Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Directorate of
Intelligence

~~Secret~~

25X1

International Economic & Energy Weekly

25X1

10 October 1986

~~Secret~~

DI IEEW 86-041
10 October 1986

Copy 839

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

25X1
Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Page Denied

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

25X1

International Economic & Energy Weekly

25X1

10 October 1986

iii	Synopsis
1	Perspective—The Globalization of Financial Markets 25X1 25X1
3	Iran: Increasing Economic Toll of the War 25X1 25X1
7	Latin America: Changes in Debtor Strategies 25X1 25X1
11	Prospects for Sino-Soviet Economic Relations 25X1 25X1
15	Briefs: Energy; International Finance; International Trade; Global and Regional Developments; National Developments
	25X1
	Indicators

25X1

Comments and queries regarding this publication are welcome. They may be directed to *Directorate of Intelligence,* 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

25X1

International Economic & Energy Weekly

25X1

Synopsis

1 **Perspective—The Globalization of Financial Markets**

25X1

The explosive increase in the ease, speed, size, and scope of international money transactions is making the international financial markets a connective medium that interlocks political and economic phenomena worldwide.

25X1

3 **Iran: Increasing Economic Toll of the War**

25X1

Increasingly effective Iraqi air attacks on Iran's oil refining and export systems are substantially raising the pressure on an economy reeling from low oil prices and increased war spending. The combination of these economic problems could produce significant civilian unrest, especially if Tehran is unable to show some progress in the war.

25X1

7 **Latin America: Changes in Debtor Strategies**

25X1

The foreign payments positions of the major Latin debtors are deteriorating—despite lower interest rates—and these countries are increasingly insisting that their debt burdens be reduced to promote economic growth. Because the cost of a breakdown in debtor-creditor relations is high, we believe that negotiations will continue to culminate in mutually satisfactory agreements.

25X1

11 **Prospects for Sino-Soviet Economic Relations**

25X1

We expect that Sino-Soviet trade will meet the goal set in the 1985 trade agreement—$14 billion over the 1986-90 period—but will remain a small share of each country's total trade. The technical cooperation agreement—the first in more than 20 years—will probably unfold slowly because of Beijing's wariness of Soviet assistance in general and dissatisfaction with Soviet industrial technology.

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

25X1

International Economic & Energy Weekly

25X1

10 October 1986

Perspective

The Globalization of Financial Markets

25X1

The globalization of financial markets since the mid-1970s is one of the most revolutionary structural changes affecting the world economy today. This change has been brought about by rapid technological advances, a wave of financial deregulation, and the sharp increase in capital flows that accompanied the oil shocks. As a result, traditional distinctions are blurred between domestic and international financial markets, between different types of financial transactions, and between who is a participant and who is not. Moreover, there has been an explosive increase in the ease, speed, size, and scope of international money transactions, making the international financial markets a connective medium that interlocks political and economic phenomena worldwide.

25X1

The increased capabilities of the financial system have unquestionably improved growth and efficiency in the world economy. For the United States, globalization has made it easier for Japanese and European capital to be tapped to finance large US trade and fiscal deficits, and has facilitated foreign investment in the United States. The resulting growth of the US economy, in turn, has fueled increased economic activity worldwide.

25X1

Despite the many benefits, however, we believe the new financial environment is creating some potential risks. In the economic arena, the international financial market provides a highly fluid medium through which political and economic shocks are transmitted quickly and forcefully around the globe. As a result, important factors such as exchange rates, interest rates, and capital flows are increasingly sensitive to events worldwide. Such volatility can be particularly damaging to LDC economies in which, for example, a sudden rise in world interest rates can swell already large debt service burdens.

25X1

In addition, the increasingly international nature of these markets is weakening governments' ability to carry out independent monetary and fiscal policies, while making effective intergovernmental policy coordination increasingly elusive. Taken together, these trends could heighten international disputes over such issues as foreign investment restrictions, capital controls, and macroeconomic policies—as demonstrated by the strained relations among the G-5 countries over coordination of interest rate policies.

25X1

Over the longer term, the new power of financial markets will accelerate the flow of resources worldwide. Financial flows have created "capital bridges" over which other resources—particularly productive capacity and high technology—can cross national boundaries. Although largely beneficial to the world economy, the speed

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

at which these changes occur can create significant economic and political adjustment problems. Shifts in international payments positions, relative competitiveness, and technological leadership, for example, can emerge far more rapidly in this new environment.

25X1

We are also concerned about a number of more specific risks resulting from the globalization of financial markets including:

- ***Exploitation of the system.*** A more complex financial system is more accessible to governments and groups whose objectives threaten Western security interests. In addition to the multibillion dollar narcotics money-laundering industry, considerable evidence exists that the increased sophistication of financial markets has facilitated the activities of those engaged in terrorism, gray arms deals, and nuclear proliferation.

- ***System vulnerability.*** Along with financial globalization have come sharper, more risk-taking competition among lenders, a decline in regulatory powers, the spread of untested financial instruments, and a more complex—and perhaps more fragile—financial communications network. These trends have led some in financial circles to believe the system is more susceptible to a domino-type collapse following some crisis.

25X1

Nonetheless, the continued globalization of financial markets can also promote US interests. As the importance of the financial structure grows, Communist and Third World countries will find it increasingly costly to remain outside this largely Western system. Governments that do remain outside will find themselves on the periphery of international economics and related political issues—"Albanias" of the international community. Wider participation, coupled with the key position the United States occupies in this global network, is likely to present opportunities for promotion of Western political and security interests within this arena.

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Iran: Increasing Economic Toll of the War

25X1

Increasingly effective Iraqi air attacks on Iran's oil refining and export systems are substantially raising the pressure on an economy reeling from low oil prices and increased war spending. Acute shortages of consumer items, soaring prices for food and other necessities, and rapidly rising unemployment have been evident since the spring and will probably worsen in coming months. Moreover, Iran is likely to suffer severe shortages of heating fuel, electricity, and possibly natural gas this winter. The combination of these economic problems could produce significant civilian unrest, especially if Tehran is unable to show some progress in the war.

Falling Oil Revenues . . .

Iraqi attacks, compounded by bad weather and technical problems, have reduced Iran's oil exports since early August to about 1.1 million b/d—600,000 b/d below normal, given Iran's OPEC production quota. Oil exports will probably fall below 400,000 b/d for October. In September, the primary loading jetty on Khark Island has been put out of action indefinitely. the remaining operational berth was destroyed on 6 October. repairs had been under way at Khark, but Tehran has not yet been able to compensate for damage by activating floating oil terminals at Ganaveh. Moreover, Iran's shuttle system continues to be plagued by rough seas at its new transshipment point at Larak Island where Iran was forced to transfer operations following Iraq's attack on Sirri Island in mid-August. In addition, the shuttle fleet continues to be hampered by maintenance problems and periodic air attacks.

Tehran needs foreign technical assistance to help solve export problems and apparent difficulties with oil production. Iran is urgently seeking assistance from foreign companies to rebuild and service a variety of oil facilities in poor condition or damaged by Iraqi attacks.

25X1

25X1 Iran may find it difficult to acquire needed foreign expertise and spare parts as foreign workers will be hesitant to work under threat of Iraqi air raids, and firms are likely to demand payment up front. In September, a foreign drilling company in Iran ceased operations because it had not received payments,

25X1

25X1

On top of low prices and reduced exports, Tehran's financial position is suffering from a need for more imports of petroleum products, higher transportation costs, and continued oil aid to Syria. The amount of crude oil sent overseas to be refined or swapped for petroleum products probably has increased by 50,000 to 100,000 b/d during the past year. The cost of shuttling oil to Larak Island is up because of greater distances and higher insurance costs, and Tehran has been providing 30,000 to 40,000 b/d of free oil to Syria. We estimate Iran's net revenue-generating oil exports were probably 900,000 b/d in August and September of this year, with Iran earning only an estimated $10 per barrel after subtracting production and transport costs. This compares with 1.6 million b/d at $23 per barrel in August and September of 1985. In addition, the declining value of the dollar has reduced the purchasing power of these revenues.

25X1

25X1

25X1 25X1

. . . Squeeze the Domestic Economy

Low oil revenues and increased military expenditures have left little foreign exchange for Iran's highly import-dependent civilian economy. We estimate Iran will only earn some $7 billion this year, compared with about $15 billion last year. We believe military spending is probably up this year to $3.5-4 billion, and food imports have been only slightly reduced to $2-2.5 billion, meaning that the bulk of Iran's earnings is

25X1

25X1

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Iraqi Air Attacks on Iranian Economic Targets

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

needed just to finance these items. Because the Central Bank is trying to reduce short-term trade credits, the $570 million drawdown in reserves in the first quarter of 1986 was probably used to pay off short-term debts and not to support imports.

Huge cuts in imports of raw materials and spare parts have forced businesses to close and put many people out of work. We estimate unemployment is at least 30 percent. wide-spread layoffs and shortened hours, particularly in factories, most of which require imports. Lower government revenues have forced ministries to cut expenditures and encourage early retirements,

Low imports and depressed domestic production have driven up prices and caused scarcities of consumer goods, including food and medicine. Since early this summer, shortages of food, especially meat and rice, throughout Iran. Some household products such as soap are almost impossible to find.

Energy Shortages—A Cold, Dark Winter Ahead

Iraqi attacks on refineries and pump stations will probably cause severe shortages of gasoline and heating fuel this winter. Iraqi airstrikes on 13 September against pumping stations supplying crude to Iran's principal refineries—accounting for about 80 percent of undamaged refinery capacity—will significantly reduce production of petroleum products. We estimate direct attacks on four of Iran's refineries since May had already reduced output by 40 percent below last year's level. Iranian officials announced this month that consumption of gasoline must be cut by at least 25 percent.

Iran's energy problems will be heightened by attacks on power stations and natural gas facilities. Electric output will also be reduced because of inadequate supplies of gas or fuel oil from colocated refineries. Baghdad also claims to have destroyed on 6 October the lead compressor station on the IGAT 1 Gas Pipeline at Bid Boland. Severe damage here would greatly affect the availability of gas for heating and cooking in Tehran.

25X1
25X1
25X1
25X1

Iran cannot completely offset reduced domestic production with imports. Oil product imports, which last year averaged about 125,000 b/d, may have risen to as much as 250,000 b/d, but Iran probably has little capacity to import more because of limited port facilities. Moreover, Iran imports most products by a shuttle system similar to its crude export shuttle, and several product tankers have been victims of Iraqi attacks, Iraq appears to be preparing to attack Iran's main petroleum product import terminal at Bahrgan Sar.

25X1
25X1
25X1
25X1
25X1
25X1
25X1
25X1

Risk to the Regime

Shortages this winter of electricity, heating oils, and diesel fuel—and possibly natural gas—could cause serious unrest, particularly among the lower class, the clerical regime's strongest supporters. Tehran probably will meet military fuel needs first, making civilian shortages that much greater. Moreover, inadequate supplies of diesel fuel will hamper distribution of goods and worsen shortages. In past years, shortages of heating fuel less serious than those likely this year have prompted demonstrations.

25X1
25X1
25X1

Tehran is aware of these risks, especially if there is no progress in the war. Majles Speaker Rafsanjani has warned the Iranian people against overoptimistic expectations of victory, probably fearing pent-up frustration over the continuing war and economic privations. Nevertheless, the regime may have committed itself to action by publicly linking increased economic sacrifices to the goal of defeating Iraq this year.

25X1
25X1
25X1
25X1
25X1
25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Latin America: Changes in Debtor Strategies

25X1

The foreign payments positions of the major Latin debtors are deteriorating—despite lower interest rates—because of sagging exports and low levels of new lending. As a result, these countries are increasingly insisting that their debt burdens be reduced to promote economic growth. This shift in debtor attitude has increased the risk of militant debtor actions. Nonetheless, because the cost of a breakdown in debtor-creditor relations is high, we believe that negotiations will continue to culminate in mutually satisfactory agreements.

Uneven Economic Performance

The fall in oil prices is dealing a serious setback to the export revenues and economic growth plans of Mexico, Venezuela, and Ecuador. According to our calculations, Mexico's economy probably will contract 4 percent or more this year as the government pursues austere domestic policies to adjust to an expanding public deficit, rising inflation, and dwindling foreign exchange reserves. Venezuela and Ecuador, while better off than Mexico in terms of foreign exchange and inflation, probably will have no GDP growth this year. Although imports will be cut by $1.9 billion and interest payments reduced by $1.5 billion, we estimate their combined deficit will be $4.6 billion, compared with a $3.4 billion surplus in 1985.

In contrast, the economies of Argentina, Brazil, Chile, Colombia, and Peru are showing appreciably improved GDP growth this year, according to US Embassy reporting. All five are growing at a 4-percent or better pace—only one country, Brazil, did as well last year. Rising export revenues have been the chief stimulus for the recovery of Colombia, which has reaped windfall benefits from a sharp jump in coffee prices. The export drives of Argentina, Brazil, and Peru are faltering, however, because of inadequate steps to maintain competitive exchange rates, slowing growth in industrial country markets, and continuing low commodity prices. For these countries, US Embassy reporting indicates that easier fiscal, monetary, and wage policies underlie their economic expansion:

- A resurgence of consumer spending in Argentina, fed by sizable wage increases and money supply growth, is leading to economic growth surpassing 4 percent.
- Rising real wages and growing public spending in Brazil are fueling high consumer demand and will result in 7-percent growth.
- Increasing domestic demand as a result of expansionary credit measures, wage hikes, and reduced taxes will be instrumental in Peru's 5-percent growth.

25X1

25X1

Growing import demand is starting to erode the strong trade positions of these key debtors, although it has yet to produce cash stringencies. Argentina, Brazil, and Colombia are substantially hiking their imports of raw materials and capital goods to support their reinvigorated economies—Brazil's nonoil imports will be up by an estimated 30 percent over last year. Their combined imports will rise by about 10 percent this year while export growth is lagging, neutralizing the beneficial impact on their current account balances of widespread savings in interest payments.

25X1

25X1

Foreign Loan Inflows

On the basis of preliminary data, we estimate that Latin America's new foreign borrowings this year will only slightly exceed last year's total of $24 billion. Additional lending by multilateral banks for new projects and structural adjustments probably will merely offset the growing reluctance of commercial banks this year to extend more medium-term loans to Latin American debtors.

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Latin America's Key Debtors: Payments Performance, 1985 and 1986

Billion US $

	Trade									
	Exports		Imports		Balance		Interest Payments		Current Account	
	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986
Total	**83.8**	**72.2**	**48.1**	**48.1**	**35.7**	**24.1**	**33.4**	**29.7**	**−0.4**	**−8.9**
Oil exporters	38.9	26.8	22.6	20.7	16.3	6.1	14.1	12.6	3.4	−4.6
Mexico	21.9	15.5	13.5	11.9	8.4	3.6	9.9	8.9	0.5	−2.6
Venezuela	14.3	9.3	7.3	7.2	7.0	2.1	3.5	2.9	3.1	−1.2
Ecuador	2.7	2.0	1.8	1.6	0.9	0.4	0.7	0.8	−0.2	−0.8
Others	44.9	45.4	25.5	27.4	19.4	18.0	19.3	17.1	−3.8	−4.3
Brazil	25.7	25.9	13.2	13.9	12.5	12.0	9.8	9.0	0	−0.5
Argentina	8.4	7.7	3.4	3.9	5.0	3.8	5.3	4.6	−1.1	−1.8
Chile	3.8	4.0	3.0	3.0	0.8	1.0	1.9	1.8	−1.3	−1.1
Colombia	4.0	5.3	4.0	4.3	0	1.0	1.1	1.1	−1.3	−0.4
Peru	3.0	2.5	1.9	2.3	1.1	0.2	1.2	0.6	−0.1	−0.5

25X1

Moreover, international creditors are focusing most of the available new money on select recipients, especially Mexico. At the end of September, Mexico's bank advisory committee agreed to extend $6 billion in new funds as part of a $12 billion, 18-month financial rescue package. In contrast, Argentina has seen its receipts of new money decline by half despite a considerably enlarged current account deficit. [ ] [ ] bankers are withholding greater financial resources from Argentina and other Latin debtors, in part because of what they view as insufficient debtor commitment to domestic economic reforms. Buenos Aires probably will intensify pressure on banks for new money, including contingency loans tied to export price declines. [ ]

Debt Strategy Implications

Faced with depressed export earnings and low levels of capital inflows, many Latin debtors, in our view, are focusing more on alternative approaches to overcoming their debt problems. Already, according to the financial press, key debtors are proposing a variety of schemes to reduce annual debt servicing burdens in their talks with creditors. Most governments remain willing to negotiate more favorable debt terms; Lima's unilateral measures to limit debt payments represent a notable exception. [ ] 25X1

Mexico made an important breakthrough last month when, as part of its financial rescue package, it exacted an agreement from its bank creditors to reduce debt servicing by rescheduling outstanding debt payments over 20 years with a seven-year grace period and by paring the interest spread over LIBOR by 0.3 percentage point. [ ] Venezuela and Argentina have monitored Mexico's negotiations with its creditors very closely and have indicated they also will seek a comparable debt rescheduling—in addition to new money—because of their similar plight stemming from plunging export prices. [ ]

25X1 25X1 25X1 25X1 25X1

Brazil has attracted considerable international attention with its self-proclaimed goal of reducing its debt servicing payments as a share of GDP from more than

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

4 percent this year to about 2.5 percent in 1987. During his visit to Washington last month, President Sarney insisted that Brazil must negotiate both lower annual payments in order to boost imports, and investment to support high economic growth. Brazilian officials have indicated they may be able to attain their reduced debt payment goal by maintaining strong GDP growth, negotiating a switch in interest rate payments from US prime to LIBOR, and reducing the spread on 1986-91 maturities. The US Embassy believes Brasilia will be a tough negotiator in its quest for these concessions during planned negotiations for a multiyear debt rescheduling beginning this fall.

25X1

We believe recent and ongoing developments in international markets—including sluggish world demand for exports, private bank unwillingness to substantially increase lending, the precedents set by the Mexican agreement, and the growing disenchantment among debtor countries with continuing debt accumulation—have hardened debtor attitudes and increased the risk of militant debtor actions. Negotiations, however, will continue to culminate in mutually satisfactory accommodations because the costs to both parties of a breakdown in relations are high.

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Prospects for Sino-Soviet Economic Relations

25X1

Last month's trip to Beijing by Soviet First Deputy Premier Talyzin resulted in two agreements that will facilitate implementation of the five-year accords on trade and technical cooperation signed in July 1985. We expect that Sino-Soviet trade will meet the goal set in the 1985 trade agreement—$14 billion over the 1986-90 period. Even so, Sino-Soviet trade will remain a small share—less than 5 percent—of each country's total trade.[1] The technical cooperation agreement—the first in more than 20 years—will probably unfold slowly because of Beijing's wariness of Soviet assistance in general and dissatisfaction with Soviet industrial technology. In any case, a growing economic relationship between the two countries will not inhibit US sales to China except in a few areas, such as timber, fertilizers, coal, and some industrial chemicals.

The Talyzin Visit: Ironing Out the Details

The Talyzin delegation met with Chinese officials in Beijing to discuss trade and technical cooperation under agreements signed in July 1985. Two agreements were signed during the visit. A consular agreement provides for trips to China by Soviet experts, students, and professors, and permits Chinese diplomats to transit the Soviet Union by train en route to Europe. A cooperation agreement between the State Planning Commissions of both countries provides a formal framework for the trade and commercial exchanges to take place through 1990.

Although the Soviets have implied that the meetings covered political as well as economic issues, China's hardline response to General Secretary Gorbachev's 28 July speech on improving relations with Asian countries leads us to believe that no political agreements were reached. Planning for the Talyzin visit began long before the speech; the Talyzin trip reciprocated a trip to the USSR by Yao Yilin last year to sign the trade and economic cooperation agreements.

[1] Data from Chinese Custom Statistics.

The Five-Year Agreements: Setting the Stage for Closer Economic Ties

In July 1985, China and the USSR signed separate barter agreements on trade and economic cooperation over the 1986-90 period. The trade agreement—under which two-way trade is to total $14 billion over the five-year period—established a framework for negotiating yearly trade protocols: annual accounting would continue as the norm, with negotiators meeting at yearend to discuss any imbalances in trade, which must then be settled by the end of the first quarter of the subsequent year. The cooperation agreement, the first in more than 20 years, permitted China to pay over a multiyear period for imports of capital goods and technical assistance acquired under that pact.

25X1
25X1

Bilateral Trade: Expanding Within Limits

We expect Beijing and Moscow to have little difficulty reaching the $14 billion cumulative target for 1986-90 trade. If two-way trade is $2.5 billion in 1986—the minimum we expect—then it need average only $2.9 billion per year for the rest of the decade. Growth much beyond that level will be constrained by the cumbersome barter arrangement. Representatives meet annually to negotiate a detailed list of trade goods, including price and quantity. These negotiations are often prolonged and arduous, as each country tries to sell its top-quality goods on world markets for foreign exchange, and leaves lower quality items for barter trade. In addition, China may have trouble supplying the enormous volume of goods—in quality and prices acceptable to Moscow—that will be needed to pay for both trade and technical assistance. Moreover, the strain on already burdened transportation links between the two countries will interfere with deliveries over the next few years. Rail transport is so

25X1

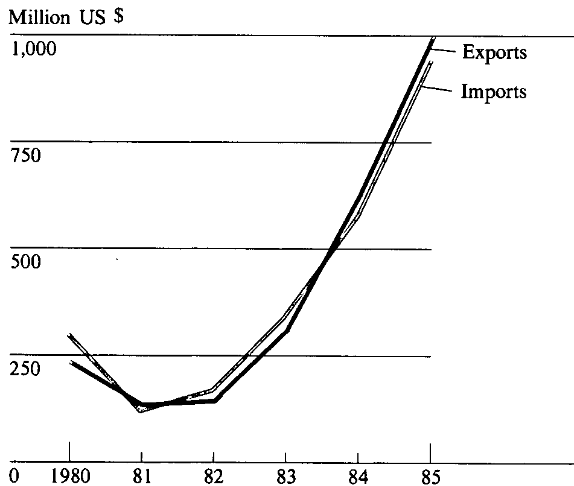
25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

China: Trade With the Soviet Union, 1980-85



Sino-Soviet Trade

The Soviets obtain Chinese foodstuffs, consumer goods (textiles, footwear, household goods), and metal ores primarily to meet demand in the Soviet Far East, which has suffered from shortages and high costs for transporting goods from the European USSR. In return, China acquires unsophisticated manufacturing equipment; such materials as timber, steel, and nonferrous metals; and transportation equipment, including aircraft, locomotives, and trucks. Sino-Soviet trade is conducted almost entirely on a barter basis.

25X1

We estimate that informal trade between the border regions represents less than 1 percent of total China-USSR trade but believe it is likely to increase. This trade is conducted between Chinese provincial authorities and Soviet Far Eastern trade officials. It is not clear how much of it is counted under the national agreement. At a recent conference in Harbin, several Chinese provinces began making arrangements to engage in border trade with the USSR using Heilongjiang Province as an agent or facilitator. If these ties come to fruition, we expect border trade to increase rapidly. Beijing then may require such trade to pass through national channels to maintain some control over Sino-Soviet trade and to ensure that exchanged goods are properly counted against the bilateral trade agreement.

25X1

25X1

25X1

tight that many products are shipped by sea, and port congestion ties up both ships and cargoes. Planned improvements in rail and shipping facilities will not provide significant relief for several years.

Technical Cooperation: Inching Forward

Earlier this year, Beijing and Moscow fleshed out some of the details of industrial cooperation under the 1985 accord. The countries are exploring the possibility of Soviet assistance to China in renovating 17 factories and in building seven new enterprises. Both sides have agreed on cooperation in electric power, metallurgy, machinery, textiles, and coal-processing industries; the Soviets have also proposed assistance in nuclear energy, although Beijing's response has been lukewarm—especially since the Chernobyl' accident.

The two countries probably discussed additional projects during the Talyzin visit, but, to date, have provided few details. One Western newspaper, citing Soviet sources, indicated that the program would require more than 100 Soviet experts to be sent to China over the next few years. The sources also hinted that the Soviets might eventually provide technical assistance for the modernization of up to 100 Chinese factories. According to Embassy reporting, negotiators agreed that Chinese technical experts would soon begin making two- to three-week visits to the Soviet Union to assess the appropriateness of Soviet technology. Talyzin reportedly also raised the possibility of finding ways for Soviet and Chinese enterprises to cooperate directly, including joint ventures.

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Constraining Sino-Soviet technical cooperation is China's dissatisfaction with the out-of-date technology the Soviets are offering. Beijing prefers to upgrade factories with more sophisticated—if more expensive—US, Japanese, or West European assistance. Beijing may approve only 10 of the 24 projects; an evaluation by China's Ministry of Machine-Building Industry reportedly rejected the other 14 on technical grounds. Moreover, extended technical cooperation will depend largely on Beijing's perception of the costs in goods as well as the attitude of Chinese officials toward having on-site participation by Soviets. Technical cooperation, like trade, will also be limited by China's need to produce and transport goods with which to pay for Soviet advice and equipment. If early projects proceed smoothly, we expect additional Soviet involvement. The technical cooperation program could be abruptly terminated, however, if Soviet interest in cultivating the appearance of closer ties diminishes, or if Soviet officials grow weary of Beijing's pointed efforts to showcase the economic achievements China has made since moving away from the Soviet economic model.

Benefits From Closer Sino-Soviet Economic Ties

Both countries benefit from the trade relationship, especially because it is conducted almost entirely on a barter basis. China's interest in barter has grown because the country's foreign exchange reserves have declined over the past two years; Beijing views trade with the Soviets as one way to acquire needed goods without exceeding China's 1985 record total trade deficit and further drawing down foreign exchange. The Soviets, too, have foreign exchange problems and are looking to increase noncash trade.

Beijing stands to derive several benefits from technical cooperation with the USSR as well. Soviet technology is, for the most part, ahead of China's but not so advanced as to cause the same absorption problems that have occurred with some advanced Western technologies introduced to China. Moreover, China will be getting assistance in heavy industry, a sector that Chinese officials claim Western investors generally avoid. We believe another factor that makes these projects acceptable to Beijing is the relatively short duration of the prospective Soviet presence at the project sites.

25X1

In our view, Moscow gains primarily the appearance of warming relations with Beijing. But the Soviets will also be able to export Soviet capital equipment and technical assistance—for which there is little demand in the West—in exchange for Chinese goods. Moscow may also hope to gain access to some of the Western technology or equipment that has been integrated into China's factories, although we expect the Chinese to strictly limit Soviet access to sophisticated Western hardware.

25X1

Minimal Impact on Sino-US Trade

We do not expect expanded Sino-Soviet trade to cut substantially into US-China trade, largely because of China's clear preference for advanced Western goods. As a result, China will continue to need US expertise and equipment for development of its industries, services, and infrastructure. The Chinese will, however, use every opportunity to use barter rather than foreign exchange, and increased purchases of Soviet raw materials or low-level technology goods—timber, coal, nitrogen fertilizer, selected industrial chemicals, and basic machine tools, for example—may dampen some US sales. On the export side, Soviet markets provide China an outlet for products that the United States and other Western governments restrict, such as textiles and footwear.

25X1

25X1

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Briefs

Energy

Saudi-Iraqi Pipeline Construction

Contrary to oil trade press reports, pump station construction work on Petroline, which carries crude oil from eastern Saudi oilfields to the Red Sea, will not prevent export operations during November and December, according to the US Embassy in London. Saudi Red Sea exports are expected to drop 150,000 b/d—to an average of 500,000 b/d—during the two months, but customers will receive replacement deliveries at Saudi Persian Gulf terminals, [redacted] 25X1

[redacted] 25X1

[redacted] the US Embassy in London reports that discussions between Riyadh and Baghdad on export levels continue. The Saudis will have little difficulty maintaining overall export levels at their east coast terminals. If Riyadh reduces Iraqi exports through the Red Sea port of Yanbu al Bahr, it is likely to offset the decrease by selling its own oil on Iraq's behalf. Iraq will probably receive an increase in the volume of oil it can export at Yanbu al Bahr when construction work to expand the line's capacity by more than two-thirds, to about 3.2 million b/d, is completed, probably early next year. [redacted] 25X1

China's Offshore Oil Cooperation With Japan Resumes

The Japan-China Oil Development Corporation in November will resume development of its second offshore field in Bohai Bay, according to the US Embassy in Tokyo. Falling world oil prices had forced the joint venture last April to suspend activity at the BZ-28 oil reservoir, believed to have recoverable reserves of 22 million barrels. To improve profitability, the Japanese have since downscaled production plans for the site from 9,000 b/d to 8,000 b/d, which they claim will allow them to cut investment costs by $60 million, to $140 million. Production is now scheduled to begin in late 1988, a full year behind the original schedule. China now sees little chance of developing offshore oil production at levels anywhere near the 1 million b/d initially hoped for by the early 1990s. [redacted] 25X1

Alberta Considers Floor Price for Oil

In answer to energy industry demands for provincial concessions matching the federal government's elimination of the Petroleum and Gas Revenue Tax, Alberta is considering an $18 per barrel floor price for the first 1,000 barrels of an oil company's daily production. The difference between the market and floor prices would be granted to the producer as an interest-free loan, repayable only when prices top $18 per barrel. Though originally conceived as a joint provincial/federal program, Ottawa is unlikely to participate because of its budget problems. Cash-strapped Albertan producers are disdainful of the floor pricing scheme, however, and favor instead reductions in provincial royalty rates. Such reductions, however, would severely aggravate Alberta's budget deficit and are opposed by Albertan Premier

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Getty, who favors the floor price idea because it provides relief to independent producers. Getty plans to have an aid program in place by the end of October but may face possible US charges that the floor price mechanism is a direct subsidy.

25X1

Dutch Nuclear Power Program Delayed

The Dutch Government recently delayed the construction of two nuclear power plants until at least spring 1988. In the interim, the government will study the implications of the Chernobyl' disaster and will commission an outside study on the safety of existing Dutch nucler plants. The two plants were approved in 1985 to reduce Dutch dependence on imported energy and were originally scheduled to be on line by 1995. Delays involving site selection and the location of nuclear waste disposal sites, however, had limited progress even before Chernobyl'. To meet the anticipated shortfall in electricity production caused by the postponement, the Dutch Electricity Utilities Association is expected to announce the construction of two coal-fired power plants later this year. That decision will force the utilities to search for new sources of coal because the Dutch have ceased importing South African coal.

25X1

International Finance

Panamanian Debt Rescheduling Delayed

Negotiations between Panama and its major creditors continue on new rescheduling and financing packages, but slow progress in implementing a proposed second World Bank structural adjustment loan (SAL-II) will probably delay final agreement until 1987. The major difficulty is the footdragging by the Delvalle government in reforming the social security system and privatizing public-sector enterprises—key conditions required by the World Bank. Because of the delays, talks with the bank advisory committee are on hold. In late September, Panama delayed its formal request for a rescheduling of $1.2 billion in maturities due between 1987 and 1990 and a new $200 million loan, probably until at least 1 January 1987. Commercial creditors reportedly persuaded Panama to withhold its request until the full $60 million of the 1985-86 commercial refinancing package is fully distributed—$21 million has been disbursed already—and the SAL-II is finalized. With prospects for signing the SAL-II this year decreasing, creditor banks may have to meet again to consider either a short-term rollover of maturities due after 1 January 1987 or disbursement of the remaining $39 million from the 1985-86 refinancing package.

25X1

Bolivia Meets IMF Targets

Bolivia is in full compliance with the targets in its current IMF standby agreement. For example, its fiscal deficit will probably fall to 3.7 percent of GDP this year, compared with a target of 6.4 percent and a deficit of 14 percent in 1985. Bolivia may qualify for a $60 million compensatory financing facility in addition to the $40 million it is already scheduled to receive this year. Nevertheless, serious economic problems remain. High real interest rates

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

are discouraging investment and creating a shortage of working capital. In addition, according to the US Embassy, the exchange rate is becoming overvalued. Although the consumer price index has risen 59 percent since December, the exchange rate has dropped only 13 percent, hurting exports and promoting capital flight. Because of these and other factors, such as the decline in world prices for tin and natural gas—Bolivia's main exports—we expect a 3- to 4-percent decline in GDP this year, adding to serious unemployment problems. 25X1

International Trade

EC-Hong Kong Textile Accord

Last week the EC and Hong Kong renewed their textile agreement—the latest in a series of EC bilateral agreements designed to limit the share of its textile market held by major exporters. The five-year agreement, which expires at the end of 1991, provides for increases in sales of less than 1 percent per year for the eight sensitive product categories that account for about one-half of Hong Kong's textile exports to the EC. Larger increases were agreed to for less sensitive categories. Hong Kong will also be allowed to transfer unused quota allocations among EC member states. The EC has now concluded bilateral agreements with 23 of its 26 leading textile suppliers. Only negotiations with India, Yugoslavia, and Uruguay remain to be completed. The agreements, which fall under the auspices of the GATT Multifiber Arrangement, are used by the EC to protect its textile industry, which is in the midst of restructuring to boost productivity and competitiveness. Without the agreements, textile exporters might face even tighter unilateral restrictions. 25X1

Malaysian Official Warns of Countertrade Dangers

Although Malaysian firms engage substantially in countertrade, a Malaysian official has expressed deep concern over the dangers from increased barter activity by ASEAN. Four of the six ASEAN countries—Indonesia, Malaysia, the Philippines, and Thailand—now engage heavily in countertrade. The official's concern stems from past Malaysian countertrade deals—approximately $100 million with Japan, over $74 million with Egypt, and $20 million with West Germany, in addition to deals with the Soviet Bloc, Western Europe, and Brazil. Along with the lack of foreign exchange, the growing epidemic of barter deals will impair Southeast Asia's economic independence, growth, and development. In addition, countertrade jeopardizes the expansion of multilateral trade and is contrary to free trade; entails high transaction costs and limited choice of goods; and the goods received often lead to dumping and distorted competition. Moreover, countertrade does not result in stable trade relations. 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Global and Regional Developments

Pakistan-India Water Dispute

Construction of a dam by the Indians on the Jhelum river in Jammu and Kashmir is adding another irritant to already strained Indo-Pakistani relations. According to press reports, Pakistani officials are concerned that the proposed reservoir would allow India to divert 300,000 acre feet of water from Islamabad's Mangla Reservoir—a major source of hydroelectric power and irrigation water—instead of the 10,000 acre feet that is permitted . Islamabad claims that, under the terms of the Indus Water Treaty of 1960 that granted Pakistan the water rights to three western rivers—Indus, Jhelum, and Chenab—and India the rights to three eastern rivers—Sutlej, Beas, and Ravi—Pakistan is entitled to an uninterrupted flow of Jhelum river water. Pakistani officials are skeptical of New Delhi's claims that the main purpose of the dam is to improve year-round navigation and believe that the Indians intend to divert a portion of the river's flow. New Delhi has not yet publicly responded to Pakistan's charge, but construction is going ahead, according to official Pakistani statements quoting Pakistani members of the Indus Water Treaty Commission.

25X1

EC Response to US Sanctions on South Africa

EC countries plan no new sanctions against South Africa in response to US Congressional action last week. The British, who hold the EC presidency through the end of the year, intend to shift the focus of Community discussions toward "positive measures," according to the US Embassy in London. An official West German spokesman said on Friday that Bonn still doubts the efficacy of sanctions. The British continue to worry that tougher sanctions by others, particularly the United States and Japan, could force the EC to take additional measures, as could increased violence in South Africa. The Foreign Office appears hopeful, however, that EC agreement on limited sanctions in mid-September will permit the EC to concentrate now on positive measures, such as greater economic assistance to South African blacks. Should some EC countries such as the Netherlands urge a tougher stance, British, West German, and Portuguese reluctance is likely to preclude early movement in this direction.

25X1

Japan Pays Off on North Korean Debt

Reversing its earlier position, MITI last week paid $195 million in export insurance claims on the long unpaid North Korean debt. MITI—which has not provided export insurance on credits to North Korea since 1975—may have been responding to pressure from at least 10 large and politically important Japanese trading companies, increasingly frustrated over North Korea's reneging on debt repayments and stalling on negotiating a fourth debt rescheduling pact. North Korea—which owes $455 million to Japanese creditors—reportedly has made no payments since 1982. It is not clear why P'yongyang has not at least made token payments—as it has from time to time to its West European and even Soviet creditors. Perhaps it reflects P'yongyang's resentment of Japanese sanctions following the Rangoon incident and Tokyo's active support of South Korea on international issues. Moreover, P'yongyang feels that the Korean businessmen in Japan should help the North more, even though they are carrying numerous unpaid North Korean debts on their books. Tokyo's payment of insurance claims

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Water Dispute Between Pakistan and India in Jammu and Kashmir

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

would normally damage trade between the two countries, but the North is already near the bottom of Japan's—and everyone else's—credit rating list. Moreover, imports from Japan are already down as a result of North Korea's inability to pay and the unwillingness of Japanese firms to extend new credits. In fact, MITI's action might actually clear the air enough to allow some expansion of commercial activity.

25X1

Tokyo Emerges as Main Source of Indian Aid

Japan has become India's largest bilateral source of official development assistance. Tokyo has agreed to provide India with $336 million in development aid this fiscal year, almost double the annual average amount Tokyo extended between 1975 and 1985. In our view, Tokyo's motive is to establish a dominant position in the Indian market as Gandhi seeks to modernize the economy. Japanese funds are mainly used for financing projects in electric power, gas, telecommunications, transportation, fertilizer plants, and mining. While New Delhi has accepted the assistance, it is not pleased with terms that tie the aid to the purchase of Japanese goods. At the same time, the United States, India's other major source of advanced technology and equipment, is providing New Delhi with $152 million in development assistance—a drop of about 20 percent over last year.

25X1

Long-Term Implications of Northwest's Airbus Purchase

Northwest Airlines has agreed to purchase up to 100 Airbus A320 aircraft. The unusually flexible contract—10 firm sales and 90 options—worth some $3 billion represents the second sale of the 150-seat, narrow-body A320 to a major US airline. We believe the agreement adds to Airbus's worldwide prestige and makes additional A320 sales more promising, especially to airlines with hubs tied to Northwest. Airbus sales of 75 aircraft thus far in 1986 bring total A320 orders to over 350 (144 firm and 223 options). We believe the growing order book increases the likelihood that Airbus officials will pressure consortium governments to go forward with two new longer range widebodies—the twin engine A330 and the four engine A340. Overall, sales of the A320, coupled with orders for US Boeing 737s and MD80s, now total some 1,000 aircraft, more than one-half the projected demand for the 150-seat design. This high level of orders for existing aircraft may translate into delays for new technology aircraft such as the unducted fan, pushing introduction into the later 1990s.

25X1

Angola To Reduce Soviet Bloc Role in Dam Project

25X1

Angolan officials plan to reduce Soviet and Eastern Bloc participation in the $1.2 billion Kapanda Dam Project. This is due in part to the Angolan view that the Soviets are unwelcome exploiters. Attempts by the Cubans to participate in the project have also been denied because of their reputation for pillaging Angola. The official noted that the Soviet Bloc and Cuba have a history of not fulfilling their promises in major deals. Meanwhile the Angolan Government plans to expand the role and financial participation of Brazilian firms. Brazilian participation—originally limited to $320 million in contracts that have already been signed—will eventually expand to $780 million. As a result, purchases of Soviet equipment and services will be cut by

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

$460 million. The Brazilians have also agreed to develop the areas surrounding the two workers' villages that [ ] will house troops as well as a large number of Brazilians and will provide formidable barriers on the two main approach roads to Luanda. [ ] 25X1 25X1

National Developments

Developed Countries

Ottawa Permits Foreign Takeover of Small Canadian Bank

Ottawa's decision to permit Lloyd's Bank of London to purchase the troubled Continental Bank has been criticized for increasing foreign ownership in the Canadian banking sector. The criticism is more political than economic, however, since the acquisition raises foreign participation in the sector to only 10.5 percent, still well below the 16-percent upper limit authorized under the Bank Act. Ottawa's acquiescence to the purchase probably reflects a desire to avoid further bailout—government loans to the bank were equivalent to 40 percent of its assets. Though essentially sound, the Continental had been unable to regain deposits lost last year when a liquidity crisis swept through a number of small Canadian banks following the first Canadian bank failures in 62 years. The opposition parties will argue that the problems affecting Canada's small banks stem from the Tories' incompetent handling of the initial crisis. They are also certain to claim that Ottawa's action will invite foreign bidders for the Bank of British Columbia—another small Canadian bank that is looking for a merger partner. [ ] 25X1

South African Threats of Countersanctions

Foreign Minister Botha's threats to boycott US grain and to refuse to transport US grain to other southern African states probably are intended as a show of strength for the South African audience. South Africa imported more than $60 million worth of US wheat, rice, and corn last year. Its landlocked neighbors imported more than $10 million worth of US grain, mostly wheat. While Pretoria is likely to carry through on its threat to boycott US grain products, it probably would not hinder US shipments of food aid to its neighbors. A three-year drought has ended, and South Africa's grain requirements are much lower this year than in 1985. The worldwide grain surplus will enable Pretoria to find alternative sources, possibly even at lower prices. However, Pretoria's neighbors, highly dependent on South Africa's transportation could be hurt by additional South African attempts to shift the burden of sanctions to the region. [ ] 25X1

Australia Protests Proposed US Legislation

Trade Minister Dawkins warned publicly last week that bilateral relations could be endangered if Washington passes legislation that would maintain US imports of Caribbean and Ecuadorean sugar and increase Philippine quotas at the expense of Australian sugar sales. Dawkins claims that the proposed legislation—an amendment to a drug enforcement bill—violates international trade agreements that prohibit discrimination among trade partners in the allocation of quotas. Canberra fears it may lose much of its $54 million in annual sugar sales to the United States, Australia's second-largest market. The perceived threat of losing the US market

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

has revived charges of unfair US agricultural trade practices. The US offer in July to subsidize Soviet wheat purchases angered and embarrassed Prime Minister Hawke and led rural politicians and members of the Labor Party's left wing to call for a reappraisal of US-Australian joint defense facilities. Although Hawke has so far rejected linking trade and defense issues, a reduction in US imports of Australian sugar would increase the pressure on him to do so. 25X1

Less Developed Countries

Brazil's Industrial Sector Boom

Strong consumer demand is fueling rapid industrial growth this year, but a slowdown is likely in 1987. Output from Sao Paulo's industrial park, which accounts for more than 70 percent of Brazil's total industrial production, rose more than 11 percent during the first seven months of this year, according to recently released statistics. Burgeoning consumer demand—spurred by real wage boosts and the drawdown of personal savings to buy while prices remain fixed under the Cruzado Plan—led to an unprecedented 40-percent surge in production of consumer durables during the period. Output of capital goods jumped 25 percent, and many key industries—steel, textiles, paper and pulp, chemicals, plastics and food processing—are now operating at full capacity, according to the US Consulate in Sao Paulo. Even though Brasilia has hiked taxes to curb demand, banned exports of some staples, and loosened restrictions on some imports, these moves have not proved sufficient to prevent pervasive shortages, according to press reports. We believe that demand will start to cool as consumers begin to rebuild savings late this year. Nevertheless, supply problems are likely to persist, because investment in additional capacity remains sluggish. Consequently, we foresee increasing shortages of products requiring inputs from those sectors now at full capacity, leading to a slowdown in industrial growth by early next year. 25X1

Brazilian Beef Shortages

25X1 the Sarney government believes the current meat shortage is likely to become a political issue for elections next month. The widespread scarcity—Brazil is normally a beef exporter—results from cattle losses in the prolonged drought early this year, ranchers withholding supplies from the market because of government price controls, and the sharp increase in demand for meat products as real wages rose under the Cruzado Plan. Lengthening queues to purchase beef are receiving extensive, critical press coverage and drawing the ire of consumers, according to the US Embassy. To alleviate shortages and growing discontent, the government last week announced a higher producer price for beef; the elimination of value-added tax on beef, poultry, and fish; a ban on beef, and a limit on poultry, exports; and additional meat imports. Nevertheless, producers remain dissatisfied with the new price and continue to withhold cattle from the market, according to the US Embassy. 25X1
25X1 President Sarney plans to invoke—on a limited scale—a controversial law that allows the government to confiscate cattle from private producers. Nonetheless, we believe beef shortages are likely to persist for the next 2 to 3 months as new supplies move through the distribution network. In the interim,

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

consumer discontent is likely to cost the government's party some support in November's elections, as well as undermine public confidence in Sarney's economic management. 25X1

Pressure Against Brazilian Trade Liberalization

Brazilian engineering associations have convinced President Sarney to review his decision approving foreign bidding on local engineering projects financed by the World Bank and the Inter-American Development Bank (IDB). The associations have argued that opening the Brazilian market puts domestic industries at risk, that domestic industries are totally competent to perform major projects, and that these firms would use domestic—rather than foreign—products, which would contribute to the technological development of Brazil's engineering sector. As a result, Sarney requested that the Planning and Finance Ministries "re-examine" their positions favoring opening the Brazilian market. The World Bank and IDB, however, demand a nondiscriminatory policy, and Sarney is unlikely to risk losing project funding by reversing the decision. Industrialists in most LDCs view any move to open domestic services industries to foreign competition as disastrous for the sector involved. As a result, domestic pressure will influence LDC positions on the liberalization of services trade in the new GATT round. 25X1

Private-Sector Power in Pakistan

Pakistan, which lacks a reliable nationwide power grid, has issued regulations to encourage private-sector investment in electricity generation. Contracts are to be negotiated during the next few months. Modeled on agreements in the United States, the government-owned Water and Power Development Authority of Pakistan has offered to buy surplus power from private companies at a fair market price. According to the US Embassy, the number of responses to the government's offer is encouraging, although private-sector companies have a number of concerns. The most important issue raised by businessmen in meetings with the Karachi Electric Supply Corporation (KESC) is the fear of nationalization, according to Embassy reporting. Other stumblingblocks include assurance of prompt and fair payment for surplus power, foreign exchange repatriation of profit to overseas investors, and meter readings that would be performed by both private suppliers and KESC. 25X1

Economic Chaos in Major Afghan City

Economic conditions in war-torn Qandahar—Afghanistan's second-largest city before the Soviet invasion in 1979—continue to deteriorate, 25X1 Some 60 to 70 percent of the prewar population has fled and only 3,000 of the 20,000 shops open before the war remain in business, 25X1 25X1 Only a few industrial plants remain in operation because of a lack of raw materials and there are food shortages. Government services are practically nonexistent—the phone system is inoperative and electricity is supplied only to government offices and military installations. 25X1 25X1 the Afghan regime has had difficulty collecting taxes and most local government expenditures are underwritten by Kabul. To boost tax revenue, the regime recently announced that only those farmers who can verify that they have paid their taxes will be allowed to sell their produce in the markets in Qandahar City. Many farmers will probably feel compelled to comply because of the control government forces exercise over traffic going into the city. 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

25X1

Thailand's Expansionary Budget

The Thai parliament is expected to give final approval next month to an expansionary $8.8 billion budget for the fiscal year that began 1 October, according to press reports. Over one-half the proposed 7.5-percent rise in spending, the largest in three years, is for foreign and domestic debt service, which now accounts for one-fourth of total expenditures. Thai budget planners assume that tax revenues will grow by nearly 15 percent over last year's level, a target we believe is unrealistic. With a budget deficit already well above the ceiling stipulated under an IMF standby arrangement, Bangkok probably will have to take politically difficult steps to cut spending later in the fiscal year, most likely by scaling back proposed modest increases in social services and government investment in infrastructure projects.

25X1

Communist

Soviet Trade With the West Lagging

According to recently released Soviet trade data for the first half of 1986, the hard currency export earnings remain depressed. Exports of $11.6 billion were slightly above the level in the first half of last year but down sharply from sales during the comparable periods in 1982-84, which averaged about $15.5 billion. Low oil prices are responsible for the poor first-half performance this year; in terms of volume, oil deliveries were up about 25 percent, as compared with the first half of last year. Hard currency imports totaled $12.9 billion through June, about 8 percent behind the pace last year in nominal terms but 20 to 25 percent behind in volume. The Soviets are reacting as expected to low oil prices and a falling dollar, letting imports slide rather than increasing borrowing or dumping gold on the market. Accordingly, export earnings in the second half of the year are unlikely to exceed the level in the first half. Import activity remains sluggish, suggesting additional cuts are likely as Moscow seeks to reduce its hard currency deficit further.

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Soviet Meat Production and Feed Supplies Improve

Soviet statistics show that production of meat on state and collective farms—which produce nearly three-fourths of all Soviet meat—is running 7 percent ahead of last year even though the number of animals is not increasing. Production of several major forage crops this year will probably be close to previous highs in contrast to the grain harvest, which is likely to be mediocre at best. General Secretary Gorbachev's strategy of increasing meat supplies through productivity gains—more meat per animal—is paying off, as is the Soviet emphasis on increasing the share of forage in livestock feed. Meat production will reach at least the planned target of 17.3 million metric tons, 200,000 tons more than in 1985. Soviet purchases of meat to date indicate that imports will come close to the 830,000 tons imported in 1985. The abundant harvest of forage crops also reduces Moscow's immediate need to import grain for livestock feed. 25X1

Polish Energy Problems Mount

The replacement of Mining and Energy Minister General Piotrowski last week may portend tougher measures by Warsaw to deal with its energy problems.There are coal shortages in many of Poland's 49 provinces—including the major population centers—on the eve of this year's heating season. Reportedly, there is growing consumer discontent in the last two months, with warnings of possible protests over inadequate fuel supplies. The problem could grow even more acute in the future. Because of its need for hard currency, moreover, Warsaw is unlikely to cut back on coal exports. Warsaw has taken several steps this year to tighten control over energy supplies and raise prices to encourage conservation. The removal of Piotrowski, who advocated heavy investment in energy production, in favor of coal-mining expert Jan Szlachta, may signal a further shift in Polish energy policies toward emphasis on conservation and efficiency. The measures adopted this year are probably too limited to reduce energy consumption significantly, however, if Warsaw is to maintain modest economic growth—especially if there is a harsh winter. Criticism of government energy conservation policies by Solidarity's new Provisional Council, created last week, might stall the regime's efforts to raise prices and limit energy consumption. 25X1

First Bond Redemption in PRC

Beijing this year began redeeming PRC government bonds for the first time. According to the Ministry of Finance, each year from 1986 to 1990, China will pay back 20 percent—about 1.1 billion yuan—of the bonds sold in 1981, the first year of issue. China has sold about 24 billion yuan in bonds over the last five years, to businesses and—since 1982—to individuals. The proceeds funded construction of energy, communications, and raw materials projects. Because interest rates have risen for new bond issues—now 10 percent, compared to 4 percent in 1981—the Ministry of Finance expects the older bonds to be cashed in promptly. 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Page Denied

Next 2 Page(s) In Document Denied

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Mexico/US: Bilateral Commercial Talks

25X1

After a year-long hiatus, Mexican officials have agreed to return to the negotiating table this month on a bilateral commercial agreement with the United States. The pact will provide a framework for trade and financial dealings, consultation and dispute settlement procedures, and guidelines for investment. Although Mexico has made some headway in removing major trade irritants with the United States in the past year, a number of problem areas remain. The most difficult are patents and trademarks, restrictions on foreign investment, local content requirements, and export performance requirements.

Giving Ground on Intellectual Property Rights

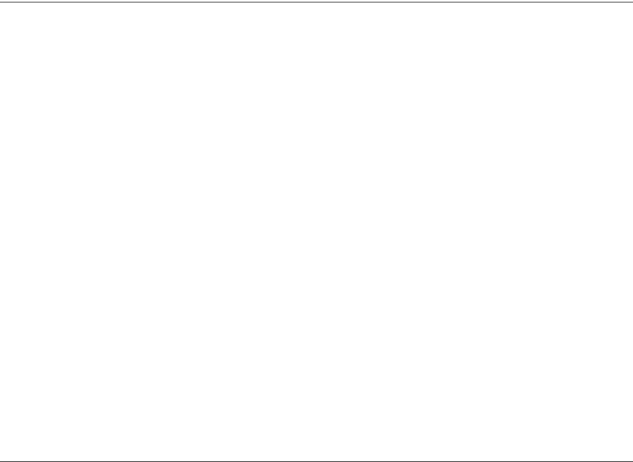
the Mexicans are willing to move forward with changes in patent and trademark laws. In order to meet US demands, Secretary of Health Soberon reportedly is trying to persuade Secretary of Commerce Hernandez to lengthen the period of patent protection from 10 years to 20 years. The government also presented draft amendments on the inventions and trademarks law to the Mexican Senate in mid-September. If enacted, these amendments would go far beyond President de la Madrid's 1985 decision to overturn a regulation prohibiting US drug firms from using brand names and forcing them to disclose trade secrets. the changes will protect both the manufacturing process and the end product. In large measure, the revisions are primarily aimed at protecting pharmaceuticals and biotechnology, but they also will cover other products, such as chemicals, previously excluded from patent rights.

Under the proposed patent law, manufacturers will be able to obtain compulsory licensing that will prevent other firms from copying their products and to seek injunctions against companies suspected of breaking the law. The draft law proposes some tough sanctions—the government could close down plants for two weeks as a warning and could shut plants permanently if violations continued. In addition, the new law makes it easier to prove that patent and trademark rights have been infringed by permitting firms to present the products as evidence in court. According to one legal association, the proposal may provide only nominal protection because of several loopholes. Compulsory licensing and injunctions are in fact very difficult to obtain in Mexico. Moreover, ambiguous wording may allow "pirate" firms to interpret the law to their advantage.

25X1

Dim Prospects for Changing Investment Laws

25X1



25X1

25X1

25X1

25X1

25X1

In our opinion, a wariness toward foreign investment and a desire to prevent multinationals from driving local firms out of the market are likely to remain the underpinnings of Mexico's investment policy. Despite some steps taken two years ago to chip away at administrative delays and to lower barriers on foreign investment in priority sectors, the government has authorized only a handful of US investments with more than a 50-percent US share. Mexico also has recently allowed 100-percent Japanese ownership of several plants. Nevertheless, we believe these moves are in line with previously announced policies to allow majority foreign ownership only in a limited number of sectors where the Mexicans seek foreign technology, such as electronics and chemicals, and subject to

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Mexico: Legal Obstacles to Investment

Several laws put into place in the 1970s form the core of an investment strategy that has discouraged foreign investment and obliged the government to meet most of its financing needs by borrowing abroad. The most important constraint is Mexico's 1973 law limiting the share of foreign investors in company holdings to 49 percent, except for assembly plants. The law affects not only new investments, but also plant expansions, relocations, and new products.

Regulations weakening intellectual property rights are powerful disincentives to foreign multinationals. Under Mexico's technology transfer law, foreign companies can expect trade secrets to be kept for only 10 years and may charge no more than 6 percent of sales for royalty payments. In return, they must provide scholarships, high-quality technology, improved technial aid, projects that enhance Mexican R&D, and projects that promote import substitution and exports. The 1976 inventions and trademarks law—currently being revised—made it easier for Mexican firms to copy foreign products. The law prevented firms from patenting a number of products, set a maximum of 10 years for patent rights, and gave the government a free hand to transfer patent rights to another company if a patent was not used during the first three years.

numerous constraints. At the same time, Mexico has imposed higher local content and export performance requirements that hinder foreign investors. The government shows no signs of permitting majority foreign ownership in politically sensitive sectors, such as banking, insurance, and brokerage, where Mexican firms would have difficulty competing with multinationals.

The Mexicans reportedly are drawing up explicit regulations on foreign investment to eliminate some of the vagaries discouraging multinationals from investing in Mexico. The categories of acceptable and unacceptable foreign investments in electronics, for instance, currently overlap. If Mexico follows through, the regulations could at least clear up uncertainties and contradictions in the government's policy.

25X1

Concessions Mexico May Seek

Mexico is almost certainly coming to the talks with the hope of making inroads into the US market. The collapse of oil prices has prompted Mexico to diversify and increase nonpetroleum exports, particularly to the United States, its most important trading partner. Last year's subsidies agreement went part of the way toward achieving this goal by obtaining a US commitment to assess whether US firms are injured by Mexican exports before applying countervailing duties and antidumping margins. In exchange, the Mexicans promised to phase out export subsidies.

25X1

25X1

Mexico City has moved further to encourage trade since the signing of the subsidies agreement. It has eased import licensing restrictions, lowered tariffs, and joined the GATT. These steps will markedly increase US exporters' access to the Mexican market and improve protection afforded to US manufacturers. Mexican officials probably view these changes as bargaining chips for extracting additional agreements from the United States, such as promises not to impose new tariffs or nontariff barriers; a rollback of US countervailing duties on Mexican exports; and easier access for such Mexican goods as textiles, auto parts, steel, meat, tuna, and sugar. Mexico may also want to recover some of the tariff concessions it lost during the last US review of the Generalized System of Preferences.

25X1

25X1

Divisions Within the Cabinet

25X1

Opposition to a wide-ranging bilateral agreement within the Cabinet is likely to place limitations on any agreement and may cause the Mexicans to drag their feet on negotiations. Secretary of Commerce Hernandez advocates a framework agreement, but he probably will have a harder time selling it than GATT membership or the subsidies agreement if it appears that Mexico stands to gain little. 25X1 a number of Cabinet members have 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

already expressed their opposition to a wide-ranging agreement.

25X1
25X1

We believe that the Mexicans would be willing to agree to consultation and dispute settlement procedures and to fold intellectual property rights into an agreement, but, if they are pressed on foreign investment, they are likely to balk.

25X1

25X1
25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Directorate of
Intelligence

Economic & Energy Indicators

10 October 1986

DI EEI 86-021
10 October 1986

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

This publication is prepared for the use of US Government officials, and the format, coverage, and content are designed to meet their specific requirements. US Government officials may obtain additional copies of this document directly or through liaison channels from the Central Intelligence Agency.

Requesters outside the US Government may obtain subscriptions to CIA publications similar to this one by addressing inquiries to:

Document Expediting (DOCEX) Project
Exchange and Gift Division
Library of Congress
Washington, D.C. 20540

or: **National Technical Information Service**
5285 Port Royal Road
Springfield, VA 22161

Requesters outside the US Government not interested in subscription service may purchase specific publications either in paper copy or microform from:

Photoduplication Service
Library of Congress
Washington, D.C. 20540

or: **National Technical Information Service**
5285 Port Royal Road
Springfield, VA 22161
(To expedite service call the
NTIS Order Desk (703) 487-4650

Comments and queries on this paper may be directed to the DOCEX Project at the above address or by phone (202-287-9527), or the NTIS Office of Customer Services at the above address or by phone (703-487-4660). Publications are not available to the public from the Central Intelligence Agency.

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Economic & Energy Indicators

		Page
Economic	Industrial Production	1
	Gross National Product	1
	Consumer Prices	1
	Money Supply	2
	Unemployment Rate	2
	Foreign Trade	3
	Current Account Balance	3
	Export Prices in US $	4
	Import Prices in US $	4
	Exchange Rate Trends	5
	Money Market Rates	5
	Agricultural Prices	6
	Industrial Materials Prices	7
Energy	World Crude Oil Production, Excluding Natural Gas Liquids	8
	Big Seven: Inland Oil Consumption	9
	Big Seven: Crude Oil Imports	9
	Crude Oil Prices	10

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2d Qtr	Jul	Aug
United States	2.6	−7.2	5.9	11.2	2.0	1.2	−2.1	3.9	1.9
Japan	1.0	0.4	3.5	11.1	4.6	0.7	0.9	−1.9	−25.0
West Germany	−2.3	−3.2	0.3	3.3	3.9	−0.1	11.3	−23.9	
France	−2.6	−1.5	1.1	2.5	0.5	−4.9	5.1		
United Kingdom	−3.9	2.1	3.9	1.3	4.7	3.0	−2.9	48.9	
Italy	−1.6	−3.1	−3.2	3.3	1.2	11.7	6.1	−27.7	
Canada	0.5	−10.0	5.3	8.8	4.3	−0.9			

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985			1986	
					Year	3d Qtr	4th Qtr	1st Qtr	2d Qtr
United States	2.5	−2.1	3.6	6.4	2.7	4.1	2.1	3.8	0.6
Japan	4.1	3.1	3.3	5.0	4.5	2.7	5.8	−2.1	3.6
West Germany	−0.2	−1.0	1.8	3.0	2.5	6.9	−2.7	−4.2	14.3
France	0.2	1.8	0.7	1.5	1.4	3.6	2.3	0	4.0
United Kingdom	−1.4	1.9	3.4	2.8	3.6	−0.4	0.7	4.4	0.7
Italy	0.2	−0.5	−0.2	2.8	2.3	1.0	2.3	−0.4	
Canada	3.3	−4.4	3.1	5.5	4.0	3.1	7.3	2.1	3.1

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2d Qtr	Jul	Aug
United States	10.3	6.2	3.2	4.3	3.5	1.4	−1.7	0.4	2.2
Japan	4.9	2.6	1.8	2.3	2.0	0.4	1.0	−3.5	−2.4
West Germany	6.0	5.3	3.3	2.4	2.2	−0.9	−1.1	−2.5	0.8
France	13.3	12.0	9.5	7.7	5.8	0.9	1.6	1.1	2.7
United Kingdom	11.9	8.6	4.6	5.0	6.1	4.4	0.6	1.0	2.4
Italy	19.3	16.4	14.9	10.6	8.6	6.2	5.0	3.8	6.8
Canada	12.5	10.8	5.8	4.3	4.0	4.7	3.0	7.9	5.4

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Money Supply, M-1 [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986				
						1st Qtr	2d Qtr	Jun	Jul	Aug
United States [b]	7.1	6.6	11.2	7.0	9.1	7.9	16.7	15.8	18.3	22.9
Japan	3.7	7.1	3.7	2.8	5.0	7.7	9.4	7.5	6.5	13.0
West Germany	1.1	3.6	10.2	3.3	4.4	9.8	11.3	21.3	-0.4	14.5
France	12.2	13.9			8.7	20.4	1.4	11.6	4.3	
United Kingdom	NA	NA	13.0	14.7	16.7	9.2	33.0	14.7	14.0	27.3
Italy	11.2	11.6	15.1	12.3	13.7	8.3	2.4	14.6		
Canada	3.8	0.7	10.2	3.3	4.1	- 2.4	-1.9	8.3	28.4	-3.2

[a] Based on amounts in national currency units.
[b] Including M1-A and M1-B.

Unemployment Rate [a]

Percent seasonally adjusted

	1981	1982	1983	1984	1985	1986				
						1st Qtr	2d Qtr	Jun	Jul	Aug
United States	7.5	9.6	9.4	7.4	7.1	7.0	7.1	7.0	6.8	6.7
Japan	2.2	2.4	2.7	2.7	2.6	2.6	2.8	2.7	2.9	2.9
West Germany	5.6	7.7	9.2	9.1	9.3	9.1	9.0	9.0	8.9	8.9
France	7.6	8.4	8.6	9.7	10.0	9.8	10.1	10.2	10.2	10.3
United Kingdom	10.0	11.6	10.7	11.1	11.3	11.5	11.6	11.7	11.7	11.7
Italy	8.4	9.1	9.9	10.4	10.7	11.5	11.3			
Canada	7.5	11.1	11.9	11.3	10.5	9.7	9.6	9.5	9.9	9.7

[a] Prior to May 1986, unemployment rates for France were estimated.

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985	1986				
						1st Qtr	2d Qtr	Jun	Jul	Aug
United States [b]										
Exports	233.5	212.3	200.6	218.0	213.2	53.0	53.2	18.4	18.5	18.7
Imports	261.0	244.0	258.4	326.2	346.1	91.8	88.4	30.1	33.8	30.6
Balance	−27.5	−31.6	−57.8	−108.2	−132.9	−38.8	−35.2	−11.7	−15.3	−11.9
Japan										
Exports	149.6	138.2	145.4	168.1	173.9	47.8	51.3	16.9	17.7	17.8
Imports	129.5	119.6	114.1	124.1	118.0	29.9	29.1	10.2	9.7	9.0
Balance	20.1	18.6	31.4	43.9	55.9	17.9	22.2	6.7	8.0	8.8
West Germany										
Exports	175.4	176.4	169.5	171.9	184.2	55.3	60.8	21.2	20.8	19.9
Imports [c]	163.4	155.3	152.9	153.1	158.9	45.1	47.6	15.9	15.7	14.9
Balance	11.9	21.1	16.6	18.8	25.3	10.1	13.2	5.3	5.2	5.0
France										
Exports	106.3	96.4	95.1	97.5	101.9	30.4	29.8	10.1	10.8	10.7
Imports	115.6	110.5	101.0	100.3	104.5	30.3	30.9	10.3	10.6	10.2
Balance	−9.3	−14.0	−5.9	−2.8	−2.6	0.1	−1.1	−0.2	−0.2	0.5
United Kingdom										
Exports	102.5	97.1	92.0	93.7	100.9	26.2	26.8	8.8	9.0	8.1
Imports	94.6	93.1	93.3	99.4	103.5	28.4	29.2	9.7	9.9	10.3
Balance	7.9	4.0	−1.3	−5.7	−2.6	−2.1	−2.4	−0.9	−0.9	−2.2
Italy										
Exports	75.4	73.9	72.8	73.5	78.8	23.3	24.3	8.1	8.5	8.0
Imports	91.2	86.7	80.7	84.4	90.8	26.1	24.2	8.1	9.1	6.3
Balance	−15.9	−12.8	−7.9	−10.9	−11.9	−2.8	0.2	0.1	−0.6	1.7
Canada										
Exports	70.5	68.5	73.7	86.5	88.0	21.9	21.3	6.7	7.0	
Imports	64.4	54.1	59.3	70.6	75.7	20.3	19.2	6.4	7.2	
Balance	6.1	14.4	14.4	15.9	12.3	1.6	2.1	0.3	0.2	

[a] Seasonally adjusted.
[b] Imports are customs values.
[c] Imports are c.i.f.

Current Account Balance [a]

Billion US $

	1981	1982	1983	1984	1985	1986				
						1st Qtr	2d Qtr	Jun	Jul	Aug
United States	6.3	−8.1	−46.6	−106.5	−117.7	−34.0	−34.7			
Japan	4.8	6.9	20.8	35.0	49.2	12.7	23.2	7.6	8.0	7.1
West Germany	−6.8	3.3	4.3	6.7	13.8	6.9	8.3	1.9	2.7	2.4
France	−4.7	−12.1	−4.9	−0.8	0.4	1.1	0.3			
United Kingdom	15.3	8.5	4.7	1.7	4.8	0.8	0.5	0	0	−1.3
Italy	−8.6	−5.7	0.6	−2.9						
Canada	−5.0	2.1	2.4	2.6	−0.4	−2.0	−1.3			

[a] Seasonally adjusted; converted to US dollars at current market rates of exchange.

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Export Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2d Qtr	Jun	Jul
United States	9.2	1.5	1.0	1.4	-0.7	-0.5	1.5	9.2	7.8
Japan	5.5	-6.4	-2.4	0.2	-0.6	26.1	24.9	-3.5	43.8
West Germany	-14.9	-2.8	-3.2	-7.1	0	40.8	16.6	-2.4	48.8
France	-12.0	-5.5	-4.8	-2.9	2.5	33.3	-0.3	-4.7	
United Kingdom	NA	NA	-6.2	-5.1	2.3	-2.6	7.2	-1.7	-15.8
Italy	-7.8	-3.0	-4.4	-5.2	-0.3	26.1	6.4	-14.9	
Canada	3.9	-2.0	0.2	-0.4	-3.5	-16.3	6.0	11.1	-30.7

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2d Qtr	Jun	Jul
United States	5.3	-2.0	-3.7	1.7	-2.4	-7.2	-10.4	0	8.7
Japan	3.6	-7.4	-5.0	-2.8	-4.3	-5.3	-49.2	-2.2	39.0
West Germany	-8.6	-4.7	-5.2	-4.8	-1.5	9.6	-11.7	-24.1	10.0
France	-7.8	-7.2	-7.0	-3.8	-0.3	10.2	-11.6	-14.5	
United Kingdom	NA	NA	-5.7	-4.5	0.5	-0.5	2.4	-18.2	-8.2
Italy	1.0	-5.3	-6.6	-3.7	-1.0	10.9	-20.6	-11.6	
Canada	8.7	-1.1	0.6	1.0	-2.1	- 9.1	3.8	-21.3	14.4

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986					
						1st Qtr	2d Qtr	Jun	Jul	Aug	Sep
Trade-Weighted											
United States	10.5	10.6	5.8	9.1	6.3	−17.8	−11.3	−21.7	−17.2		
Japan	9.3	−5.7	10.4	6.2	6.8	26.8	42.4	18.4	113.6		
West Germany	−2.1	7.0	5.8	1.0	1.7	8.5	6.0	6.5	17.0		
France	−5.1	−6.1	−4.7	−2.1	2.7	5.8	−10.4	7.4	2.2		
United Kingdom	2.5	−2.1	−5.0	−2.5	2.0	−26.0	9.5	3.87 −21.5			
Italy	−9.2	−5.1	−1.6	−3.1	−3.8	5.5	5.2	11.7	15.1		
Canada	0.3	0.2	2.3	−2.3	−3.6	−13.1	1.7	− 7.6	2.9		
Dollar Cost of Foreign Currency											
Japan	2.7	−12.9	4.6	0	−0.3	32.2	33.5	−2.2	48.3	27.5	−4.7
West Germany	−24.6	−7.2	−5.2	−11.5	−3.3	31.3	17.1	−1.0	35.5	40.0	9.0
France	−28.7	−20.8	−15.9	−14.7	−2.7	29.7	4.4	−2.8	27.7	28.1	8.1
United Kingdom	−13.2	−13.4	−13.3	−11.9	−3.0	1.7	20.8	−7.7	−2.0	−16.7	−10.6
Italy	−32.8	−18.8	−12.3	−15.6	−8.6	30.1	14.5	−2.0	35.2	37.9	7.1
Canada	−2.5	−2.9	0.1	−5.1	−5.4	−6.9	5.7	−13.1	6.8	−0.9	−3.8

Money Market Rates

Percent

	1981	1982	1983	1984	1985	1986				
						1st Qtr	2d Qtr	Jul	Aug	Sep
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	7.68	6.75	6.45	5.99	5.83
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66	6.52	6.38	5.98	5.73	NA	NA
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	4.51	4.52	4.59	4.53	4.37
France interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	8.96	7.37	7.19	7.14	7.06
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	12.26	10.12	9.89	9.87	9.95
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	16.00	12.74	11.94	11.34	11.18
Canada finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	11.08	9.03	8.62	8.57	NA
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	8.41	7.91	6.99	6.65	6.23	6.05

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Agricultural Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2d Qtr	Jul	Aug
Bananas Fresh imported, (Total world, $ per metric ton)	214.0	217.0	232.0	243.0	110.3	109.8	108.5	108.9	NA
Beef (¢ per pound)									
Australia (Boneless beef, f.o.b. US Ports)	112.4	107.4	111.1	101.0	96.6	97.6	91.3	90.0	91.9
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	87.8	84.4	89.6	89.9
Cocoa (¢ per pound)	89.8	74.3	92.1	106.2	98.7	95.7	82.6	87.6	89.1
Coffee ($ per pound)	1.28	1.40	1.32	1.44	1.43	2.01	1.73	1.49	1.54
Corn (US #3 yellow, c.i.f. Rotterdam, $ per metric ton)	150	123	148	150	125	116	116	98	87
Cotton (World Cotton Prices, "A" index, c.i.f. Osaka, US ¢/lb.)	72.69	74.48	85.71	63.91	57.87	53.60	45.51	36.35	37.03
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	571	445	502	730	501	289	241	221	197
Rice ($ per metric ton)									
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	453	352	288	299
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	236	224	230	242
Soybeans (US #2 yellow, c.i.f. Rotterdam, $ per metric ton)	288	244	282	283	225	218	213	203	198
Soybean Oil (Dutch, f.o.b. ex-mill, $ per metric ton)	507	447	527	727	571	407	348	336	271
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	252	219	238	197	157	188	184	183	185
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢ per pound)	16.93	8.42	8.49	5.18	4.04	5.83	7.45	5.58	5.50
Tea Average Auction (London) (¢ per pound)	91.0	89.9	105.2	156.6	90.0	86.4	85.6	79.8	86.5
Wheat (US #2. DNS c.i.f. Rotterdam, $ per metric ton)	210	187	183	182	169	172	158	129	124
Food Index [a] (1980=100)	88	78	86	92	81	95	94	83	81

[a] 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.

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Industrial Materials Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2d Qtr	Jul	Aug
Aluminum (¢ 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	50.7	51.0
Chrome Ore (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
Copper [a] (bar, ¢ per pound)	79.0	67.1	72.0	62.4	64.5	64.5	64.5	60.6	59.1
Gold ($ per troy ounce)	460.0	375.5	424.4	360.0	317.2	342.6	341.6	348.4	365.4
Lead [a] (¢ per pound)	32.9	24.7	19.3	20.0	17.7	16.7	17.6	17.0	17.5
Manganese Ore (48% Mn, $ per long ton)	82.1	79.9	73.3	69.8	68.4	67.2	64.8	64.8	65.6
Nickel ($ 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	1.8	1.8	1.8
Platinum ($ 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	420.1	438.0	495.7
Rubber (¢ per pound)									
Synthetic [b]	47.5	45.7	44.0	44.4	44.1	42.8	38.7	38.3	NA
Natural [c]	56.8	45.4	56.2	49.6	42.0	41.7	40.1	43.6	43.5
Silver ($ per troy ounce)	10.5	7.9	11.4	8.1	6.1	5.9	5.2	5.0	5.1
Steel Scrap [d] ($ per long ton)	92.0	63.1	73.2	86.4	74.4	74.0	71.8	71.8	75.0
Tin [a] (¢ per pound)	641.4	581.6	590.9	556.6	543.2	357.4	250.5	244.0	245.5
Tungsten Ore (contained metal, $ per metric ton)	18,097	13,426	10,177	10,243	10,656	8,673	7,567	7,112	6,360
US Steel NA (finished steel, composite, $ per long ton)	543.5	567.3	590.2	611.6	617.8	551.2	554.4	556.6	556.6
Zinc [a] (¢ per pound)	38.4	33.7	34.7	41.5	35.4	28.5	33.8	36.5	36.5
Lumber Index [e] (1980=100)	95	84	114	105	103	100	121	111	113
Industrial Materials Index [f] (1980=100)	85	71	82	76	69	69	70	67	67

[a] 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.
[b] S-type styrene, US export price.
[c] Quoted on New York market.
[d] Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.
[e] This index is compiled by using the average of 10 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
[f] 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.

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

World Crude Oil Production Excluding Natural Gas Liquids

Thousand b/d

	1981	1982	1983	1984	1985 [a]	1986 [a]			
						1st Qtr	May	June	July
World	**55,837**	**53,092**	**52,625**	**53,674**	**52,931**	**54,039**			
Non-Communist countries	**41,602**	**38,810**	**38,228**	**39,257**	**38,692**	**39,758**			
Developed countries	12,886	13,276	13,864	14,302	14,730	15,022			
United States	8,572	8,658	8,680	8,735	8,933	8,898	8,848	8,808	8,800
Canada	1,285	1,270	1,356	1,411	1,457	1,480			
United Kingdom	1,811	2,094	2,299	2,535	2,533	2,711	2,538	2,196	
Norway	501	518	614	700	785	856	826	848	
Other	717	736	915	921	1,022	1,077	927	915	
Non-OPEC LDCs	6,036	6,633	6,823	7,515	7,845	7,556	7,998	7,964	
Mexico	2,321	2,746	2,666	2,746	2,733	2,376	2,527	2,547	2,500
Egypt	598	665	689	827	874	758	845	753	
Other	3,117	3,222	3,468	3,942	4,238	4,422	4,626	4,664	
OPEC	22,680	18,901	17,541	17,440	16,117	17,180	18,000	19,300	20,320
Algeria	803	701	699	638	645	602	600	600	600
Ecuador	211	211	236	253	280	275	300	300	285
Gabon	151	154	157	152	153	160	160	170	170
Indonesia	1,604	1,324	1,385	1,466	1,235	1,223	1,305	1,235	1,250
Iran	1,381	2,282	2,492	2,187	2,258	1,890	2,100	2,200	2,300
Iraq	993	972	922	1,203	1,437	1,732	1,700	1,700	1,900
Kuwait [b]	947	663	881	912	862	1,169	1,400	1,500	1,600
Libya	1,137	1,183	1,076	1,073	1,069	1,000	1,100	1,200	1,150
Neutral Zone [c]	370	317	390	410	355	276	220	300	340
Nigeria	1,445	1,298	1,241	1,393	1,464	1,417	1,550	1,490	1,600
Qatar	405	328	295	399	302	352	360	430	400
Saudi Arabia [b]	9,625	6,327	4,867	4,444	3,290	4,256	4,250	5,100	5,600
UAE	1,500	1,248	1,119	1,097	1,146	1,287	1,405	1,505	1,505
Venezuela	2,108	1,893	1,781	1,813	1,621	1,541	1,550	1,570	1,620
Communist countries	**14,235**	**14,282**	**14,397**	**14,417**	**14,239**	**14,281**			
USSR	11,800	11,830	11,864	11,728	11,350	11,350			
China	2,024	2,042	2,121	2,280	2,496	2,506	2,557	2,557	
Other	411	410	412	409	393	425			

[a] Preliminary.
[b] Excluding Neutral Zone production, which is shown separately.
[c] Production is shared equally between Saudi Arabia and Kuwait.

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Big Seven: Inland Oil Consumption

Thousand b/d

	1981	1982	1983	1984	1985	1986						
						Jan	Feb	Mar	Apr	May	June	Jul
United States [a]	16,058	15,296	15,184	15,708	15,726	15,923	16,056	16,188	15,743	15,852	15,998	16,075
Japan	4,444	4,204	4,193	4,349	4,123	4,661	5,002	4,547	3,924	3,568	3,577	
West Germany	2,120	2,024	2,009	2,012	2,060	2,096	2,406	2,141	2,640	2,388	2,473	
France	1,744	1,632	1,594	1,531	1,498	1,625	2,008	1,525	1,701	1,245	1,387	1,383
United Kingdom	1,325	1,345	1,290	1,624	1,402	1,286	1,483	1,447	1,427	1,330		
Italy [b]	1,705	1,618	1,594	1,513	1,516	1,718	1,855	1,535	1,495	1,345	1,329	
Canada	1,617	1,454	1,354	1,348	1,342	1,336	1,351	1,168	1,237	1,302	1,368	1,370

[a] Including bunkers, refinery fuel, and losses.
[b] Principal products only prior to 1981.

Big Seven: Crude Oil Imports

Thousand b/d

	1981	1982	1983	1984	1985	1986						
						Jan	Feb	Mar	Apr	May	June	Jul
United States	4,406	3,488	3,329	3,426	3,201	3,329	2,993	3,000	3,701	3,872	4,675	4,648
Japan	3,919	3,657	3,567	3,664	3,377	3,126	4,273	3,673	3,469	2,756	2,798	
West Germany	1,591	1,451	1,307	1,335	1,284	1,321	1,258	1,429	1,285	1,340	1,265	
France	1,804	1,596	1,429	1,395	1,476	1,430	1,420	1,380	1,608	1,235	1,454	
United Kingdom	736	565	456	482	523	493	445	494	610	767	442	
Italy	1,816	1,710	1,532	1,507	1,462	1,593	1,593	1,593				
Canada	521	334	247	244	283	353	424	260	185	276		

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Crude Oil Prices

US $ per barrel

	1980	1981	1982	1983	1984	1985	1986			
							1st Qtr	2nd Qtr	July	Aug
OPEC Average [a] (Official Sales Price)	30.87	34.50	33.63	29.31	28.70	28.14				
World Average Price	NA	NA	NA	NA	NA	27.16	20.55	13.65	11.42	12.33

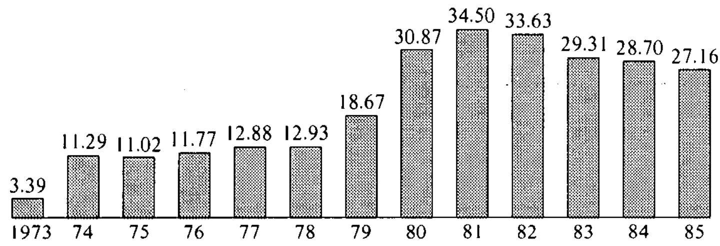
[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil. Weighted by the volume of production.

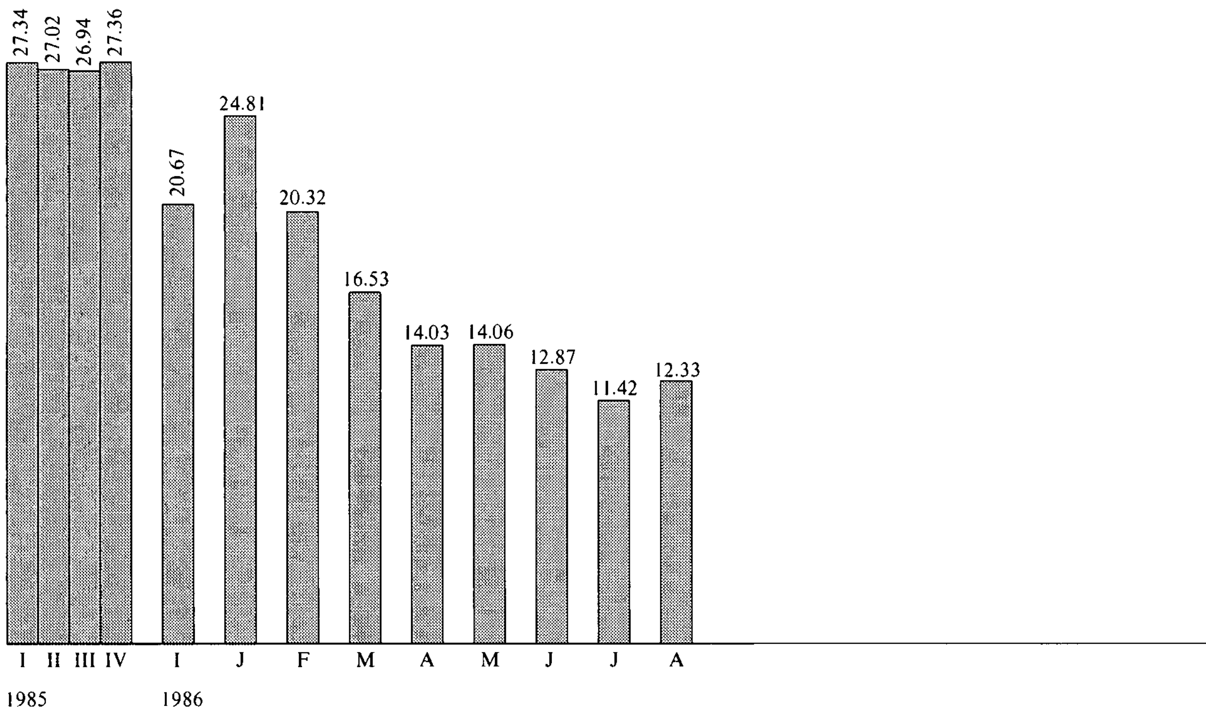
Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Average Crude Oil Sales Price[a]

US $ per barrel





[a] The 1973 price is derived from posted prices, 1974-84 prices are derived from OPEC official sales prices, and beginning in 1985, prices are a measure of average world sales prices.

309898 9-86

STAT

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP88-00798R000400200005-3