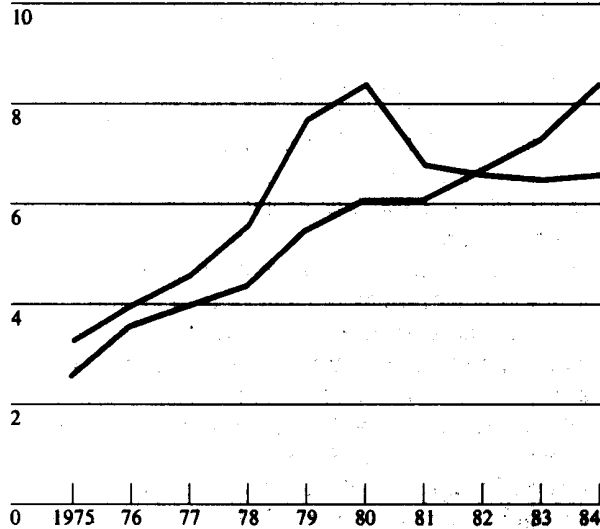
The West European industry is showing signs of regaining competitiveness as investment in new technology is boosting its ability to produce high-quality fabrics at lower costs. The EC has scrapped one-half of its weaving capacity and one-fourth of its spindle capacity since 1973 in favor of computer-controlled machines that, for example, can change a pattern in 15 minutes where formerly a highly skilled worker needed 10 hours. Overall, automation improvements boosted labor productivity 60 percent from 1975 to 1984.

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**European Community: Textile Imports From Third Countries, 1975-84**

Billion

— US \$  
— ECUs



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Production agreements among developed-country and LDC producers are also enabling some EC countries to regain competitiveness. In what is known as outward processing, developed-country producers are exporting cloth or semifinished items of clothing to low-cost countries for processing into garments. The finished products are then reexported to the West European suppliers. West German firms are the principal users of this scheme, particularly for items at the low end of the market.

Despite its progress, the textile industry in the EC-12 still regards imports as a major threat and, hence, supports renewal of the MFA. Spain and Greece seek to protect their relatively low-cost producers from even cheaper sources of supplies from LDCs. French and Italian textile industry officials are also dissatisfied with the EC's more

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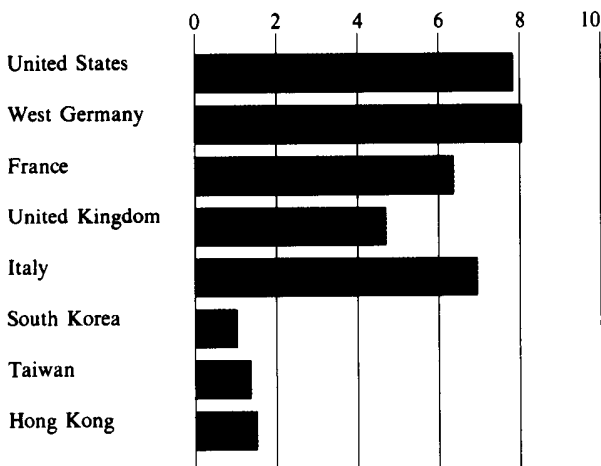
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### Selected Countries: Hourly Compensation Costs in the Textile Industry, 1983

US \$ per hour



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liberal attitude toward the MFA and fear the threat of LDC textile imports to their share of EC markets. Most of the EC's attention is on South Korea, Hong Kong, and Taiwan, which have a distinct advantage in terms of wage costs. The EC is also becoming concerned about other suppliers as well. Recently, the EC reached an agreement limiting Turkish imports through 1988. From 1980 to 1984, EC textile imports from Turkey rose nearly 50 percent, more than from any other non-EC country. [redacted]

#### EC MFA Strategy

The MFA renewal negotiations are proceeding slowly, with a possibility of their lasting beyond the 31 July expiration date. Thus far, the major players are unwilling to compromise their positions on what the next MFA should include. All parties favoring renewal—the industrial countries and major LDC exporters—would like to see an agreement, fearing confusion and a surge in protectionism if the MFA expires without a replacement. [redacted]

The EC is positioning itself between the LDCs and the United States in the MFA negotiations, hoping that US negotiators will bear the brunt of LDC criticism of developed-country protectionism. [redacted]

The EC is also seeking to ensure that other industrial nations equally share the burden of low-cost textile imports. They have resisted assertions that the United States has taken a "disproportionate" share of imports, particularly in 1983-84 when the dollar was strong, by arguing that the dollar's strength resulted in a sharp rise in all imports, not just in textiles. Although US textile imports rose at an average annual rate of 16 percent during 1981-84, the relative share of textiles in total US imports only went from 1 percent to 1.4 percent over that period. The Community is also pushing Japan to take a more active role in the MFA. Japan has never been a major participant in the MFA and historically manages its relations with textile suppliers on an informal bilateral basis. As a result, Tokyo officially maintains no quotas under the MFA. The EC argues that their own recent slow import growth (US \$ terms) is a result of poor domestic economic performance and, until recently, the undervaluation of their currencies, relative to the currencies of LDCs that are pegged to the US dollar. [redacted]

#### Outlook

EC officials are confident that the MFA will be renewed. They expect the renewal negotiations to follow the pattern of previous MFAs with little progress until the deadline approaches. If no agreement is reached by 31 July, negotiations and current MFA rules will probably be extended at least through September when a date for beginning the new GATT round may be formalized. As long as the MFA is not renewed, major textile importers will gain some leverage in negotiations with LDCs

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in the upcoming GATT round. EC and other industrial countries could offer more liberal textile trade in exchange for LDC concessions in areas more important to them—services, for example. The major textile exporters—Taiwan, South Korea, and Hong Kong, for example—are pushing hard for MFA renewal, fearing tougher restrictions without an agreement. [redacted]

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EC officials believe this may be the final MFA, after which most countries expect textile trade to be governed directly by the GATT. Meanwhile, with their textile industry on the verge of getting back on its feet, Community members want the MFA renewed to provide continued protection and, hence, additional time for the industry to improve its position for the post-MFA competitive environment. [redacted]

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[redacted]

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**Briefs****Energy***Declining Soviet  
Oil Revenues*

Preliminary estimates of Soviet hard currency oil earnings for the first half of the year—about \$3.5 billion—are down 30 percent compared with the same period last year. Although reduced world oil prices are largely responsible, Moscow's decision to withhold crude oil exports from the market in January and February also contributed. Increased exports of oil products—whose prices did not fall proportionately with the drop in crude oil prices—limited the decline. In recent years, Moscow has sold more than one-half of its annual oil exports in the second half of the year. Therefore, barring any unexpected surge or drop in either price or volume, Soviet oil earnings probably will not exceed \$7-8 billion this year. By comparison, Moscow's oil earnings peaked at about \$16 billion in 1983 and were just above \$12 billion in 1985. [redacted]

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**International Finance***Pakistan To Ask for  
IMF Assistance*

According to the US Embassy, a World Bank/IMF delegation will visit Pakistan early next month to negotiate a structural adjustment facility loan—estimated at \$48 million—to provide support for further economic reforms and deregulation measures in the Pakistani economy. If approved, this will be the first assistance Islamabad has received from the IMF since FY 1983. Local World Bank representatives foresee no problems with the negotiations because of Islamabad's recent moves on deregulation—such as reforms in the edible oil, fertilizer, and rice industries—and its depreciation of the rupee. Future loans, however, will most likely require Pakistan to address both long-delayed domestic issues, such as tax reform, and also further devaluation. [redacted]

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*Czechoslovakia  
Reenters  
Financial Markets*

Czechoslovakia will receive a \$100 million syndicated loan from Western banks in early July and is likely to borrow on a similar scale again in the fall. Prague's total syndicated borrowing this year may reach \$300 million—Czechoslovak syndicated loans during all of 1983-85 totaled \$150 million. Low interest rates—Czechoslovakia is viewed favorably by Western bankers because of its small debt—and increased capital equipment imports from the West to modernize Czechoslovak industry probably account for the regime's receptivity to new borrowing. Despite its new foray into the financial markets, however, Prague remains wary of becoming deeply indebted to Western bankers and is unlikely to alter its traditionally conservative stance toward borrowing. [redacted]

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**Secret****Global and Regional Developments****Official Development Assistance to LDCs**

Official Development Assistance (ODA) to LDCs from developed countries, OPEC, and multilateral institutions moderately increased in 1985 over 1984 levels. Preliminary 1985 data from the Development Assistance Committee (DAC) of the OECD indicate a 3-percent increase in developed-country aid from \$29 billion in 1984 to \$30 billion last year. Bilateral DAC aid rose 12 percent last year, with much of the increase directed to low-income countries in Sub-Saharan Africa that have almost no access to commercial credit markets. In absolute terms, the United States recorded the largest expansion of ODA, followed by West Germany, France, and Sweden. Despite a slight reduction from 1984 levels, Norway donated 1.0 percent of its GNP to assist LDCs, the highest ratio among DAC members. Within OPEC, Saudi Arabia and Kuwait remained the leading aid donors at about 2.5 percent of GNP, despite cuts forced by reduced oil revenues. While DAC members have increased their annual contributions by 3.5 percent in real terms from 1981 to 1985, overall ODA to developing countries has remained roughly constant in real terms throughout the 1980s. The DAC predicts moderate aid increases of 3 to 6 percent in 1986. [redacted]

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**Economic Slump in Key LDC Debtors Continues**

Forecasts by economic consulting firms basically agree with our estimates that economic growth in key LDC debtors will remain stagnant in 1986. There is general agreement that real GDP in Brazil, Chile, and Peru will expand by 3 to 5 percent this year. Mexico's real GDP is expected to fall by at least 3 percent. While there is no consensus among the consulting firms' forecasts for the other debtors, we believe their real GDP will increase marginally at best. The projected lackluster performance of the key LDC debtors can be traced primarily to lower oil prices, which benefit only Brazil, Chile, and the Philippines. [redacted]

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**Key LDC Debtors: Real GDP Growth, 1986**

	DRI	WEFA	Chase	CIA
<b>Key Debtors</b>	<b>0.5</b>	<b>0.9</b>	<b>0.8</b>	<b>1.0</b>
Argentina	-1.9	3.0	0.1	2.0
Brazil	4.9	4.5	3.5	5.0
Chile	2.6	4.0	3.1	2.8
Mexico	-2.8	-3.5	-4.4	-3.5
Nigeria	1.0	-7.5	4.4	-3.5
Peru	3.2	5.2	3.7	3.0
Philippines	-0.9	-1.3	-0.6	1.5
Venezuela	1.1	0.7	-3.2	-2.0

25X1

**Secret**  
20 June 1986

Secret

***Platinum Prices  
Likely To Remain High***

Despite this week's downturn, the price of platinum—a key export of South Africa and the USSR—remains about 50 percent above last year's level. Spurred by short supplies as a result of this year's strike at South Africa's Impala mines and continued robust industrial and speculative demand, platinum prices have risen from \$265 in June 1985 to nearly \$430 an ounce. Prospects are good that platinum prices will remain high in the near term as uncertainties continue over the political stability of South Africa. Over the longer haul, platinum prices will be buoyed by the growing use of catalytic converters in automobiles—the major use for platinum—which accounted for about one-third of demand in the developed West in 1985. Higher platinum prices are good news for South Africa, which produces about 85 percent of world supplies. The USSR, the second-largest producer, should also benefit as higher platinum earnings partially offset declining oil revenues. However, if the USSR pushes platinum exports (platinum now sells at about a \$90 an ounce premium over gold), the increased volume could limit the price rise. Moreover, recycling of platinum, which is economic only at higher prices, will also probably increase. [redacted]

25X1

***New Ownership  
Rules for African  
Preferential Trade Area***

At its May 1986 meeting, the Preferential Trade Area (PTA), covering 15 eastern and southern African countries, modified the requirement that exporting companies be at least 51 percent owned by member country nationals to receive preferential tariff treatment within the PTA. Under the new regulation, goods produced by firms that are 51 percent or more owned by nationals receive 100-percent preferential tariff treatment; those that are 41 to 50 percent locally owned get a 60-percent preference; and those that are 30 to 40 percent domestically owned receive only a 30-percent preference. [redacted] the new national ownership decision was reached after Kenya, which provides 20 percent of PTA funding, threatened to withdraw unless the 51-percent rule was changed. Zambia initially proposed a five-year suspension of the 51-percent rule to satisfy Kenya's demands. Ethiopia, a strong proponent of the rule, then offered the sliding scale compromise. We believe that Kenya will press for further relaxation of the new ownership rule in the future because of the large number of foreign-owned manufacturing exporters in Kenya. [redacted]

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***Syrian-Greek  
Ferry Line  
Reopened***

Truck ferry service between the port of Volos in Greece and Latakia in Syria reopened last week, following President Assad's directive to reduce tolls and fees by over 50 percent. After prolonged negotiations, an agreement was reached during Assad's visit to Athens in late May. Before service was abandoned in December, the Syrians were charging each truck on the ferry more than \$1,300—compared with Turkey's \$700 toll for trucks crossing overland. The reopening of the line will reestablish Greece as a major transshipment point for truck and rail shipments to the Middle East and could provide a welcome boost for Greek exports. Syrian redtape and the requisite bribes will dampen the effect of Assad's directive, but Damascus will benefit from increased access to imports from Eastern and Western Europe and much-needed hard currency revenues for trucks transiting Syria to Jordan. [redacted]

25X1

**Secret****National Developments*****Developed Countries******West German  
Growth Revives***

West German economic activity is reviving after a dismal first quarter, when unusually harsh winter weather was the principal cause of a 1-percent decline in real GNP. Industrial production and the volume of new orders registered gains in April of 1 and 4 percent, respectively. Several April business surveys also indicated improvement on both the domestic and export fronts. Although some forecasters have backed off from earlier projections of 4-percent real GNP growth this year, the current consensus of about 3.5 percent would still place West German growth among the strongest in the OECD. We expect the economic resurgence to continue long enough to be a strong plus for the government as the campaign for the January 1987 election intensifies this fall.

25X1

***Madrid Introduces  
Growth Package***

Minister of Economy and Finance Solchaga presented Parliament with a new package of measures aimed at boosting the current economic recovery. Cuts in government-fixed prices of gasoline and other oil products have already been approved and are expected to increase real GDP growth from 3.0 to 3.5 percent in 1986. Most of the other measures—including tax incentives for new individual pension accounts and venture-capital investments, legislation granting easier access by small- and medium-sized firms to the capital markets, and measures simplifying procedures for setting up new companies—are still pending approval in Parliament and are not likely to have a big impact on the economy this year. Over the longer term, however, they should result in a more dynamic private sector, with improved job-creating capacity. Because many of the proposals are popular, they should have little trouble getting through Parliament before the general election on 22 June. Other more controversial proposals—primarily social security and labor market reform—will probably run into trade union opposition. We expect little progress on them until later in the year.

25X1

***Lisbon Intends  
To Privatize  
Petrochemical Firm***

The Silva government has indicated that it wants to divest itself of the Portuguese National Petrochemical Company (CNP) as a first step in efforts to trim back the public sector. CNP has continually had financial trouble because of overcapacity, low productivity, high debt service, and poor management. Total debt is estimated to be \$1.3 billion—of which 60 percent is foreign debt—and is the highest of any state-owned industrial firm. The decision is likely to lead to resistance from both organized labor and opposition parties, who fear that it will lead to a series of plant closures and the elimination of several thousand jobs. The opposition is likely to try to stop the government by calling for a vote in the National Assembly on the constitutionality of the action. Industry experts believe, however, that the government will try to get around the constitutional prohibition against privatization by closing CNP and modernizing it, and then selling it as a new entity.

25X1

**Secret**  
20 June 1986

Secret

***Australian Economic Slump Hurts Government***

In the last two months, Prime Minister Hawke's Labor Party has lost its commanding lead over the opposition Liberal-National coalition in public opinion polls, and economic woes are likely to push the government's standing lower over the next year. Real GNP in Australia has declined for two consecutive quarters, according to recently released data. Moreover, the trade deficit widened to \$1.1 billion at the end of April, despite a rise in export volume. The economic slump is unlikely to bottom out soon. World prices of Australia's primary exports—coal, wheat, wool, iron ore, alumina, beef, barley, and sugar—continue to fall; world prices of its imports remain unchanged. As a result, business investment remains depressed. Trade unions and the business community are pressing the government to change economic policy, but Hawke and Treasurer Keating, who is largely responsible for economic policy making, differ publicly about how to deal with the country's economic difficulties. Last month, Keating said the nation is in danger of becoming a "banana republic" unless Australians tighten their belts and hinted that scheduled wage increases might have to be reduced and tax cuts postponed. In a speech last week, however, Hawke promised no wage reductions. According to the US Embassy, many Australians, expecting Hawke to spell out a government plan for reversing the current recession, were bitterly disappointed with the reassurances given to the trade unions. Hawke's credibility and that of his government will continue to suffer unless the trade deficit begins to close—as Hawke and Keating promised last year when they defied party traditions and allowed a float of Australia's currency.

***Israeli Private-Sector Wage Negotiations Begin***

The Histadrut national labor federation and the Manufacturer's Association began negotiations last week on a new private-sector wage agreement to replace the previous two-year agreement that expired on 1 April. In the negotiations, Histadrut will press for a higher minimum wage—equal to 50 percent of the average wage—along with an immediate 4- to 5-percent across-the-board increase. Histadrut, however, is apparently willing to settle for a smaller immediate increase in wages in order not to upset the government's economic austerity program. The Manufacturer's Association wants to keep all blanket increases to a minimum while postponing across-the-board wage increases—besides already-agreed-to cost-of-living adjustments. The negotiations are likely to drag on well into the summer as both sides are not showing any sense of urgency.

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***Less Developed Countries******Colombian Coffee Situation***

Colombia, the world's second-largest coffee producer after Brazil, will probably meet its 1986 export goal of 12 million bags and may gain \$3 billion in foreign exchange earnings this year. The Colombian Coffee Growers Association estimates that the 1985/86 coffee harvest will yield 11.5 million bags, a volume similar to last year's. Colombia's coffee stocks are at a record high—11 million bags—and domestic consumption remains at only 2 million. Bogota has so far rejected Central American and Mexican pressure to reduce coffee sales. Coffee export revenues typically account for more than 50 percent of all legal exports.

25X1

Secret

**Deflated Cotton Prices Jeopardize Chad's Finances**

According to the US Embassy, a significant drop in the world price of cotton has brought Chad's largest state-owned enterprise, Cotontchad, to the brink of bankruptcy. Cotton revenues account for 85 percent of Chad's foreign exchange earnings and approximately 50 percent of government revenues. The World Bank, which last month studied the cotton sector, concluded that cotton production costs are too high and that the economy in southern Chad is too dependent on cotton—the cotton sector employs 40 percent of the country's 5.2 million population. The US Embassy reports that, in an attempt to finance emergency support, the International Development Agency last month announced its intention to invite N'Djamena to negotiate a \$15 million credit that will pave the way for financing a comprehensive medium-term restructuring project, including crop diversification. In the short term, the credit will permit Cotontchad to continue operations, and temporarily avert the collapse of the cotton sector. [redacted]

25X1

**Congo Struggles With Austerity**

According to the US Embassy, Congo's Council of Ministers, in an attempt to reach agreement with the IMF on a standby arrangement, announced last month that it intends to raise agricultural producer prices, eliminate a number of state monopolies, and revitalize key state enterprises. Congo's current budget for this year has been reduced from about \$915 million to \$455 million. US Embassy sources report that the deterioration of the government's financial position, due to its external debt and declining oil revenues, is beginning to affect the private sector—the Congolese Union of Banks recently failed to make payments to an equipment supplier in France because of liquidity shortages. According to the defense attache, parastatals in Pointe-Noire have fallen up to three months behind in paying salaries, and expatriate families have left the area over the past few months because of the faltering economy and increase in crime. The US Embassy reports that the French and the World Bank have indicated their willingness to provide financial assistance as soon as the IMF accord is signed. Nevertheless, Brazzaville's willingness to follow through on these austerity measures in the face of public opposition is still in doubt. [redacted]

25X1

**Secret*****Djibouti Staves Off  
Budget Collapse***

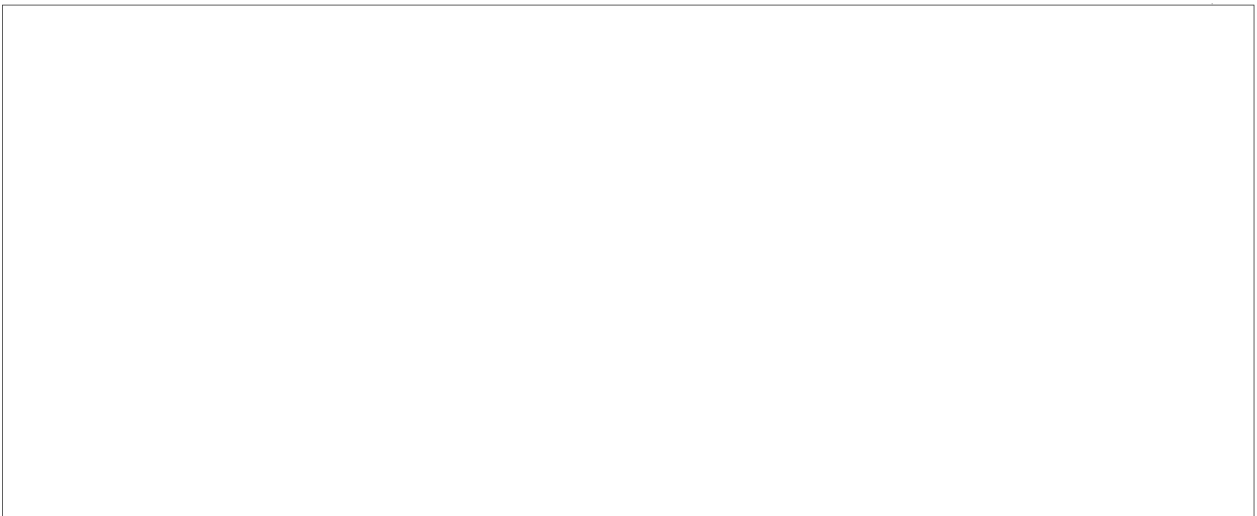
President Gouled has responded to a recent French report on Djibouti's fiscal problems by ordering a 10-percent across-the-board cut in the government's operating budget and by adopting several reforms designed to promote budgetary savings, according to the US Embassy. The French assessment reportedly maintained that Djibouti's fiscal status is unsustainable and should be corrected while the government is still solvent. The belt-tightening measures probably will pull Djibouti through the 1986 fiscal year, and, because they are limited and are spread evenly throughout the ministries, they are unlikely to alienate key supporters in the Army and bureaucracy. Djibouti could face a severe budget crunch in 1987 without increased revenues, additional foreign aid, or further fiscal reforms. In the likely event that Gouled does not get enough economic assistance or revenues, he will come under increasing pressure to trim the bloated government bureaucracy and generous social welfare programs inherited from the French. Gouled probably will attempt to postpone significant—and politically risky—reforms until after the presidential election in 1987, while pressuring France—the country's primary economic benefactor—to fill any financial gaps.

25X1

***Changes in Indian  
Oil Purchasing Policy***

New Delhi expects to reduce its projected 1986/87 trade deficit by at least \$1 billion by purchasing crude oil at near-spot-market prices instead of through long-term contracts. India will import at least 300,000 b/d of crude oil in 1986. Although longer term contracts provide security and predictability of supply and price, current low oil prices have prompted New Delhi to increase its purchases from the spot market and negotiate yearly contracts at close to market prices. New Delhi has already contracted about 125,000 b/d over the next year from Saudi Arabia, Iran, Iraq, and the United Arab Emirates, with prices determined on the basis of average monthly market prices. India also has been negotiating with the Soviet Union, which provides about 25 percent of India's net crude imports, to reduce its price for about 70,000 b/d of crude oil this year.

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***Soviets Likely To Purchase US Wheat***

The Soviets may buy US wheat for summer delivery [redacted] EC wheat stocks are below Soviet quality standards, and the Argentines, Canadians, and Australians do not have sufficient quantities of high-quality wheat to fulfill Soviet import needs. In addition, US wheat is now more competitively priced—approximately \$109 per metric ton compared with \$105 to \$108 for comparable Argentine and Australian grain. According to Embassy reports, the Soviets gave further positive buying signals at the recent US-USSR biannual grain consultations in Moscow. Nonetheless, Soviet purchases to date in the October/September long-term agreement (LTA) year total only 153,000 of the current 4-million-ton yearly commitment. [redacted]

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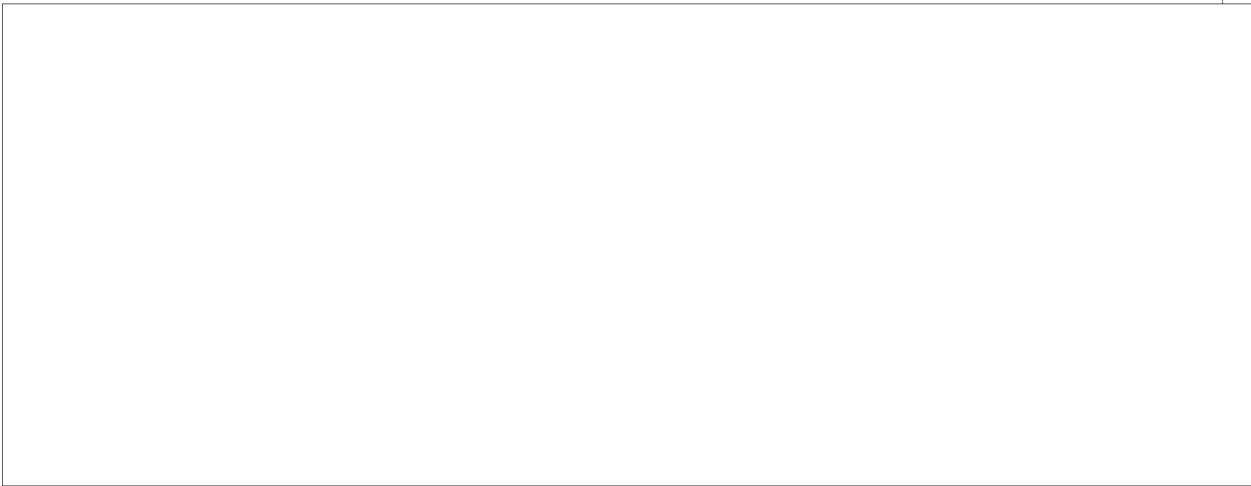
***New Soviet Approaches to Trade With the West***

The US Embassy in Moscow reports that a Danish firm has been approached by Soviet officials to participate in a joint-venture arrangement for textile production in Estonia. The firm would supply modern equipment and expertise, and in return would share in the profits. The Soviets would provide land, plant structure, management, and labor. [redacted]

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Soviet interest in expanding cooperation with Western firms has been growing, but Moscow apparently is still working out policy. The approach to the Danes was probably an attempt to elicit responses from potential partners rather than a concrete proposal. The Soviets probably would like to limit the role of Western experts to technical aspects and to reserve personnel and wage decisions—important to profit calculations—to themselves. Unless the Soviets offer a greater role in management, Western firms will find the joint-venture proposals unattractive. [redacted]

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20 June 1986



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MEMORANDUM FOR THE DIRECTOR

Re: [Illegible]

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**Secret**

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**Directorate of  
Intelligence**

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# **Economic & Energy Indicators**

**20 June 1986**

*DI EEI 86-013  
20 June 1986*

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**Industrial Production***Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
United States	2.6	-7.2	5.9	11.6	2.3	0.5	-10.9	5.9	-7.4
Japan	1.0	0.4	3.5	11.1	4.7	-1.0	-2.9	0	
West Germany	-2.3	-3.2	0.3	2.4	5.0				
France	-2.6	-1.5	1.1	2.5	0.5	-4.9	0		
United Kingdom	-3.9	2.1	3.9	1.3	4.6	1.9	-1.1		
Italy	-1.6	-3.1	-3.2	3.3	1.2	9.9	12.8	1.2	
Canada	0.5	-10.0	5.3	8.8	4.3	-0.1	-22.5		

**Gross National Product \****Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984	1985	1986			
						Year	2d Qtr	3d Qtr	4th Qtr
United States	2.5	-2.1	3.5	6.5	2.2	1.1	3.0	0.7	3.7
Japan	4.1	3.1	3.3	5.0	4.6	5.8	3.0	7.2	
West Germany	-0.2	-1.0	1.5	3.0	2.4	6.8	6.8	-0.2	
France	0.2	1.8	0.7	1.5	1.3	3.1	3.7	2.1	
United Kingdom	-1.4	1.9	3.4	2.6	3.3	6.8	-0.7	2.2	
Italy	0.2	-0.5	-0.2	2.8	2.3	5.8	1.0	2.3	
Canada	3.3	-4.4	3.3	5.0	4.5	3.2	7.0	5.4	

\* Constant market prices.

**Consumer Prices***Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
United States	10.3	6.2	3.2	4.3	3.5	1.4	-5.0	-3.3	
Japan	4.9	2.6	1.8	2.3	2.0	0	-6.3	0.3	-2.6
West Germany	6.0	5.3	3.3	2.4	2.2	-0.9	-2.0	-1.5	0
France	13.3	12.0	9.5	7.7	5.8	0.8	0.7	1.6	1.8
United Kingdom	11.9	8.6	4.6	5.0	6.1	4.5	0.7	-1.3	0.8
Italy	19.3	16.4	14.9	10.6	8.6	6.1	5.3	3.5	5.6
Canada	12.5	10.8	5.8	4.3	4.0	4.8	2.9	2.7	5.2

**Money Supply, M-1***Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
United States <sup>b</sup>	7.1	6.6	11.2	7.0	9.1	7.9	14.8	15.5	25.4
Japan	3.7	7.1	3.7	2.8	5.0	7.8	12.9	9.5	
West Germany	1.1	3.6	10.2	3.3	4.4	9.8	44.9	1.9	
France	12.2	13.9			8.6				
United Kingdom	NA	NA	13.0	14.7	16.7	9.0	34.8	30.5	
Italy <sup>c</sup>	11.2	11.6	15.1	12.3	13.7				
Canada <sup>d</sup>	3.8	0.7	10.2	3.2	4.1	13.4	10.8	-11.8	3.0

<sup>a</sup> Based on amounts in national currency units.<sup>b</sup> Including M1-A and M1-B.**Unemployment Rate***Percent seasonally adjusted*

	1981	1982	1983	1984	1985	1986				
						Year	4th Qtr	1st Qtr	Mar	Apr
United States	7.5	9.6	9.4	7.4	7.1	6.9	7.0	7.1	7.0	7.2
Japan	2.2	2.4	2.7	2.7	2.6	2.8	2.6	2.7	2.9	
West Germany	5.6	7.7	9.2	9.1	9.3	9.0	10.2	9.8	9.0	8.5
France	7.6	8.4	8.6	9.6	10.0	10.0	9.8	9.8	9.9	9.9
United Kingdom	10.0	11.6	12.4	12.4	12.9	12.9	13.1	13.2	13.2	13.3
Italy	8.4	9.1	9.9	10.4	10.7	11.0	11.5			
Canada	7.5	11.1	11.9	11.3	10.5	10.2	9.7	9.6	9.6	9.6

<sup>a</sup> Unemployment rates for France are estimated.

**Foreign Trade <sup>a</sup>***Billion US \$, f.o.b.*

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	Jan	Feb	Mar	Apr
<b>United States <sup>b</sup></b>										
Exports	233.5	212.3	200.7	217.6	213.3	52.4				
Imports	261.0	244.0	258.0	325.7	345.3	89.2	32.0	28.9	32.0	28.8
Balance	-27.5	-31.6	-57.4	-108.1	-132.0	-36.8				
<b>Japan</b>										
Exports	149.6	138.2	145.4	168.1	173.9	47.3	16.3	15.9	15.7	16.7
Imports	129.5	119.6	114.0	124.1	118.0	30.3	10.4	10.4	9.3	9.9
Balance	20.1	18.6	31.4	44.0	55.9	16.9	5.9	5.5	6.4	6.8
<b>West Germany</b>										
Exports	175.4	176.4	169.5	171.9	184.3	51.2	18.9	19.1	17.2	21.9
Imports <sup>c</sup>	163.4	155.3	152.9	153.1	158.9	43.8	15.3	15.6	14.1	17.1
Balance	11.9	21.1	16.6	18.8	25.3	7.4	3.5	3.5	3.1	4.7
<b>France</b>										
Exports	106.3	96.4	95.1	97.5	101.9	28.8	10.2	10.3	9.9	9.9
Imports	115.6	110.5	101.0	100.3	104.5	29.2	9.7	10.3	10.2	10.6
Balance	-9.3	-14.0	-5.9	-2.8	-2.6	-0.4	0.5	0	-0.4	-0.7
<b>United Kingdom</b>										
Exports	102.5	97.1	92.1	93.6	100.9	27.3	9.0	8.8	8.4	9.1
Imports	94.6	93.1	93.7	99.3	103.5	27.6	8.8	9.3	10.2	9.3
Balance	7.9	4.0	-1.6	-5.7	-2.5	-0.3	0.2	-0.5	-1.8	-0.3
<b>Italy</b>										
Exports	75.4	73.9	72.8	73.5	78.8	22.5	7.2	8.5	7.7	8.2
Imports	91.2	86.7	80.6	84.4	90.7	26.0	8.8	9.2	8.5	8.2
Balance	-15.9	-12.8	-7.9	-10.9	-11.9	-3.5	-1.6	-0.7	-0.8	0
<b>Canada</b>										
Exports	70.5	68.5	73.7	86.5	88.0	22.5	7.7	7.1	6.7	7.4
Imports	64.4	54.1	59.3	70.6	75.7	19.6	7.0	7.0	5.8	6.6
Balance	6.1	14.4	14.4	15.9	12.3	2.9	0.7	0.1	0.9	0.8

<sup>a</sup> Seasonally adjusted.<sup>b</sup> Imports are customs values.<sup>c</sup> Imports are c.i.f.**Current Account Balance <sup>a</sup>***Billion US \$*

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	Jan	Feb	Mar	Apr
<b>United States</b>	6.3	-8.1	-46.0	-107.4	-117.7	-36.6				
<b>Japan</b>	4.8	6.9	20.8	35.0	49.2	16.0	1.9	3.9	6.9	7.9
<b>West Germany</b>	-6.8	3.3	4.3	6.7	13.8	7.4	1.9	2.9	2.1	3.7
<b>France</b>	-4.7	-12.1	-4.9	-0.8	0.9	1.0				
<b>United Kingdom</b>	15.3	8.5	4.7	1.3	4.0	1.3	1.6	0.4	-0.9	0.6
<b>Italy</b>	-8.6	-5.7	0.6	-2.9						
<b>Canada</b>	-5.0	2.1	1.4	1.9	-1.9	-0.9				

<sup>a</sup> Seasonally adjusted; converted to US dollars at current market rates of exchange.

**Export Prices in US \$***Percent change from previous period  
at an annual rate*

	1981	1982	1983	1984	1985	1986			
						Jan	Feb	Mar	Apr
United States	9.2	1.5	1.0	1.4	-0.7	-0.3	-11.4	7.3	-2.9
Japan	5.5	-6.4	-2.4	0.2	-0.6	24.2	111.0	-5.7	
West Germany	-14.9	-2.8	-3.2	-7.1	0	31.8	60.5	32.7	0.1
France	-12.0	-5.5	-4.8	-2.9	2.5	35.1	34.8		
United Kingdom	NA	NA	-6.2	-5.1	2.3	-11.3	-16.0	26.4	6.0
Italy	-7.8	-3.0	-4.4	-5.2	-0.3				
Canada	3.9	-2.0	0.2	-0.4	-3.5	-30.7	14.6	-11.1	24.6

**Import Prices in US \$***Percent change from previous period  
at an annual rate*

	1981	1982	1983	1984	1985	1986			
						Jan	Feb	Mar	Apr
United States	5.3	-2.0	-3.7	1.7	-2.4	-10.3	-8.7	-29.9	-7.2
Japan	3.6	-7.4	-5.0	-2.8	-4.3	16.5	46.8	-66.7	
West Germany	-8.6	-4.7	-5.2	-4.8	-1.5	-0.5	13.3	-2.6	-24.4
France	-7.8	-7.2	-7.0	-3.8	-0.3	-2.4	18.9		
United Kingdom	NA	NA	-5.7	-4.5	0.5	-13.6	-2.0	26.2	-3.6
Italy	1.0	-5.3	-6.6	-3.7	-1.0				
Canada	8.7	-1.1	0.6	1.0	-2.1	4.0	7.6	2.1	16.2

**Exchange Rate Trends***Percent change from previous period  
at an annual rate*

	1981	1982	1983	1984	1985	1986				
						Feb	Mar	Apr	May	
<b>Trade-Weighted</b>										
United States	10.5	10.6	5.8	9.1	6.3	-31.8	-20.3			
Japan	9.3	-5.7	10.4	6.2	6.8	106.4	26.2			
West Germany	-2.1	7.0	5.8	1.0	1.7	9.3	4.0			
France	-5.1	-6.1	-4.7	-2.1	2.7	8.0	2.0			
United Kingdom	2.5	-2.1	-5.0	-2.5	2.0	-36.3	2.5			
Italy	-9.2	-5.1	-1.6	-3.1	-3.8	8.6	4.2			
Canada	0.3	0.2	2.3	-2.3	-3.6	-8.9	-5.6			
<b>Dollar Cost of Foreign Currency</b>										
Japan	2.7	-12.9	4.6	0	-0.3	61.4	33.4	22.8	42.8	
West Germany	-24.6	-7.2	-5.2	-11.5	-3.3	41.0	26.1	3.7	19.5	
France	-28.7	-20.8	-15.9	-14.7	-2.7	41.0	23.7	-39.1	15.7	
United Kingdom	-13.2	-13.4	-13.3	-11.9	-3.0	-0.3	40.3	28.7	19.3	
Italy	-32.8	-18.8	-12.3	-15.6	-8.6	40.9	26.2	-4.7	18.8	
Canada	-2.5	-2.9	0.1	-5.1	-5.4	1.1	4.1	13.1	6.4	

**Money Market Rates***Percent*

	1981	1982	1983	1984	1985	1986				
						Year	4th Qtr	Jan	Feb	Mar
<b>United States</b> 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	7.93	7.95	NA	NA	
<b>Japan</b> loans and discounts (2 months)	7.79	7.23	NA	6.66	6.52	6.48	6.46	6.42	6.27	
<b>West Germany</b> interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	4.81	4.63	NA	NA	
<b>France</b> interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	9.10	9.65	NA	NA	
<b>United Kingdom</b> sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	11.60	12.05	NA	NA	
<b>Italy</b> Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	14.52	14.79	NA	NA	
<b>Canada</b> finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	9.10	NA	NA	NA	
<b>Eurodollars</b> 3-month deposits	16.87	13.25	9.69	10.86	8.41	8.15	8.19	NA	NA	

## Agricultural Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
<b>Bananas</b> Fresh imported, (Total world, \$ per metric ton)	214.0	217.0	232.0	243.0	110.3	109.8	110.7	106.8	NA
<b>Beef (\$ per pound)</b>									
Australia (Boneless beef, f.o.b. US Ports)	112.4	107.4	111.1	101.0	96.6	97.6	96.6	93.5	91.2
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	87.8	84.2	83.4	85.8
<b>Cocoa (\$ per pound)</b>	89.8	74.3	92.1	106.2	98.7	95.7	91.0	84.9	NA
<b>Coffee (\$ per pound)</b>	1.28	1.40	1.32	1.44	1.43	2.01	2.04	1.92	1.79
<b>Corn</b> (US #3 yellow, c.i.f. Rotterdam, \$ per metric ton)	150	123	148	150	125	116	113	113	117
<b>Cotton</b> (World Cotton Prices, "A" index, c.i.f. Costa, US \$/lb.)	72.69	74.48	85.71	63.91	57.87	53.60	54.00	49.28	46.58
<b>Palm Oil</b> (United Kingdom 5% bulk, c.i.f. \$ per metric ton)	571	445	502	730	501	289	243	242	237
<b>Rice (\$ per metric ton)</b>									
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	453	455	440	323
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	236	232	225	221
<b>Soybeans</b> (US #2 yellow, c.i.f. Rotterdam, \$ per metric ton)	288	244	282	283	225	218	218	213	215
<b>Soybean Oil</b> (Dutch, f.o.b. ex-mill, \$ per metric ton)	507	447	527	727	571	407	369	349	343
<b>Soybean Meal</b> (US, c.i.f. Rotterdam \$ per metric ton)	252	219	238	197	157	188	193	187	184
<b>Sugar</b> (World raw cane, f.o.b. Caribbean Ports; spot prices \$ per pound)	16.93	8.42	8.49	5.18	4.04	5.83	7.07	8.36	7.64
<b>Ten</b> Average Auction (London) (\$ per pound)	91.0	89.9	105.2	156.6	90.0	86.4	91.5	91.3	NA
<b>Wheat</b> (US #2. DNS c.i.f. Rotterdam, \$ per metric ton)	210	187	183	182	169	172	166	172	163
<b>Food Index<sup>a</sup> (1980=100)</b>	88	78	86	92	81	95	97	98	95

<sup>a</sup> The food index is compiled by *The Economist* for 14 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

**Industrial Materials Prices**

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
<b>Aluminum</b> (¢ per pound)									
Major US producer	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0	81.0
LME cash	57.4	44.9	65.1	56.8	47.2	51.4	53.1	52.7	52.8
<b>Chrome Ore</b> (South Africa chemical grade, \$ per metric ton)									
	53.0	50.9	50.0	50.0	43.9	40.0	40.0	40.0	40.0
<b>Copper</b> <sup>a</sup> (bar, ¢ per pound)									
	79.0	67.1	72.0	62.4	64.5	64.5	65.6	65.0	64.4
<b>Gold</b> (\$ per troy ounce)									
	460.0	375.5	424.4	360.0	317.2	342.6	345.7	339.9	342.6
<b>Lead</b> <sup>a</sup> (¢ per pound)									
	32.9	24.7	19.3	20.0	17.7	16.7	16.6	16.8	17.0
<b>Manganese Ore</b> (48% Mn, \$ per long ton)									
	82.1	79.9	73.3	69.8	68.4	67.2	67.2	64.8	64.8
<b>Nickel</b> (\$ per pound)									
Cathode major producer	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	2.7	2.2	2.1	2.2	2.2	1.8	1.9	1.8	1.8
<b>Platinum</b> (\$ per troy ounce)									
Major producer	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	446.0	326.7	422.6	358.2	291.0	383.1	413.0	416.0	412.0
<b>Rubber</b> (¢ per pound)									
Synthetic <sup>b</sup>	47.5	45.7	44.0	44.4	44.1	42.8	41.6	38.5	NA
Natural <sup>c</sup>	56.8	45.4	56.2	49.6	42.0	41.7	42.0	39.2	40.1
<b>Silver</b> (\$ per troy ounce)									
	10.5	7.9	11.4	8.1	6.1	5.9	5.7	5.2	5.1
<b>Steel Scrap</b> <sup>d</sup> (\$ per long ton)									
	92.0	63.1	73.2	86.4	74.4	74.0	73.7	73.0	NA
<b>Tin</b> <sup>a</sup> (¢ per pound)									
	641.4	581.6	590.9	556.6	543.2	357.4	329.2	257.9	249.3
<b>Tungsten Ore</b> (contained metal, \$ per metric ton)									
	18,097	13,426	10,177	10,243	10,656	8,673	8,309	7,752	7,474
<b>US Steel</b> (finished steel, composite, \$ per long ton)									
	543.5	567.3	590.2	611.6	617.8	551.2	551.2	551.2	NA
<b>Zinc</b> <sup>a</sup> (¢ per pound)									
	38.4	33.7	34.7	41.5	35.4	28.5	28.4	29.8	31.9
<b>Lumber Index</b> <sup>e</sup> (1980=100)									
	95	84	114	105	103	100	114	129	121
<b>Industrial Materials Index</b> <sup>f</sup> (1980=100)									
	85	71	82	76	69	68	71	70	70

<sup>a</sup> Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME. As of February 1986 tin prices from the Penang market.

<sup>b</sup> S-type styrene, US export price.

<sup>c</sup> Quoted on New York market.

<sup>d</sup> Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.

<sup>e</sup> This index is compiled by using the average of 10 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

<sup>f</sup> The industrial materials index is compiled by *The Economist* for 18 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

**World Crude Oil Production  
Excluding Natural Gas Liquids**
*Thousand bbl*

	1981	1982	1983	1984	1985 <sup>a</sup>	1986 <sup>a</sup>			
						Jan	Feb	Mar	Apr
<b>World</b>	<b>55,837</b>	<b>53,092</b>	<b>52,633</b>	<b>53,691</b>	<b>53,356</b>	<b>53,757</b>	<b>54,709</b>	<b>53,693</b>	
<b>Non-Communist countries</b>	<b>41,602</b>	<b>38,818</b>	<b>38,228</b>	<b>39,257</b>	<b>38,692</b>	<b>39,471</b>	<b>40,423</b>	<b>38,497</b>	
<b>Developed countries</b>	<b>12,886</b>	<b>13,276</b>	<b>13,864</b>	<b>14,302</b>	<b>14,730</b>	<b>15,083</b>	<b>13,070</b>	<b>12,872</b>	
United States	8,572	8,658	8,680	8,735	8,933	8,942	8,934	8,821	8,791
Canada	1,285	1,270	1,356	1,411	1,437	1,480	1,480	1,480	
United Kingdom	1,811	2,094	2,299	2,535	2,533	2,734	2,699	2,699	
Norway	501	518	614	700	785	839	870	860	
Other	717	736	915	921	1,022	1,088	1,087	1,012	
<b>Non-OPEC LDCs</b>	<b>6,036</b>	<b>6,633</b>	<b>6,823</b>	<b>7,515</b>	<b>7,845</b>	<b>7,678</b>	<b>7,393</b>	<b>7,605</b>	
Mexico	2,321	2,746	2,666	2,746	2,733	2,510	2,400	2,219	2,358
Egypt	598	665	689	827	874	860	600	880	
Other	3,117	3,222	3,468	3,942	4,238	4,308	4,393	4,586	
<b>OPEC</b>	<b>22,680</b>	<b>18,901</b>	<b>17,541</b>	<b>17,440</b>	<b>16,117</b>	<b>16,710</b>	<b>17,960</b>	<b>16,930</b>	<b>17,520</b>
Algeria	803	701	699	638	645	650	550	600	600
Ecuador	211	211	236	253	280	300	220	300	300
Gabon	151	154	157	152	153	160	160	150	160
Indonesia	1,604	1,324	1,385	1,466	1,235	1,200	1,300	1,175	1,218
Iran	1,381	2,282	2,492	2,187	2,258	1,700	2,200	1,800	2,000
Iraq	993	972	922	1,203	1,437	1,680	1,880	1,650	1,500
Kuwait <sup>b</sup>	947	663	881	912	862	1,000	1,100	1,400	1,300
Libya	1,137	1,183	1,076	1,073	1,069	1,100	1,000	900	900
Neutral Zone <sup>c</sup>	370	317	390	410	355	300	300	250	200
Nigeria	1,445	1,298	1,241	1,393	1,464	1,300	1,400	1,350	1,630
Qatar	405	328	295	399	302	400	300	350	180
Saudi Arabia <sup>b</sup>	9,625	6,327	4,867	4,444	3,290	4,200	4,600	4,000	4,600
UAE	1,500	1,248	1,119	1,097	1,146	1,165	1,400	1,305	1,255
Venezuela	2,108	1,893	1,781	1,813	1,621	1,555	1,550	1,520	1,520
<b>Communist countries</b>	<b>14,235</b>	<b>14,282</b>	<b>14,405</b>	<b>14,434</b>	<b>14,664</b>	<b>14,286</b>	<b>14,286</b>	<b>14,286</b>	
USSR	11,800	11,830	11,864	11,728	11,749	11,350	11,350	11,350	
China	2,024	2,042	2,121	2,286	2,496	2,496	2,496	2,496	
Other	411	410	420	420	419	440	440	440	

<sup>a</sup> Preliminary.

<sup>b</sup> Excluding Neutral Zone production, which is shown separately.

<sup>c</sup> Production is shared equally between Saudi Arabia and Kuwait.



**Big Seven: Inland Oil Consumption***Thousand b/d*

	1981	1982	1983	1984	1985		1986				
					Year	3d Qtr	4th Qtr	Jan	Feb	Mar	Apr
United States <sup>a</sup>	16,058	15,296	15,184	15,708	15,697	15,557	15,748	15,923	16,056	16,188	15,833
Japan	4,444	4,204	4,193	4,349	4,121	3,839	4,361	4,661	5,046		
West Germany	2,120	2,024	2,009	2,012	2,060	2,233	1,993	2,096	2,406	2,141	
France	1,744	1,632	1,594	1,531	1,493	1,310	1,569	1,626	2,009	1,525	1,706
United Kingdom	1,325	1,345	1,290	1,624	1,402	1,236	1,298	1,286	1,485		
Italy <sup>b</sup>	1,705	1,618	1,594	1,513	1,516	1,436	1,642	1,718	1,855	1,535	1,495
Canada	1,617	1,454	1,354	1,348	1,344	1,360	1,402	1,346	1,374	1,183	

<sup>a</sup> Including bunkers, refinery fuel, and losses.<sup>b</sup> Principal products only prior to 1981.**Big Seven: Crude Oil Imports***Thousand b/d*

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	Jan	Feb	Mar	Apr
United States	4,406	3,488	3,329	3,402	3,216	3,662	3,329	2,993	3,000	3,701
Japan	3,919	3,657	3,567	3,664	3,377	3,619	3,126	4,273		
West Germany	1,591	1,451	1,307	1,335	1,284	1,210	1,321	1,225		
France	1,804	1,596	1,429	1,395	1,476	1,590	1,430	1,420	1,380	
United Kingdom	736	565	456	482	523	518				
Italy	1,816	1,710	1,532	1,507	1,462	1,648				
Canada	521	334	247	244	283	343				

**Crude Oil Prices**

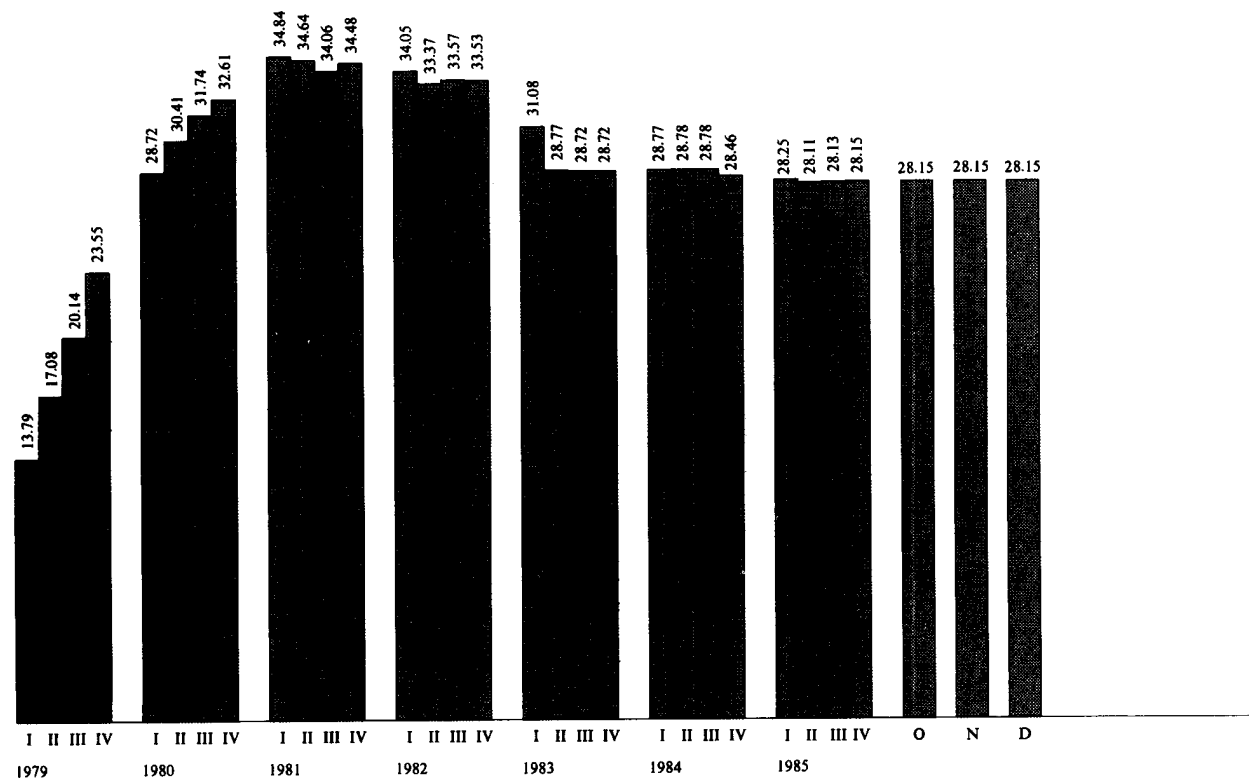
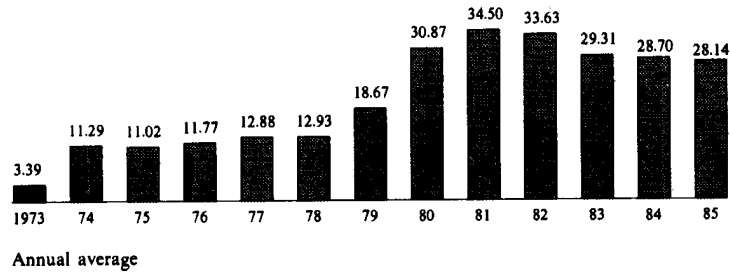
US \$ per barrel

	1980	1981	1982	1983	1984	1985	1986			
						Year	4th Qtr	1st Qtr	Mar	Apr
<b>OPEC Average* (Official Sales Price)</b>	30.87	34.50	33.63	29.31	28.70	28.14	28.15	28.09	28.09	28.06
<b>World Average Price</b>	NA	NA	NA	NA	NA	27.16	27.36	20.67	16.87	15.05

\* F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil. Weighted by the volume of production.

**OPEC: Average Crude Oil Sales Price**

US \$ per barrel



The 1973 price is derived from posted prices, not official sales prices.

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