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International Economic & Energy Weekly

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6 April 1984

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International Economic & Energy Weekly [redacted] 25X1

Synopsis

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1 **Perspective—*Fallout From Argentine Payment Episode*** [redacted] 25X1

Last Saturday's eleventh-hour solution to the Argentine payment crisis demonstrates the pressure on all parties to reach agreements to keep interest payments on loans current. The terms gained by Argentina may lead other financially troubled countries to seek similar arrangements. [redacted] 25X1

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19 **Peru's Military: The Impact of Economic Crisis** [redacted] 25X1

Peru's civilian government is struggling with how to impose fiscal discipline without antagonizing a politically powerful military establishment that is unaccustomed to limits on its arms expenditures. [redacted] 25X1

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25 **International Debt Relief: Trends and Issues** [redacted] 25X1

A record 25 LDCs and East European countries obtained debt relief totaling $55 billion during 1983, as compared with 12 countries and $10 billion in relief handled in 1982. Both the number of restructurings and the volume of debt involved in 1984 should surpass last year; 30 countries already are seeking debt relief. [redacted] 25X1

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33 **The Thai Economy: Working To Sustain Its Performance** [redacted] 25X1

Thailand's Prime Minister Prem Tinsulanon—who arrives in Washington next week—is faced with difficult economic problems that threaten the continuation of his country's recent impressive performance. [redacted] 25X1

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39 **Indonesia: Outlook for Aircraft Manufacturing** [redacted] 25X1

The Indonesian Government's ambitious development program for aircraft manufacturing—launched in the mid-1970s—is plagued by technical and financial problems, but Indonesia could in the long run become a coproducer with Western aircraft firms [redacted] 25X1

Secret
DI IEEW 84-014
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International Economic & Energy Weekly [redacted] 25X1

6 April 1984

Perspective

Potential Fallout From Argentine Payment Episode [redacted] 25X1

Last Saturday's eleventh-hour solution to the Argentine payment crisis demonstrates the pressure on all parties—commercial banks and debtor and creditor goverments—to reach agreements to keep interest payments on loans current. The Argentine agreement narrowly prevented US commercial banks from having to classify as nonperforming over $4 billion in Argentine loans. [redacted] 25X1

Argentina is not the only debtor attempting to cope with overdue interest payments. Peru currently has a number of commercial bank loans with interest arrearages; the Philippines has only begun payments to meet January obligations; Venezuela, despite having the export earnings and reserves to keep interest payments current, also has allowed arrearages to accumulate. Moreover, the Argentine solution brings Buenos Aires' interest payments only up to early January; another $750 million will be required by the end of this quarter to preclude another crisis [redacted] 25X1

The Argentine agreement could have a number of implications for debt relief negotiations with other debtors:

- According to the press, the narrow margin by which a loan classification situation was averted in Argentina may cause some regional banks to reexamine their participation in other debt restructuring packages. Members of the Philippine bank advisory committee were already concerned about participation of the smaller US banks in a rescheduling agreement, and the Argentina episode may further erode their willingness to increase their exposure.

- The favorable terms that Buenos Aires gained by allowing interest arrearages to approach the 90-day limit may lead other debtors to attempt similar tactics. Argentina received a $100 million commercial bank loan at only one-eighth percentage point above LIBOR and ultimately used only $100 million of its own reserves. [redacted] some Venezuelan Cabinet ministers saw the Argentine situation early on as an opportunity to secure more favorable terms from creditors. Hardliners in other countries also could come to view the Argentine settlement as an incentive to delay interest payments and let the United States and other creditors share the burden of repayment. 25X1

- The Argentine example may also be read by other debtors to indicate that an IMF agreement is not necessarily a prerequisite for securing new loans and the cooperation of creditors. While last week's innovative Argentine bridging facility is linked to an IMF agreement by June, this target date may not be met if the Peronists, who have already been critical of the package, delay legislative approval of Alfonsin's budget and ratification of the Fund agreement.

- Finally, the Argentine episode—which was conceived by Mexico with contributions from Venezuela, Brazil, and Colombia, and guaranteed by a bridge loan from the United States—may lead to more direct involvement of governments in solving commercial debt problems. 25X1

The next big debtor country where the implications of these potential fallouts may be tested is the Philippines. Although the Argentine incident has raised concern among Manila's commercial creditors about Philippine debt servicing capabilities, we believe Manila is unlikely to follow Argentina's example. Central Bank Governor Fernandez and Finance Minister Virata insist Manila will meet its obligations. A recent IMF cash-flow analysis indicates this should be possible at least until June when a new IMF agreement is expected to go to the IMF board. Unlike Argentina, the Philippines, by virtue of its import-dependent economy, has more to lose by driving away commercial creditors from a debt restructuring package than it has to gain by using hardnosed negotiating tactics to obtain marginally better credit terms. Moreover, Manila cannot rely on its ASEAN neighbors—who are already reluctant participants in "swap" arrangements with the Philippines—to participate in a rescue package. 25X1

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Briefs

Energy

Soviet Oil Production Problems

[redacted]

An article in *Pravda* Tuesday stated that the USSR is having serious problems with oil production in West Siberia, which accounts for 60 percent of the country's oil output. The article noted that the main problem is the increasing difficulty in tapping wells, but it also indicated that low-quality equipment, poor planning, and declining labor morale are contributing factors. It stated that oil planners already are talking of lowering their targets for this year and for the plan for 1986-90. Soviet energy leaders have been trying since last fall to reverse the situation. Special measures have been introduced to increase output, including the acquisition of some 400 submersible pumps from the United States. [redacted] 25X1

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This is not the first time that the Soviets have publicly discussed their problems in West Siberia, but this is their bleakest description. The article suggests that production problems may intensify and that oil production may have peaked. Data for October 1983 through February 1984 show that oil output has fallen 200,000 b/d from record levels of 12.4 million b/d attained during the previous 12 months. This is the first time since World War II that oil production has fallen over such an extended period. The USSR might have reached a limit in its ability to cope with the operational problems in West Siberia, although the effects of emergency allocations and new investment might not be clear for some time. These problems have caused the Soviets difficulty in meeting export contracts; earlier this year they reneged on obligations to ship oil to a number of West European countries. [redacted] 25X1

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[redacted]

Japanese Government Oil Stocks Rise

[redacted]

Japanese Government–owned oil stocks rose 8 million barrels in the first two months of 1984 and now total 94 million barrels or some 21 days of consumption. Tokyo plans to increase the stockpile to 110 million barrels by

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the end of March 1985 as part of its goal to acquire 189 million barrels by the end of March 1989. Total oil stocks including commercial inventories at the end of February stood at 433 million barrels—equal to about 100 days of consumption. In early 1979, prior to the Iranian Revolution, total Japanese stocks represented about 74 days of consumption. Japanese efforts to increase its strategic stockpile in recent months probably reflect Tokyo's concern about tension in the Middle East. 25X1

Australian Coal Exports Up

Australian coal exports—Canberra's largest export earner—reached a record 61 million metric tons in 1983, about 30 percent above the 1982 level. Coking coal exports were up nearly 25 percent to 43.4 million tons. Steam coal exports rose 50 percent to 17.7 million tons. Coal sales to Western Europe showed the sharpest increase, rising about 40 percent. Increased Australian coal sales were due to the absence of labor disputes in 1983, the commissioning of new mines, and the devaluation of the Australian dollar combined with the strong US dollar. Because coal trading is done in US dollars, foreign exporters—such as Australia and South Africa—can cut export prices in US dollars without a corresponding drop in local currency prices. The US dollar price of Australian coking coal to Europe, for example, dropped 20 percent in 1983, while the price in Australian dollars fell only 14 percent.

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Australia: Coal Export Prices

	$ Per Metric Ton		Percent Change
	January 1983	December 1983	
Coking coal exports to Western Europe			
US $	55.50	44.10	−20.5
Australian $	57.10	48.90	−14.4
Steam coal exports to the Far East			
US $	44.90	38.50	−14.3
Australian $	46.20	42.70	−7.6

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International Finance

Argentine Reaction to Bridging Loan

Opponents of the government are strongly criticizing the loan floated last Saturday, indicating that President Alfonsin is likely to face difficulties in reaching a final accord with the IMF and foreign lenders. Argentine legislators clashed on Saturday over the nation's emergency loan package, according to press reports. The chairman of the government's finance commission endorsed the arrangement, but Peronists and leftists fear new austerity measures will be demanded in return for financial assistance. They argue that the loan package is a US gambit intended to use the participation of four Latin countries—Mexico, Brazil, Colombia, and Venezuela—as a lever on Buenos Aires to accept an IMF-based program. 25X1 25X1

Alfonsin remains committed to reaching an accord with IMF and foreign lenders, but he will continue to talk tough publicly to defuse criticism. Although he is likely to work out a letter of intent with the Fund in the next several weeks, domestic opposition probably will hinder quick progress on a final accord. The National Congress, including the Peronist-controlled Senate, must approve both the budget and any final IMF agreement. The Peronists and their labor union allies, as well as many of the government's own supporters, will resist wage and public spending cuts that threaten economic recovery 25X1

Philippine Austerity Could Cause Domestic Banking Crisis

Central Bank officials are concerned that restrictions on monetary growth that are preliminary to reaching a standby agreement with the IMF could precipitate a collapse of the domestic banking system. The domestic reserve position of the financial system has deteriorated since last October's devaluation of the peso. The devaluation sharply eroded the liquidity of banks that carry a large proportion of their assets in pesos and their liabilities in dollars. By mid-February commercial bank reserves fell short of official reserve requirements by 11 percent. As a result, Central Bank officials are concerned that many banks will be unable to comply later this year with an increase in reserve requirements from 23 to 30 percent that is part of the preliminary agreement with the IMF. 25X1 25X1

To comply with the IMF target, the Central Bank may require banks to freeze the peso equivalent of their maturing foreign obligations. This would take billions of pesos out of circulation and lead to the collapse of a number of banks. Although the Central Bank in the past has supported failing banks with emergency loans to avoid a financial panic, this would cause Manila to violate monetary targets set by the Fund and thus is likely to be ruled out as a policy alternative. [redacted] 25X1

Nigerian Assets Remain Low

[redacted]

Internal government statistics indicate that Nigeria has only $775 million in foreign reserves, with about one-third of them placed in the United States. Although this represents a small increase over February's $686 million, it amounts to just over one month of imports even at the present sharply reduced levels. Lagos currently is trying to reschedule about $6 billion in arrearages on trade credits and will be hard pressed to meet payments of roughly $3.5 billion on its medium- and long-term debt coming due this year. [redacted] 25X1 25X1

Nigeria: Official Assets as of 27 March 1984 *Million US $*

	Currency and Securities	Gold and SDRs	Total
Total	**402.9**	**371.6**	**774.5**
United States	231.7	0	231.7
United Kingdom [a]	−131.3	0	−131.3
Other Europe	105.0	0	105.0
International institutions	36.6	104.5	141.1
Communist	12.6	0	12.6
Unknown	148.3	267.1	415.4

[a] On 27 March Nigeria was overdrawn on its UK accounts; such shortfalls have occurred in the past and have been subsequently rectified by transfer of funds.

[redacted] 25X1

Dominican Republic To Request US Emergency Assistance

[redacted]

President Jorge Blanco will try during his visit to Washington next week to translate his pro-US orientation into increased financial assistance. He plans to ask for over $300 million in emergency aid, according to the US Embassy. This would include a $30 million bridge loan to help tide the country over until IMF funds are available, $100 million in public works project lending in 1984, and $184 million in project loans for 1984-85. The President will also ask that the United States buy Dominican bauxite for its strategic stockpile. [redacted] 25X1 25X1

Dominican officials hope that a tentative agreement will be reached with the IMF this week on the second year of a three-year Extended Fund Facility loan. This would pave the way for renegotiating official debts and probably would secure new funding from foreign commercial banks to allow the country to restock depleted petroleum and food reserves. The IMF program will include a cap on government spending, increased taxes, the elimination of foreign payment arrears, and broader use of the parallel foreign exchange market. These measures, however, risk spurring further labor unrest. [redacted] 25X1

Record Losses for West Germany's Export Guarantee Agency

[redacted]

Fees for West Germany's export guarantee agency Hermes went up 40 percent this month, yet West German officials expect losses could reach $800 million this year. Considerable losses are expected from the $2 billion in Hermes guarantees falling due this year from 20 countries experiencing foreign payments difficulties; indemnification of West German exporters to Brazil and Poland will represent the largest outflows. The fee increase, which will disadvantage West German exporters, was to have taken effect last October. Chancellor Helmut Kohl, however, bowing to pressure from industry groups, postponed it against the advice of Economics Minister Count Otto Lambsdorff and Finance Minister Gerhard Stoltenberg. Stoltenberg regards mounting Hermes losses resulting from the international debt crisis to be the greatest threat to his budget consolidation efforts over the next five years. [redacted]

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Zimbabwe Misses IMF Targets

[redacted]

Zimbabwe's growing budget deficit and new restrictions on capital outflows have brought it out of compliance with its IMF standby program and have jeopardized remaining credit drawings. The deficit could be 12 percent or more of GDP in fiscal year 1984—substantially above the 5.5-percent IMF guideline—and nearly all payments abroad were suspended last week in an effort to conserve foreign exchange. The Fund is aware that unforeseen pressures—particularly the severe drought—have made compliance difficult, and it will negotiate with Harare to establish new performance criteria. Although quick agreement might allow Zimbabwe to draw $40 million delayed since December, the IMF reportedly has canceled another $40 million drawing scheduled for early April. [redacted]

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Malagasy Debt Rescheduled

[redacted]

Almost $190 million in principal, interest, and arrears payments on official and officially guaranteed debt owed by Madgascar has been rescheduled under the Paris Club. The terms include a 5-percent downpayment by the end of 1984, five years' grace, and a six-year repayment period for debts due between July 1983 and the end of 1984, including about $20 million in arrears outstanding at the end of June 1983. Madagascar also accepted the imposition of a $25 million monitoring account from which to make 1984 payments. Madagascar still needs another $50 million or so this year, according to IMF estimates, and the Fund is reluctant to disburse the first tranche of a 15-month, $34 million standby arrangement until this gap is closed. Antananarivo is seeking official grants and loans to bridge the shortfall. [redacted]

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Global and Regional Developments

Investor Confidence in Hong Kong Shaken

The announcement last week by Jardine Matheson, Hong Kong's leading trading company, that it plans to move its legal domicile to Bermuda has stunned the Colony and sent its stock market plunging. A simultaneous decision by Hutchison Whampoa, another major trading company, to pay a 25X1 large bonus dividend to shareholders rather than to reinvest profits in the company, is being viewed in financial circles as showing a lack of confidence in Hong Kong's future. Government authorities have labeled Jardine's move a commercial decision. Communist-controlled newspapers in the Colony, however, have suggested that it was made in consultation with the United Kingdom in an attempt to influence continuing negotiations over Hong Kong's future. 25X1

Although the British have tried to play on investors' concerns about the economy in past negotiations with the Chinese, Jardine's decision probably was taken unilaterally and primarily to put itself into a position to move funds out of Hong Kong quickly, if necessary. Jardine will maintain its headquarters office in Hong Kong. Jardine's announcement, however, has split the united front of businessmen, who previously had been trying to maintain a show of confidence in the Colony's future. Although Jardine's action could start a snowball effect among other firms, most businesses probably will not decide their future course of action until after Beijing announces its intentions regarding the Colony in September. 25X1

Sweden's New Approach to Export Controls

The government is reviewing its export control procedures to give greater protection to COCOM-controlled technology. A special group has been established in the Foreign Trade Department to decide what measures Sweden should take to tighten export controls. There appears to be a consensus in the government that the country's export control list, which now is confined largely to war materiel, will have to be expanded to include a large number of dual-use technologies that are imported from the COCOM countries. The 25X1 group is expected to make a report in June or July. 25X1

The review of export control policy is an effort to erase the perception in the United States that Sweden is an easy route for the diversion of high technology to the USSR and East European countries. Sweden is increasingly concerned that this view could jeopardize access to US technology that is crucial to modernizing its armed forces and key industries. Swedish sources have described the new approach as conforming to the COCOM list without joining COCOM. The new procedures probably will include a certification system for importing and reexporting COCOM-controlled items. The government, however, apparently is still debating whether the new procedures will be legally enforceable and what provisions for verification—including end-user checks—should be made. 25X1

Sharp Cuts in OPEC Manufactures Imports Last Year

[redacted]

Falling oil revenues forced OPEC members to sharply reduce imports of manufactures in 1983. Trade data for selected major industrialized countries indicate that exports of manufactures to OPEC fell $13.3 billion, or 21 percent; the United States and West Germany bore the brunt of the cutback. The largest declines were reported for transport equipment and machinery, each accounting for about one-third of the total cutback. Semifinished goods followed closely, accounting for about 25 percent. Debtor OPEC members, such as Venezuela and Nigeria, slashed foreign purchases to ease serious foreign payments problems. The Gulf States—Saudi Arabia, Kuwait, Qatar, and the UAE—scaled back development programs, reducing imports of construction and electrical machinery, and transport equipment. Iraq, its economy beset by the war with Iran, was forced to cut imports of manufactures by nearly two-thirds. Only Iran increased imports of manufactured goods last year as it renewed trade links broken during 1979-80. [redacted]

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OPEC: Imports of Manufactures [a] *Million US $*

	1982	1983	Change in 1983
Total	**62,690**	**49,420**	**−13,270**
Algeria	4,250	3,860	−390
Ecuador	1,050	550	−500
Gabon	480	440	−40
Indonesia	7,430	5,460	−1,970
Iran	2,500	5,900	3,400
Iraq	7,730	2,830	−4,900
Kuwait	3,640	3,270	−370
Libya	2,100	1,610	−490
Nigeria	4,120	2,160	−1,960
Qatar	830	540	−290
Saudi Arabia	18,260	17,060	−1,200
United Arab Emirates	3,650	2,940	−710
Venezuela	6,660	2,810	−3,850

[a] Data are for exports of manufactures from the United States, Japan, West Germany, France, and Canada.

[redacted]

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Iran Cuts Imports

[redacted]

[redacted] Iran is now restricting imports to help stem the outflow of foreign exchange. Tehran has stopped new orders and canceled some existing ones with several of its trading partners, including Japan, the United Kingdom, West Germany, and France. During the last four months,

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Iran has been forced to draw down about $1.5 billion of an estimated $11 billion in international monetary reserves and foreign assets to help pay for the high level of imports in 1983. 25X1

Iran wants to hold on to its remaining foreign exchange reserves in case Iraq is able to interfere significantly with oil exports. The restrictions also may be an effort by Tehran to reduce the costly congestion of Iranian ports and railroads as a result of the 75-percent increase in imports last year. Although Tehran is unlikely to solve its transportation problems soon, it may have to ease the import restrictions later this year. Prolonged import cuts could add to growing war weariness among the public. 25X1

EC Farm Spending Reforms

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EC Agriculture Ministers last Saturday adopted several unprecedented measures to cap the runaway farm spending that has brought the Community to the brink of bankruptcy. The new measures, which had been blocked by Ireland since the recent EC summit, impose quotas with strict penalties on milk production and cut overall farm prices in the EC this year by about 1 percent. The ministers also agreed to phase out the system of border taxes and subsidies on intra-EC agricultural trade. Nevertheless, EC farm spending will still exceed expected revenues this year by $2-3 billion. 25X1

Approval of the agricultural package considerably eases the crisis atmosphere fanned by the failure of two EC summits, but the Community's financial disputes remain unresolved. The EC still faces insolvency this fall because the United Kingdom is likely to veto proposals to raise additional funds to cover the budget shortfall unless London's annual payments to the EC budget are permanently reduced. 25X1

Australia Changes Uranium Policy

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Prime Minister Hawke is gaining broad support for reversing Canberra's restrictive uranium export policy. A draft of an official position paper, which was leaked to the press last week, supports development of new uranium mines and permits exports to countries maintaining strict nonproliferation standards. In addition, a growing number of key party leaders recently have joined Hawke in rejecting the party's platform, which calls for a complete phaseout of the $420 million-a-year export industry. Hawke believes Australia's uranium reserves—the largest in the non-Communist world—could attract nearly $1 billion in new investment and generate additional export revenues. 25X1

Although industry sources report that current world uranium demand could not support the development of new mines, a policy switch would provide Canberra the option to authorize new mining when demand strengthens. Hawke, however, still faces a showdown over the issue with the left wing at the party's biennial conference in July. The conference will provide the first chance to change the platform, and it appears Hawke now has the votes to win. (C NF)

NICs' Trade Surplus With Big Seven Increases

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The six newly industrializing countries' (NICs) trade surplus with the Big Seven nearly tripled in 1983, reaching $8.4 billion. Most of the improvement reflected developments in Mexico. Trade statistics for the Big Seven show that exports of the six NICs rose 6 percent in 1983, with almost all of the gain coming in sales to the United States. Taiwan led the NICs with an export gain of 22 percent. Mexico and South Korea followed with increases of 8 and 3 percent, respectively. Only Mexico and Brazil cut their imports from the Big Seven. 25X1

NICs: Trade Balance With Big Seven [a]

Billion US $

	1982	1983
NICs		
Exports	67.4	71.5
Imports	64.3	63.1
Balance	3.1	8.4
Brazil		
Exports	10.5	10.7
Imports	7.1	6.7
Balance	3.4	4.0
Hong Kong		
Exports	9.6	9.4
Imports	9.9	10.5
Balance	−0.3	−1.1
Mexico		
Exports	18.3	19.7
Imports	15.5	11.4
Balance	2.8	8.3
Singapore		
Exports	5.0	4.5
Imports	9.9	10.0
Balance	−4.9	−5.5
South Korea		
Exports	10.6	10.9
Imports	11.8	13.3
Balance	−1.2	−2.4
Taiwan		
Exports	13.4	16.3
Imports	10.1	11.2
Balance	3.3	5.1

[a] Both import and export data are valued f.o.b. NIC exports were derived by dividing Big Seven imports from the NICs by 1.1; NIC imports were obtained by using Big Seven export data.

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National Developments

Developed Countries

Canadian Dollar Depreciates

Since early March, the Canadian dollar has been under heavy downward pressure, dropping last week to its lowest level since June 1982. In part reflecting the considerable narrowing in US-Canadian interest rate differentials and the financial community's belief that Ottawa would not match hikes in US interest rates, the Canadian dollar fell from US $0.81 to just over US $0.78. Finance Minister Lalonde may have added to the decline by displaying a lack of concern over the value of the Canadian dollar; his nonchalance was taken as a signal that Ottawa would not intervene to maintain its value. Lalonde later reversed course, and Gerald Bouey, Governor of the Bank of Canada, said that Ottawa would attempt to protect its currency from falling further. Subsequent support from the Bank, however, has failed to halt the Canadian dollar's decline. 25X1

For the past year, the Bank of Canada's primary goal has been exchange rate stability, and Ottawa is likely to lean against any further depreciation in the near term because of the inflationary impact of a declining currency. With the next federal election probably occurring this fall, however, Ottawa may limit its defense of the Canadian dollar should rising US interest rates put pressure on Canadian interest rates. A rapid rise in interest rates probably would blunt recovery in Canada, thereby hurting the Liberal government's reelection chances. Governor Bouey has blamed high Canadian interest rates largely on the US budget deficit. If interest rates increase prior to the election, Ottawa is likely to become even more critical of US monetary policy. 25X1

Ottawa Assumes Canadair's Debt

Ottawa recently announced that it would financially restructure debt-plagued Canadair—the larger of Canada's two federally owned aircraft manufacturers. The Canadian Development Investment Corporation (CDIC)—the federally owned holding company that controls Canadair and many other federal corporations—will assume the company's US $1.1 billion debt, all of which can be attributed to development and production of the Challenger executive jet. In addition, Ottawa granted Canadair US $250 million in supplemental funding to cover 1984 operating expenses. Ottawa expects the transfer of the company's debt will reassure potential customers of Canadair's survivability and thereby secure additional orders for the Challenger aircraft. 25X1

The CDIC believes the revitalized Canadair will be able to sell 15 Challengers per year and return the company to profitability in 1985; the sale of that number of aircraft would give the company about 10 percent of the market for large corporate jets. Canadair, however, has not been able to sell a single Challenger aircraft in the past six months. We believe Canadair will have difficulty in surmounting earlier design problems and the competitiveness of the market for large business jets. Both economic and political factors lie behind Ottawa's decision to continue to support Canadair. The government wishes to maintain a domestic aircraft industry and to protect jobs in Montreal—a key area in the next federal election. [redacted] 25X1

French Socialists Proceed With Restructuring

[redacted]

Paris has announced plans to reduce employment in the steel industry by 20,000 workers over the next three years. The plan will reduce employment in the industry to about 75,000 workers, compared with over 120,000 only five years ago, and will close several plants. Even though the reductions will be accomplished through normal attrition and early retirement, some workers have protested, and there has been sporadic violence. [redacted] 25X1

The steel decision follows the pattern set earlier in the coal and shipping industries and indicates the Mitterrand government's resolve to modernize industry, even at the risk of antagonizing labor supporters. The Socialists have informed managers of nationalized enterprises that they are expected to be profitable by 1986 or 1987. Mitterrand wants to reorient French industry toward high-technology production and realizes that inefficient industry is a drain on the economy as well as on the budget. [redacted] 25X1

Swedish Wage Settlements Undermine Government Economic Policies

[redacted]

The Social Democratic Palme government has reacted sharply against wage settlements reached by public- and private-sector labor unions in the 1984 negotiating round. Increases averaging 8.6 percent in the public sector and 6.7 percent in the private sector have severely undercut government efforts to hold down wage costs. The government had hoped to hold wage settlements to well below the 6-percent inflation rate most observers expect for 1984. Moreover, the higher wages will threaten Sweden's improved foreign competitiveness and industrial profitability, which stemmed from the 16-percent devaluation in late 1982. [redacted] 25X1 25X1

The government has threatened to freeze prices and tighten fiscal policy if remaining labor negotiations fail to adhere to its no-real-wage-growth guidelines over the 1984-85 period. It appears doubtful, however, that the unions will heed the warning because they are seeking their first real wage increase in several years. How the government responds to this threat to its economic program is likely to affect its reelection chances next year. The high wage settlements call into question the Social Democrats' claim that only they can achieve the consensus among industry, labor, and the public needed to reverse adverse economic trends. [redacted] 25X1

Dutch Union Leadership Facing Coalition Split

[redacted]

Federation President Wim Kok is trying to restore harmony between public- and private-sector unions before turning over his post to Hans Pont, vice president of the civil service union. Wim Kok has agreed to stay on beyond his official term—which ends in November 1984—to try to settle the differences. Internal tensions increased last fall when the union of industrial workers refused to support prolonged strikes by the civil service union. In refusing to 25X1 support civil servant protests over a 3-percent cut in wages and a reduction in social security benefits, the industrial workers expressed growing Dutch sentiment that public workers are pampered and that they should share in sacrifices being made to revive the economy. The industrial workers have tacitly supported The Hague's austerity measures in the hope that the new policies will speed a recovery of industrial investment and employment. Pont has a reputation as a coalition builder, but he will be able to unify the federation only if the public-sector unions adopt a more moderate line and all members agree that special emphasis should be accorded to increasing industrial competitiveness. 25X1

West German Foreign Population Down

West Germany's foreign population declined 3.6 percent last year, the first drop since 1978. The 4.5 million foreigners are an increasing source of friction to native Germans. The decline resulted from a sharp drop in immigration resulting from restrictions on relatives joining families, a falloff in asylum seekers, and the slack labor market in West Germany. Foreigners represent 7.4 percent of the population, a proportion exceeded in Western Europe only by Switzerland (15 percent) and Belgium (9 percent). 25X1 25X1

Foreign workers in West Germany, numbering about 1.7 million, have been eligible since December for bonuses of up to $6,000 plus a refund of their social security contributions if they are unemployed and agree to return to their homelands permanently with their families. As many as 50,000 are expected to take advantage of the offer this year. 25X1

South African Budget

Despite its worst recession in 40 years, South Africa has announced an austere budget for FY 1984/85 to combat persistent double-digit inflation, Pretoria's principal economic concern. Spending is set to rise by 9.4 percent—slightly less than the prevailing 10-percent inflation rate—while revenues are projected to increase 15.4 percent. The projected deficit of $2.4 billion is just under the adjusted guideline of 3 percent of GDP under South Africa's IMF standby agreement. Because of high domestic interest rates, Pretoria probably will rely on its solid international credit rating to obtain external financing. 25X1 25X1

Controlling the deficit will again prove difficult. Defense, for example, has been consistently underbudgeted in recent years, and gold prices, which are the key factor determining revenues, are unpredictable. Meanwhile, the major causes of the 3.5-percent decline in real GDP in 1983—drought and falling gold prices—persist. South African banks have raised their prime lending rate to 21 percent, a record level. A third successive year of drought is causing South Africa to once again import grain. As a result, even the forecast of limited real growth this year may be too optimistic. 25X1

Less Developed Countries

New Economic Team in Chile

[redacted]

President Pinochet hopes that easing austerity measures will undercut the opposition and enable him to avoid liberalizing the political system substantially. He believes that the slow pace of the economic recovery, rather than his government's political policies, is provoking opposition activity. He also apparently believes that, by combating unemployment and by providing assistance to banks and businesses, he can reduce the level of protest and avert a general strike. [redacted] 25X1 25X1

The new Ministers of Economy and Finance, in contrast to their predecessors, favor expanding the economy more quickly and have pledged to concentrate on reducing unemployment. Press reports state that, as a result, Chile's negotiations with the IMF have been suspended. Finance Minister Escobar probably can reduce unemployment somewhat over the next year by increasing the budget deficit and expanding the money supply. These inflationary policies, however, are likely to meet with resistance from the IMF. Nonetheless, we expect Escobar, who is a former IMF official with extensive contacts in international financial circles, ultimately will reach an accommodation with the Fund. [redacted] 25X1

Economic concessions alone, however, are unlikely to slow the momentum of the protest movement. Antigovernment violence has increased, following the national protest last week. Students continue to clash with security forces, and terrorists have murdered several policemen and caused widespread losses of electric power in Santiago. The government's failure to continue the political liberalization begun last fall will help to unify and radicalize the opposition, further reducing the chances for a peaceful transition to democratic rule. [redacted] 25X1

Venezuela's Public-Sector Austerity Program

[redacted]

Venezuela's recently announced public-sector austerity program only partially fulfills economic adjustments foreign creditors have requested before they will reschedule debts. President Lusinchi announced on 14 March various measures including: a 10-percent government spending cut; plans to reorganize or sell certain public agencies; and a mix of salary freezes and pay reductions for high-level officials. We believe that, despite its cautious acceptance by labor and political opposition leaders, the program will be difficult to implement. The planned spending reductions threaten public-sector employment that Lusinchi previously pledged to protect, and financially weak state companies are likely to be difficult to sell. Moreover, the announced salary reductions will have only a small impact on public expenditures. Although foreign bankers are encouraged, they are reserving judgment until the plan is implemented. [redacted] 25X1 25X1

Pakistan Looks to an Islamic Economy

[redacted]

Finance Minister Ghulam Ishaq stated last month that Pakistan would move further in the direction of an Islamic economic system. Islamabad already has introduced Islamic concepts in the economy such as *zakat* (tax on savings), *ushr* (tax on agricultural production), and optional interest-free banking at the 25X1 government-owned banks. Nonetheless, religious fundamentalists have criticized President Zia for moving too slowly. Ishaq indicated that Pakistan is now developing a program to eliminate interest payments on all domestic transactions with state and commercial banks. The elimination of interest on savings along with the *zakat* would remove the incentive for bank savings and reduce funds available for private investment. Should this occur, the heavy private investment expected by the government to stimulate economic growth in the sixth five-year plan for 1983-88 probably would not occur. [redacted] 25X1

Strike of Tea and Rubber Workers in Sri Lanka

[redacted] 25X1

Sri Lanka's tea and rubber plantations were shut down on 1 April when 600,000 union workers went on strike. Bouyant commodity prices have spurred the largely Tamil-dominated unions to press for higher pay. Tea accounts for more than one-third of Sri Lanka's export earnings and about 8 percent of government revenues. According to US Embassy reporting, Colombo has been counting on higher tea prices and export earnings to ease foreign payments problems and the budget deficit. We believe Colombo initially will delay negotiations to test the resolve of the unions, but then is likely to come to terms quickly. If the strike is not settled soon, world tea prices are likely to rise. [redacted] 25X1

Seychelles Continues Nationalization Program

[redacted]

Government moves to wrest economic control away from the private sector is deterring investors. Two hotels—one foreign owned—recently were nationalized in a further encroachment on the all-important tourism sector. [redacted] 25X1 25X1 The government's leftward drift has prompted a US oil company to delay planned drilling operations. We believe other foreign and local businessmen also will be chary of investing in the island group. [redacted] 25X1

Ethiopia's 10-Year Development Plan

[redacted]

Insurgencies, insufficient external financing, and organizational shortcomings will prevent Addis Ababa from achieving the ambitious 7.5-percent average annual growth rate projected in its recently announced 10-year development plan (1984/85 to 1994/95). The government is calling for greater economic centralization to improve basic services, develop mining and energy resources, and expand agricultural production. Two years ago, [redacted] 25X1 25X1 Ethiopia, however, would be hard pressed to obtain from Western countries much beyond the roughly $250 million of official aid now disbursed annually. The USSR, which in most years provides less than $100 million in project aid and oil credits, is unlikely to fill the gap. [redacted] 25X1

Communist

Update on the 1982 and 1983 Soviet Grain Crops

On the basis of additional information from scattered and sometimes oblique Soviet press reports in 1983 of grain production, yields, and state purchases, we have increased our estimate of the 1982 grain crop from 165 million metric tons to 180 million tons. With respect to the 1983 grain crop, General Secretary Chernenko stated in his early March election speech that production 25X1 "exceeded 190 million tons." In late March, a middle-level Ministry of Agriculture official told Embassy officers that the 1983 grain crop was 10 million tons "below average." His statement—made in the context of a comparison with the 1976-80 period—implies grain production of 195 million tons in 1983. Although we have little additional evidence to support an estimate below 200 million tons, a 1983 crop of about 195 million tons would be within the ±8-percent range of error associated with our methodology. The USSR has not published overall grain production, yield, or state purchase statistics since 1980. 25X1

A larger grain crop in 1982 than we earlier estimated helps explain why the USSR imported less grain during the 1982 crop year (July 1982–June 1983) than we had expected, yet was able to accelerate growth in the crucial livestock sector in 1983. A grain crop as low as 195 million tons in 1983 would provide one rationale for the USSR's having maintained grain imports through the 1983 crop year at levels close to those of the previous crop year and some 40 percent above minimum levels committed under long-term agreements 25X1

Positive Soviet Comments on Hungarian Reforms

Lecturers in Moscow, in the first public discussion of Hungarian reforms since General Secretary Chernenko's succession, recently presented a generally favorable evaluation of Hungary's economic and social reforms. They stated that limited growth in the labor force, together with the scarcity of resources and capital, had required new approaches. The lecturers played down the importance of the private sector in Hungary, however, and sidestepped a question on whether Hungarian successes portend a larger role for the private sector in the USSR. They implied that Hungarian reforms and social 25X1 developments are without relevance for the USSR. 25X1

Influential Soviet ideologists, however, remain skeptical of Hungary's economic and social experiments, but the lectures support a recent claim by a Hungarian diplomat that the USSR will continue to allow Hungary "room to maneuver." Budapest probably welcomes such positive commentary, but it is likely to await more official statements before reaching final conclusions on the views of the Soviet leadership. 25X1

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Peru's Military: The Impact of Economic Crisis

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This is the first of several articles that will examine the impact of economic difficulties on the militaries of several key Third World countries.

Peru's civilian government is struggling with how to impose fiscal discipline without antagonizing a politically powerful military establishment that is unaccustomed to limits on its arms expenditures. Military leaders have already seen spending guidelines delay some arms purchases, limit the expansion of counterinsurgency capabilities, and slow the development of domestic arms industries. We believe the military eventually could fear that its ability to suppress domestic insurgents and maintain its superiority over armed forces in Chile and Ecuador is being jeopardized. If the military gets nervous, the government will come under considerable pressure from military leaders to violate this year's IMF-directed budget guidelines. Moreover, concerns by the armed forces over President Belaunde's declining popularity, recent leftist electoral gains, increasing strikes and civil disorder, and perceived administration restrictions on military autonomy in counterinsurgency operations have increased the possibility that the military will intervene to replace the current government.

The Military's Role

The armed forces are primarily responsible for defense against external attack. Strategic planning has long been based on a perceived need to field forces capable of fighting simultaneously against Chile and Ecuador, countries with which Peru has continuing border disputes. Periodic clashes with Ecuador's border forces and Peru's enduring irredentist designs on northern Chile have served to keep defense high among national budgetary priorities. Heavy spending by both military and civilian governments over the past 15 years has enabled Peru to achieve superiority over its two rivals and emerge as the predominant Andean military power. We estimate that between 1971 and 1980 Peruvian military purchases totaled $2.2 billion. With over $1 billion of this going for Soviet arms, the USSR emerged as Lima's single largest supplier in the period. The size of the armed forces has increased as well. Since 1973, the Army's strength has almost doubled to 75,000, while the Air Force has grown from about 7,000 to 40,000.

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The military assists the underequipped and poorly trained police in maintaining internal security, and the level of its involvement increases with the seriousness of the threat. The armed forces played a major role in defeating an insurgency in the 1960s, and since late 1982 they have become heavily involved in the struggle against the Sendero Luminoso (Shining Path, or SL)—a rural Maoist insurgent group of approximately 1,500 armed members. At present about 2,500 Army, Marine, and Air Force troops are deployed against the SL in the 12 Andean provinces that constitute the government's Zone of Emergency. This threat also has forced the military to review its weapons acquisition priorities in order to boost purchases of equipment more suitable for counterinsurgency operations.

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By tradition, the military has been the dominant voice in determining who governs Peru, intervening against civilian regimes it considered inept, ideologically suspect, or threatening to its institutional interests. In the post–World War II era, the military has assumed power four times and ruled for a total of 22 years, most recently from 1968-80. During the early phase of this 12-year stint in power, the armed forces were dominated by a leftist high command, which implemented a "progressive" style of military government unique in Latin America. The regime nationalized foreign oil companies, fostered extensive state intervention in the economy, implemented social reforms, and pursued a nonaligned foreign policy. By the late 1970s, the military returned to the more moderate, and even conservative, views that still predominate and in 1980 permitted restoration of full civilian democratic rule. [redacted] 25X1

The Economic and Political Backdrop

Given the military's record of direct intervention in politics, the government of President Belaunde has allocated substantial resources for weapons purchases, salaries, and other military needs to keep the armed forces happy. In December 1983, the US Embassy estimated that military expenditures had claimed almost 25 percent of the government's 1983 budget, and that defense outlays as a percentage of GNP had risen from 3.4 percent in 1979 to 5.1 percent in 1983. One open source, however, states that the 1983 military budget—excluding new equipment purchases—accounted for 7.3 percent of GNP.[1] [redacted] 25X1

Major weapons purchases approved since the return of civilian rule in 1981 include a contract in 1981 for 14 Soviet-made MI-24/25 attack helicopters worth $91 million and a contract in 1982 for 26 Mirage 2000 fighters valued at $700-800 million. To our knowledge, the civilian leadership has never turned down any major purchase insisted upon by the armed forces. (S NF)

The troubled economy and the persistent insurgency remain the government's two major problems. The unprecedented 12-percent decline in real GDP last year—the result of natural disasters, weak foreign demand for exports, and policy errors—has helped erode the popularity of the Belaunde administration and arouse military doubts about the President's leadership. The government, which must grapple with a $12 billion foreign debt and 130 percent inflation, faces poor economic growth prospects again in 1984. Popular dissatisfaction over the downturn and the government's imposition of austerity measures under its IMF program led to opposition gains in municipal elections last November—including an impressive showing by the Marxist United Left coalition. [redacted] 25X1

In February, Peru negotiated rescheduling agreements with its private creditors and signed a new letter of intent with the IMF for an 18-month standby agreement worth $260 million. The US Embassy reports that, as a result of the IMF program, payments for military imports will be budgeted at $200 million in 1984, down from an estimated $350 million last year. [redacted] 25X1

The Sendero Luminoso's terrorist activities further contribute to friction between the military and the government because Belaunde is reluctant to grant the armed forces the full autonomy they want in dealing with the problem. Guerrilla leaders reportedly believe that their military capabilities have not been damaged severely by internal security force successes [redacted] 25X1 [redacted] 25X1 The Sendero's unpopular violent tactics, serious lack of arms, and the gradually improving capabilities of the security forces will hamper its development into a national movement. Nonetheless, the guerrillas will continue to challenge the government's presence in parts of the remote highlands in the Zone of Emergency and undertake periodic attacks in Lima [redacted] 25X1

Impact on the Military

Over the past two years, the military has repeatedly warned the President against drastic cuts in the

[1] Reliable data on Peruvian military expenditures are closely held within the government. The US Embassy estimates that published figures understate the actual amount spent by at least 20 to 30 percent. In addition, each service reportedly has a "slush fund" derived from outside sources of income. The Air Force, for example, earns revenue by transporting oil company employees to offshore rigs and remote jungle locations and received about $50 million from the sale of 10 Mirage Vs to Argentina in 1982. [redacted] 25X1

Selected Recent Peruvian Arms Requirements and Orders

Service	Item	Source	Units	Approximate Cost *(million US $)*	Status
Army	Medium-lift helicopter	US	10-15	110	Contract for UH-60s still under negotiation.
	Heavy-lift helicopter	US	3-6	60	Unclear; Peruvians have evaluated US CH-47 Chinook.
	Medium tank	US, USSR	20-50	107.5	Peruvians interested in US M60A3 tanks; more likely to buy less expensive Soviet vehicles.
	Armored personnel carriers	US, Brazil	230	70	Negotiations continuing.
	Spare parts for Soviet equipment	Unknown		50	Peru continues to search for alternative sources for Soviet spares.
	Observation helicopters	West Germany	10-15	Unknown	Negotiations for West German BO-105 light helicopters continuing; status unclear.
Air Force	Mirage 2000 Interceptor	France	26	More than 700	Contract signed 1982; Peruvian financial problems forced renegotiation of terms in 1984; discussions continuing.
	Medium transport	US, USSR	2	35 (for US C-130)	Unclear
	Bell 214ST helicopter	US	6	32.5	Six in country; option to buy six more.
	Air defense radar	US, USSR	2	20	Unclear
Navy	New naval base/air station/ shipyard	Undetermined	1	500-1,000	Approved by Peruvian Congress October 1983; Navy evaluating bids from firms, arranging financing.
	Upgrade of light cruiser	Netherlands	1	130	Contract signed with Dutch firm August 1983.
	Upgrade of destroyers	Possibly Netherlands	7	Unknown—but in excess of 200	No contracts signed yet.
	LST (used)	US	4	3 per ship for reactivation and rearmament	Navy has only one operational LST; interested in leasing four from US Navy.

[redacted] 25X1

military budget. Military leaders have submitted extensive shopping lists that included not only the Mirage 2000 fighter but also armor and helicopters for the Army and modernization of the Navy's aging surface fleet [redacted]

[redacted] 25X1

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Despite government efforts to meet military demands on most major items, Peru's economic problems are having an impact on procurement, unit readiness, and counterinsurgency operations. Lack of funds already has led the Air Force to delay replacement of its aging Canberra bombers with the US A-10 or similar aircraft. Moreover, serious differences have arisen between Peru and France over the terms of the Mirage 2000 contract. The government's inability to make required downpayments prompted France to call for renegotiation of the sale in early 1984. We expect that both parties will strive to salvage the deal, but, given the budgetary limits under Peru's new IMF program and the competing priorities of the more powerful Army, the Air Force may have to reduce the number of aircraft ordered and delay their delivery. [redacted]

Funding restraints have hindered the military's ability to perform its internal security mission. The need for concessionary financing has delayed acquisition of counterinsurgency-related equipment, such as helicopters, night vision devices, and improved radios. In addition, the government's failure to allocate adequate funds for civic action and economic development—which many in the military believe is essential to winning the struggle against the guerrillas—has provoked numerous complaints from officers in the Emergency Zone. [redacted]

Economic difficulties have also caused the armed forces to request salary increases from the administration [redacted] Officer pay has not kept pace with triple-digit inflation. Many officers are forced to moonlight, and some apparently have become involved in drug trafficking, especially when stationed in the cocaine-producing northeastern region of Peru. According to the US defense attache's office, many military installations operate nearby farms and sell produce to bolster the income of officers and enlisted men. Some units reportedly spend more time working on these farms than on military activities. [redacted]

Development of Peru's nascent arms industry and military training programs have suffered. An assembly plant for Italian-designed jet trainers scheduled to open last year remains uncompleted, and two frigates under construction since the late 1970s have yet to join the fleet; technical difficulties also have contributed to the delays. Information on training programs and exercises is limited, but the high cost of fuel, ammunition, and spare parts undoubtedly has hindered these activities. The US attache's office reported in September 1983, for example, that Britain had refused to return five MB-339 trainer aircraft engines to Peru until the Air Force paid for repair work. As a result, the Air Force grounded several aircraft and cut its training program in half. [redacted] 25X1

Outlook

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Peru's economic difficulties will continue to limit military readiness, training, and procurement—especially of the most advanced weapons—but not enough to cost Lima control of internal security or military predominance in the Andean region. Peru's principal rivals, Chile and Ecuador, face similar economic problems, as well as political uncertainties. The Peruvian armed forces' political clout will ensure access to sufficient financial resources to prevent a serious deterioration of military capabilities. Civilian governments of either the left or the right probably will allocate funds for at least one major purchase by each service every year—as well as provide for other needs such as higher salaries—or risk being removed from office. Indeed, we believe pressure for military purchases could cause Peru to fall out of compliance with its present IMF spending guidelines. [redacted] 25X1 25X1

The military leadership is not completely insensitive to Peru's economic problems and probably will agree to some reductions or delays in certain programs but not at the risk of losing superiority over Ecuador and Chile or reducing pressure on the Sendero Luminoso terrorists. To help resolve the dilemma, the military is prepared to consider unorthodox methods of financing its purchases. The US defense attache's office reported in late 1983, for example, that the Army was planning to exchange Peruvian iron ore for $16.2 million worth of Yugoslavian munitions. [redacted] 25X1 25X1

The emerging strain between military needs and economic reality could threaten civilian democratic rule. We believe military leaders are not currently inclined to intervene in the government. On the other hand, the range of adverse trends—the administration's declining popularity, increasing strikes and civil disorder caused by the economic downturn, recent leftist electoral gains, and civil-military disagreements over counterinsurgency policy—probably is causing some officers to consider the option of intervention. [redacted] 25X1

The armed forces' current preference for Western equipment, dissatisfaction with Soviet logistic support, and desire to avoid overdependence on the USSR will lead Peru first to approach the United States and Western Europe for new weapons. Nevertheless, we believe the military will turn again to the USSR—which historically has provided generous credit terms—if Western suppliers fail to offer adequate financing, refuse to accept barter proposals, or are unwilling to sell their most advanced equipment. [redacted] in 25X1 January, for example, that failure to arrange Western financing for C-130 transports was prompting the Air Force to consider buying the Soviet AN-32. [redacted] the USSR, determined 25X1 to expand its influence with Peru's armed forces, agreed last year to refinance Lima's military debt and is increasing efforts to sell equipment and provide training for all three services. Moreover, should Peru's neighbors increase their arms purchases, this could further encourage Lima to turn to Moscow because of the Soviets' ability to deliver materiel rapidly. [redacted] 25X1

[redacted] 25X1

International Debt Relief: Trends and Issues [1] [redacted]

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A record 25 LDCs and East European countries obtained debt relief totaling $55 billion during 1983, compared with 12 countries and $10 billion in relief handled in 1982. Commercial banks, foreign governments, and multilateral institutions combined their efforts to provide large-scale debt relief packages for major debtors such as Mexico, Brazil, and Yugoslavia. The outlook for 1984 is one of continued debt repayment difficulties and additional restructurings.[2] Both the number of restructurings and the volume of debt involved should surpass last year's record levels; 30 countries already are seeking debt relief. Although we believe most 1984 debt relief negotiations will be successfully completed, several issues—notably IMF compliance and bolder debtor demands—already are making negotiations difficult [redacted]

The Legacy of 1983

Several developments, in addition to the sheer magnitude of the countries and money involved, set 1983 apart from earlier years:

- The simultaneous restructuring of debt by several large debtors was unprecedented. Although some observers were concerned about the ability of the international financial system to handle this situation, the task has been accomplished thus far without major disruptions.

- About 40 percent of new medium- and long-term syndicated loans were tied to debt rescheduling packages. Nearly all of this "involuntary" lending went to Latin American debtors. (C)

Another significant change that occurred last year was the more active role played by the IMF in the debt relief process. Debtors' compliance with IMF-supported adjustment programs became a central issue as new lending and commercial and official debt relief exercises were more closely linked to the status of a debtor's relations with the Fund. In 1983, commercial banks directly tied disbursements of new credits to the quarterly IMF performance targets of several large debtors. Failure to comply led to a rapid deterioration in a country's ability to service its debt because of the debtor's dependence on new bank and Fund disbursements. [redacted]

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The impact of noncompliance is underscored by the experience of four major debtor countries that failed to meet IMF targets during 1983:

- The IMF withheld two $320 million disbursements to Argentina, in August and November, because of a series of violations of Fund criteria including accumulation of arrearages on external debt, discrimination against British firms, and failure to meet several performance targets. Banks withheld $1.0 billion of new credits arranged in early 1983 because of Buenos Aires's noncompliance.

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- The IMF declared Brazil out of compliance with its first-quarter 1983 targets on 1 June. As a result, Brazil was unable to draw $410 million and $540 million from the IMF and commercial

[redacted]

[2] In this article "restructuring" refers to a renegotiation of the terms of existing debt by a country in payments difficulty and covers both rescheduling and refinancing. When debt is "rescheduled," existing terms—usually the interest spread and the maturity—are altered through agreement between debtor and creditor. Under a debt "refinancing," terms are also altered as new funds are advanced to the debtor to replace funds provided under an earlier agreement [redacted]

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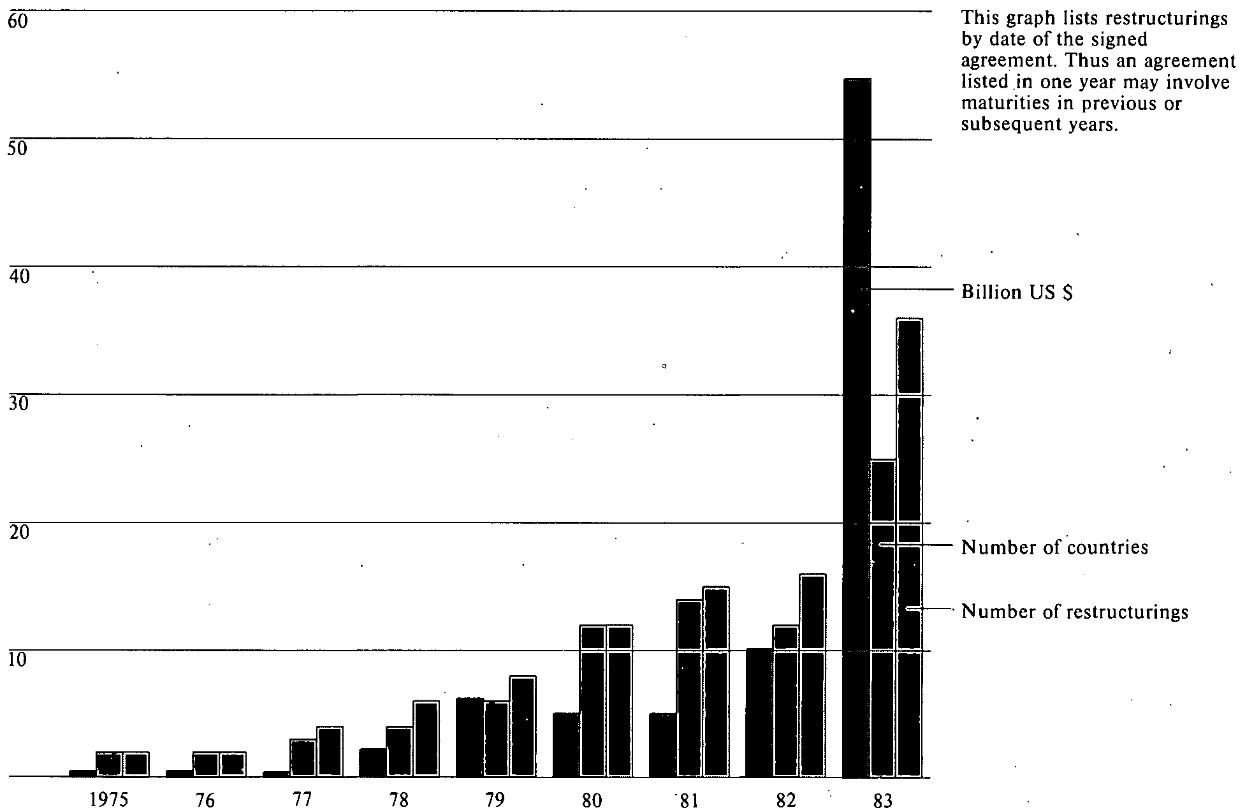
LDC and East European Debt Restructurings, 1975-83



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banks in June and September, respectively. Because Brasilia and the IMF did not reach agreement until November on a revised stabilization package, the Fund and the banks withheld disbursement until yearend.

- Peru failed to comply with its public-sector deficit target and was unable to draw $70 million from the Fund in September. Commercial banks responded by withholding two $100 million disbursements. In addition, negotiations between the Government of Peru and the World Bank for a structural adjustment loan of $200 million were suspended until Lima reached an agreement with the Fund.

- In early September the IMF determined that the Philippines was out of compliance with its standby facility, and the Fund suspended further disbursements. Manila remains unwilling to make the major changes in its economic policies necessary to secure a Fund program. Although no commercial bank credits were tied to IMF disbursements, failure to conclude a program has

LDC and East European Debt Restructurings in 1983

	Month	Amount Restructured (*million US $*)	Terms for Restructuring Debt			New Money Commitments [a] (*million US $*)
			Maturity (*years*)	Grace Period (*years*)	Interest Rate Spread (*percentage points above LIBOR*)	
Private Restructurings						
Argentina	November	5,500	5.0	3.0	NA	1,500
Brazil	February	4,800	8.0	2.5	2.125	4,400
Chile	July	1,300	7.0	4.0	2.125	1,300
Costa Rica	September	615	8.0	4.0	2.250	225
Cuba	December	130	7.0	3.0	2.250	0
Dominican Republic	September	568	5.0	1.0	2.250	0
Ecuador	October	1,210	6.0	1.0	2.250	431
Malawi	March	57	6.5	3.0	1.875	0
Mexico	August/ September/ October/ December/	22,824	8.0	4.0	1.875	5,000
Nigeria	July	1,350	3.0	5.5	1.500	0
	September	480	2.8	3.5	1.500	0
Panama	September	185	6.0	3.0	2.250	93
Peru	July	380	8.0	3.0	2.250	450
Poland	October	1,400	10.0	5.0	1.750	0
Romania	June	601	6.5	3.5	1.750	0
Togo	October	84	7.3	0	2.000	0
Uruguay	July	629	6.0	2.0	2.250	240
Yugoslavia	September	1,400	6.0	3.0	1.750	600
Zambia	October	67	7.0	3.0	2.250	0
Official Restructurings						
Brazil	November	3,800	9.0	5.0		
Central African Republic	July	13	9.5	5.0		
Costa Rica	January	200	8.3	3.8		
Cuba	March	413	8.5	3.5		
Ecuador	July	200	7.5	3.0		
Liberia	December	22	10.0	5.0		
Malawi	October	30	8.0	3.5		
Mexico	June	2,000	5.5	3.0		
Morocco	October	980	8.0	4.0		
Niger	November	27	10.0	5.0		
Peru	July	1,044	7.5	3.0		
Romania	May	148	6.0	3.0		
Senegal	December	8	9.0	4.0		
Sudan	February	536	16.0	6.0		

LDC and East European Debt Restructurings in 1983 (continued)

	Month	Amount Restructured (*million US $*)	Terms for Restructuring Debt			New Money Commitments [a] (*million US $*)
			Maturity (*years*)	Grace Period (*years*)	Interest Rate Spread (*percentage points above LIBOR*)	
Togo	April	300	9.5	5.0		
Zaire	December	1,000	11.0	5.0		
Zambia	May	375	9.5	5.0		

[a] Funds committed by banks and associated with the restructuring.

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delayed negotiations on a private creditor rescue package and official creditor rescheduling. Any new disbursements from Philippine commercial creditors are likely to be linked directly to Fund compliance.

Government reluctance to accept an IMF-supported austerity program also held up debt relief measures in both Nigeria and Venezuela:

- Nigeria avoided coming to terms with the IMF throughout 1983, with a major sticking point in negotiations being the government's reluctance to devalue the naira and reduce subsidies. Although Western banks agreed to refinance $1.4 billion of short-term debt in July and another nearly $500 million in September, by yearend trade arrearages exceeded $5 billion. Western governments that insured over $2 billion of these credits have said any rescheduling of these obligations is dependent upon Lagos's adopting a Fund program. The military regime that seized power last December, however, continues to oppose several fund-endorsed adjustment measures.We believe bankers are unlikely to agree to major new lending until Lagos comes to terms with the IMF.

- Venezuela also failed to renegotiate maturing debts during 1983 as Caracas refused to enact a meaningful stabilization program in a presidential election year. Since the December elections, the government has still not entered into serious negotiations with the Fund. 25X1

More Restructurings in 1984

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This year we believe that both the number of restructurings and the volume of debt involved will surpass last year's levels. According to Embassy and financial press reporting, some 30 to 40 debtor nations will seek approximately $70 billion in debt relief. Some 30 countries are currently seeking or have already agreed to restructure in 1984. Countries that will restructure their debt that did not do so in 1983 may include Venezuela, the Philippines, and Ivory Coast. 25X1

Key developments in debt relief operations now under way include the following:

- Argentina's new government would like to reschedule 1982 and 1983 amortization payments and arrearages along with debt maturing in 1984. Argentina has about $12 billion in 1982-84 public-sector maturities and $2.5 billion in 1983 arrearages.

LDCs and Eastern Europe: Debt Restructurings in 1984 [a]

	In Process	Probable	Possible
Africa/Middle East	Central African Republic (o)	Angola (o,c)	Egypt (o,c)
	Ivory Coast (o,c)	Guinea Bissau (o,c)	Mauritania (o,c)
	Liberia (o,c)	Somalia (o)	Nigeria (o)
	Madagascar (o,c)		Upper Volta (o)
	Morocco (o,c)		
	Mozambique (o,c)		
	Nigeria (c)		
	Senegal (o,c)		
	Sudan (o)		
	Sierra Leone (o)		
	Togo (o,c)		
	Uganda (o,c)		
	Zaire (o,c)		
	Zambia (o,c)		
Asia	Philippines (o,c)		
Latin America	Argentina (o,c)	Jamaica (c)	Chile (o)
	Bolivia (c)		Colombia (c)
	Brazil (c)		Costa Rica (c)
	Chile (c)		Guyana (c)
	Costa Rica (o)		Paraguay (c)
	Cuba (o,c)		Venezuela (o)
	Dominican Republic (o)		
	Ecuador (c)		
	Honduras (c)		
	Mexico (c)		
	Nicaragua (c)		
	Peru (o,c)		
	Venezuela (c)		
Eastern Europe	Poland (o,c)		
	Yugoslavia (o,c)		

[a] o = official.
c = commercial.

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- Venezuela is seeking to refinance approximately $13.1 billion in deferred 1983 principal repayments and would like to stretch out payments on another $3.4 billion coming due in 1984. The new government states that a debt restructuring has the highest priority, but negotiations are likely to take several months. Commercial banks may agree, however, to renegotiate Venezuela's debt without a Fund arrangement because the country does not require any new credits.

- Nigeria has maintained debt service payments under last year's bank reschedulings and is current on payments under medium- and long-term loans. Lagos must bring current nearly $500 million in outstanding payments under letters of credit and reschedule at least $5 billion in overdue payments under suppliers' credit agreements. Nigeria has campaigned vigorously to break the solidarity among the 300 to 400 uninsured creditors, and to block a British initiative that would ensure that uninsured creditors receive terms comparable to those secured by holders of government-guaranteed credit. Discussions with the IMF have been stalled for months but may soon exhibit some progress as financial pressures build.

- The Philippines has requested that commercial creditors reschedule almost $11 billion in credits maturing through June 1985. The Philippines has also petitioned government creditors for a rescheduling of $4 billion in official obligations. Both official and commercial creditors have grown increasingly frustrated at Manila's inability to reach agreement with the IMF and reluctance to deal openly with creditors. We believe there will be little progress until after the May elections. Even if a Fund agreement is initialed in June, the first Fund disbursements will not occur until the fall. Financial sources indicate the banks may delay new money disbursements until at least October.

- Poland has made substantial progress toward a precedent-setting, multiyear bank rescheduling agreement. Bankers expect the 1984 bank agreement to consolidate all future principal repayments not covered under the three previous reschedulings. In addition, bank creditors are also offering more than $150 million in trade financing. Warsaw has also requested a multiyear rescheduling of nearly $12 billion in official debt—including $7 billion in arrearages—accumulated since 1981. The Poles have pressed, with little success to date, for new credits from governments and attempted to link any Paris Club agreement to negotiations for IMF membership.

- Yugoslavia and Western creditor governments have agreed to refinance all principal payments coming due in 1984—over $500 million—subject to final approval of an IMF program. The Yugoslav Federal Assembly on 20 March approved the IMF standby agreement; final approval should come from the Fund Executive Board shortly. Commercial creditors are expected to reach agreement with the Yugoslavs by May to refinance $1.2 billion in 1984 maturities.

Key Issues

Although we believe most restructuring requests in 1984 will be met, several issues will make negotiations difficult:

- Debtors' compliance with their IMF austerity programs will again be a contentious issue. Noncompliance with Fund programs already jeopardizes negotiations on second- and third-round debt relief packages, especially for countries asking for new loans.

- Increased domestic opposition to austerity will contribute to tension between debtor governments, their creditors, and the IMF. Governments in Nigeria, the Philippines, and Argentina are already balking at taking austerity measures. In the months ahead, we expect several governments to press vigorously for more lenient adjustment programs.

- Recent events show that many large debtor countries are becoming bolder in their debt negotiating stances, requesting more favorable terms—longer maturities and grace periods, lower interest spreads, and reduced front-end fees—on both new and existing loans. Some debtors are seeking more substantial relief and are calling for a sharing of responsibility between debtors and creditors for solving the debt problem and assuming losses.

- Probably the most serious threat to the resolution of debt problems is some form of radical action by the debtors—a debtors' cartel, an explicit repudiation of debt, or a prolonged refusal to make debt servicing payments. We believe, however, that the odds of such radical moves remain low. Even Argentina, despite the recent rhetoric and the fact that it is in a better position than 25X1

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most LDCs to cope with the likely fallout from repudiating its debts, will not, we believe, choose to do so. In fact, the available evidence indicates it will continue negotiations with banks and the IMF. [redacted] 25X1

Implications of Continued Restructurings

Recent and ongoing debt restructurings are shifting current repayment problems to the late 1980s and early 1990s. We believe that commercial banks will not voluntarily lend to cover all amortization payments in the years ahead, particularly to major Latin American debtors. Consequently, when these payments come due—most large principal repayments start during 1986-87—we expect debtors will again require additional financial relief. As restructurings by major debtors continue, the risk of losing the participation of some commercial banks increases. [redacted] 25X1 West European banks will take a less conciliatory posture in negotiations on future South American debt restructurings. To sustain debt relief efforts, we believe it will be necessary for all lenders and borrowers to remain committed to the renegotiation process. [redacted] 25X1

[redacted] 25X1

The Thai Economy: Working To Sustain Its Performance

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Thailand's Prime Minister Prem Tinsulanon—who arrives in Washington next week—is faced with some difficult economic problems that threaten the continuation of his country's recent impressive performance. The Thai economy in recent years has grown faster than most other LDCs, and we expect the economy to continue growing at about 6 percent annually for the next several years barring another global recession. Prem is making some progress in solving difficulties that threaten a continuation of this strong performance. He still, however, faces political opposition to reforms needed to deal with a slowdown in export growth, a decline in agricultural productivity, and an unprofitable state enterprise sector.

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Economic Successes

Over the past two decades, Bangkok has successfully pursued an export-led growth strategy that has transformed an economy dominated by rice, tin, and rubber production into a diversified agricultural exporter with a growing manufacturing base:

- Economic growth has averaged more than 7 percent annually since 1960 and remained above 4 percent in 1982 despite the global recession.
- Per capita income is over $800, placing Thailand firmly in the ranks of middle income developing countries.
- Unemployment and inflation are both low—running at about 6.5 percent and 5 percent, respectively.
- The share of manufacturing production in GDP has risen from about 10 percent in 1960 to 22 percent last year—and is now on par with the share of agriculture.
- Thailand's conservative fiscal and monetary policies have restrained both public- and private-sector foreign borrowing, resulting in a debt service ratio of about 20 percent.

Thailand's Improved Creditworthiness

Thailand's impressive economic performance, especially when compared with debt-burdened LDCs, has led over the last year to a marked improvement in the country's international credit rating and to a more favorable evaluation by foreign investors. By last summer the government could obtain large foreign commercial loans on terms equal to or better than those of most other Asian borrowers. Bangkok, for example, arranged a $200 million loan at the spread of 0.375 percentage points over LIBOR—below the rates that South Korea and Malaysia were paying. Foreign investment—although still small by Asian standards—reached $225 million in 1983, up nearly 25 percent from the previous year. Some foreign businesses that moved their regional headquarters from Bangkok to Singapore at the height of the Vietnam War are considering returning, according to the US commercial attache.

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- Production of domestic natural gas and crude oil, beginning in 1981, helped reduce Bangkok's oil import bill.

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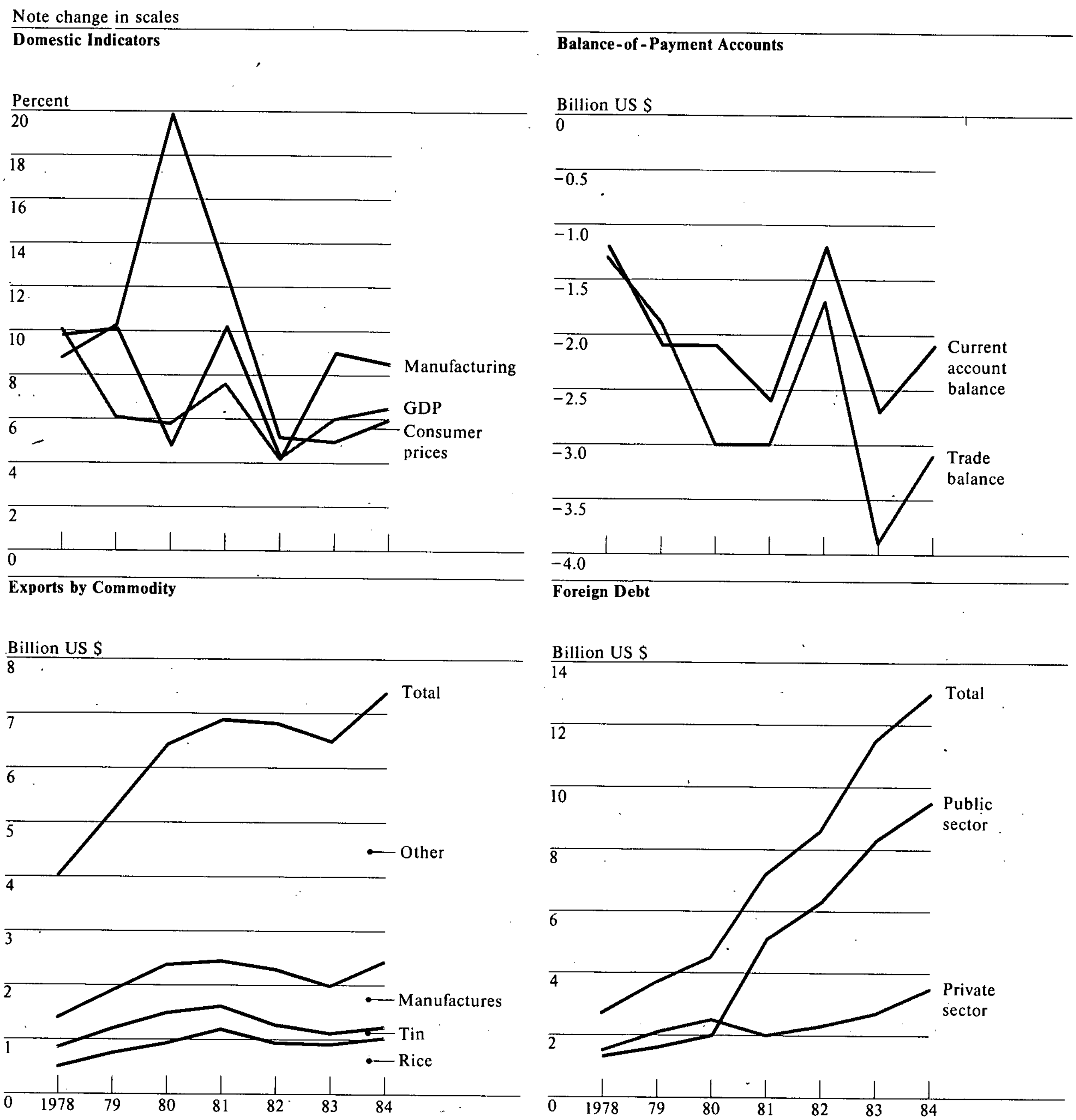
The Economy in 1983

Economic performance in 1983 was mixed. Output increased about 6 percent, according to preliminary official estimates, with most of the recovery generated by a domestic investment boom. Manufacturing and construction were both up sharply, and good weather contributed to a nearly 3-percent rise

Thailand: Economic Indicators, 1978-84



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Thailand: Balance of Payments *Million US $*

	1981	1982	1983 [a]	1984 [b]
Current account	−2,569	−1,006	−2,700	−2,130
Merchandise trade balance	−3,022	−1,571	−3,900	−3,100
Exports, f.o.b.	6,902	6,835	6,500	7,400
Of which:				
Rice	1,208	954	931	1,050
Sugar	441	563	338	400
Tapioca	754	859	516	700
Rubber	500	413	495	600
Tin	423	338	203	200
Corn	382	362	290	400
Manufactures	830	1,014	870	1,200
Imports, c.i.f.	9,924	8,406	10,400	10,500
Oil	2,984	2,647	2,591	2,400
Net services and transfers	453	565	1,200	970
Interest payments	1,026	1,083	1,029	1,188
Net nonmonetary capital	2,487	1,667	1,356	1,682
Direct investment	288	183	225	300
Errors and omissions [c]	62	−531	594	248
Overall balance	**−20**	**130**	**−750**	**−200**

[a] Estimated.
[b] Projected.
[c] Includes allocation of SDRs.

[redacted] 25X1

in agricultural production. Fiscal austerity measures narrowed the budget deficit to $1.3 billion or 3.5 percent of GDP, down from 6 percent the year before. [redacted]

On the downside, a nearly 25-percent increase in imports stemming from the recovery combined with a 5-percent drop in export earnings to produce a record $3.9 billion foreign trade deficit. This compares with a $1.6 billion trade deficit a year earlier. The decline in export earnings resulted from depressed commodity prices and an overvalued currency, which is unofficially fixed to the US dollar. Despite foreign exchange receipts from tourism and remittances from overseas workers totaling about $2 billion, the estimated current account deficit nearly tripled to $2.7 billion in 1983. Speculation in anticipation of a possible devaluation began last summer and contributed to Thailand's external financial problems. Importers accelerated purchases, and private-sector borrowers accelerated 25X1
foreign debt repayments. [redacted] 25X1

Since last October, Prem has been coping with a domestic financial crisis that was precipitated when three finance companies with liabilities of about $100 million went bankrupt. Bangkok is attempting to shore up other ailing finance companies and prevent the crisis from spreading to the banking system, which is unprotected by deposit insurance. Several banks remain in a precarious state and could go under if credit is tightened and interest rates rise. [redacted] 25X1

Bangkok's Evolving Economic Strategy

After abandoning a brief experiment with a government-controlled manufacturing sector in the late 1950s, Bangkok has pursued a free enterprise, export-oriented development strategy. The World Bank recently attributed much of Thailand's economic success to the relatively low level of market distortions. Nevertheless, the Thai Government has been willing to intervene if it felt this was necessary to further the country's economic interests; for example, government policies that deliberately depressed rice prices to encourage additional agricultural exports of sugar, corn, and tapioca. (C)

Over the last decade, Bangkok's role in the economy has expanded. The five-year plan for 1976-81 called for the development of Thailand's first offshore natural gas field, which was completed ahead of schedule. The current plan proposes a blueprint for a heavy industry complex in which the government will have a substantial equity stake. Bangkok is establishing the Thai Development Research Institute to formulate long-range development strategies.

Needed Economic Adjustment

Although Prem reportedly understands little about economics, he has relied more than his predecessors on an increasingly competent group of technocrats to formulate his economic policies, according to the US Embassy. He has already adopted a number of measures to deal with foreign finances. Hoping to spur exports, he cut taxes on rice and tin last fall. To stem an outflow of foreign exchange reserves last December, Prem imposed import credit restrictions, which required commercial banks to limit 1984 import financing to the 1983 level. He has so far refrained from increasing long-term borrowing to finance the burgeoning current account deficit.

Prem has also increased taxes and cut subsidies to some state enterprises because of a revenue shortfall resulting from the drop in exports. A $50 airport exit tax on Thai residents has proved especially controversial. The government's plans to divest itself of several money-losing state enterprises to ease the deficit provoked strike threats by the large public-sector labor unions. Prem, however, avoided further attempts to raise fares for the Bangkok bus company—the biggest money loser. Prem's predecessor fell when he attempted to increase energy prices, and large public demonstrations forced Prem to back down from an attempt to increase heavily subsidized transportation fares in 1982. Moreover, important politicians and military officers, with interests in the tariff-protected manufacturing sector and heavily subsidized state enterprises, oppose attempts to improve efficiency. 25X1

Longer Term Issues

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Reforms to deal with Thailand's longer term economic problems are proving even more difficult:

- *Downgrading of estimates of natural gas reserves.* Bangkok's plans for natural-gas-based industrial development and further decreases in petroleum imports received a sharp setback last year when estimates of reserves in the major producing field were cut by two-thirds. Moreover, in February an independent consultant downgraded reserve estimates in the major undeveloped offshore field by more than one-third. As a result, we now believe that the Gulf of Thailand contains less than 300 billion cubic meters of gas—far less than the 450 bcm on which Bangkok's industrial development plans are based. The reduced availability probably eliminates any possibility of natural gas exports. Moreover, the publicity surrounding the downgrading threatens the private-sector investment that Bangkok wants for its proposed fertilizer and petrochemical complexes.

- *Growing protectionism.* Not all of Bangkok's foreign payments problems are temporary. Export growth—especially for manufactures—has been slowing for several years as a result of

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international commodity agreements and worldwide increased protectionism. Quotas or other restrictions limit exports of sugar, tin, coffee, and tapioca. Textile agreements with the United States and the European Community restrict those countries' import of Thai textiles. Japan's increased purchases of US poultry have been partly at the expense of Thai chicken exports, according to the local press.

- *Rapidly growing labor force.* Thai technocrats are especially concerned by a labor force projected to grow by 700,000 a year for the remainder of the decade. There is little additional land for new farmers. Bangkok's emphasis on capital-intensive industrial development will produce relatively few urban, industrial jobs. The labor-intensive, export-oriented manufacturing sector is still relatively small, and the number of new jobs available in domestic manufacturing is limited.

- Agricultural exports still provide more than 60 percent of export earnings. Measures to keep urban food prices low have depressed farm incomes and discouraged investment in higher yielding agricultural technologies—new seed varieties, and increased use of fertilizer and irrigation. Thai rice yields are among the lowest in Southeast Asia. Moreover, urban incomes are more than double those in rural areas. [redacted] 25X1

The Economic Reform Package

Thai economic policy makers, especially Dr. Snoh—the chief planner who will accompany Prem to Washington—recognize the difficulties ahead. In conjunction with a five-year, $1 billion World Bank structural adjustment loan begun in 1982, they have designed a reform package. Prem has already implemented several politically controversial reforms, including raising domestic energy prices to world levels, eliminating price controls on most items, increasing taxes to reduce the fiscal deficit, decontrolling interest rates to encourage saving, lowering some tariffs, and streamlining some government administration. Not everything has worked well. Plans to restructure the domestic appliance and automobile assembly industries to improve their efficiency by exposing them to increased foreign and domestic competition have had little success. [redacted] 25X1

Outlook

Although we expect Thailand will continue to face foreign payments problems, we believe economic growth will probably remain above 4 percent and could average about 6 percent over the next few years. Increasing world demand for Thai commodity exports—especially rice, rubber, and corn—and a possible devaluation of the baht could reduce the current account deficit to about $2 billion in 1984. Because Thailand does not have a large foreign debt, it probably will be able to finance a deficit at that level. We expect Prem or any likely successor probably will maintain the same conservative fiscal and monetary policies that have served Thailand well in the past. [redacted] 25X1

The longer term outlook for accelerating economic growth is not favorable. Although Prem has made more progress on economic reform than many believed possible four years ago, his government is more concerned about political stability than economic efficiency. Prem may have reached his limit—at least for a while—in pursuing economic reform. We expect political opposition will hinder further measures to decrease subsidies to state enterprises, lower manufacturing tariffs, and shift funds from urban to rural areas. As a result, we expect moderate growth but no acceleration to the 8- to 10-percent range enjoyed by neighboring Singapore, Taiwan, and South Korea. [redacted] 25X1

[redacted] 25X1

Indonesia: Outlook for Aircraft Manufacturing [redacted]

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The Indonesian Government's ambitious development program for aircraft manufacturing—launched in the mid-1970s—is plagued by technical and financial problems, but Indonesia could in the long run become a coproducer with Western aircraft firms. Under the direction of the influential Dr. B. J. Habibie, Minister of Research and Technology, a series of licensing and coproduction agreements have been concluded; these have been augmented by construction of a large manufacturing facility—Nurtanio II—that should be largely operational by 1985. Despite the government's commitment, the Indonesian aircraft industry faces severe shortages of technical and managerial expertise and lacks the manufacturing and educational infrastructure required to fully support the new facility. Government spending cuts engendered by the flat oil market will compound these problems. As a result, we believe the industry will not be a major factor on the world market. [redacted]

Aircraft Manufacturing in Indonesia

P. T. Nurtanio, the largest aircraft manufacturing firm in Indonesia, has one of the most modern industrial facilities in the country. The company was formed in 1976 when the Indonesian Government combined the few existing aircraft resources—including Pertamina's Advanced Technology and Aeronautical Division and the former Nurtanio Aircraft Company—to form a single firm. Nurtanio was modeled after West Germany's Messerschmitt-Bolkow-Blohm (MBB) and drew heavily from it for technical and personnel assistance. Indonesia concluded a series of licensing agreements covering assembly of commuter aircraft and helicopters. Beginning in 1976 with kit assembly of MBB helicopters and a Spanish 12-passenger aircraft, Indonesia has progressed to prototype production of a 34- to 39-seat airplane jointly with CASA of Spain. [redacted]

The Indonesian aircraft industry, however, still is considered by most industry analysts to have limited manufacturing capabilities. Indonesia does some metal fabrication as well as assembly but has no capability in engines or advanced avionics. Nevertheless, by joining in coproduction programs, they are gaining experience [redacted] 25X1

New Facilities and Programs

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The showcase plant at Java's Bandung Air Force Base is close to completion. As part of Indonesia's move to develop an aerospace industry, the new 380,000-square-meter production facility has 220,000 square meters of covered space, housing several state-of-the-art facilities, including computer numerically controlled machining centers, computerized main stores, composites and surface treatment shops, production hangars, a research center, and a training center for 1,000 workers per year. The numerically controlled machining centers are already working. In addition, the initial phase of a $50 million maintenance center to test and overhaul engines used on aircraft built at the plant is planned for late 1984. [redacted]

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The new facility is about one-third the size of Japan's combined aircraft facilities. US aircraft manufacturers visiting Nurtanio II note that much of the equipment is state of the art, especially the computer numerically controlled machines. Despite the new equipment, Nurtanio continues to work almost exclusively as an assembly plant. All sophisticated components—such as engines, avionics, and rotor hubs—are imported. Moreover, specialty shops such as those for composite materials require Western technical assistance to turn out a quality product. [redacted]

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Indonesia: Aircraft Programs at Nurtanio

Aircraft	Foreign Licensor or Coproducer	Type	Date of Agreement	Date of First Production
NC-212 Aviocar	CASA, Spain	12-seat, twin turboprop transport	1976	1976
NBO-105	MBB, West Germany	6-seat light utility helicopter	1976	1976
BK-117	MBB and Kawasaki, West Germany and Japan	8- or 11-seat multipurpose helicopter	1982	1985
SA 330 Puma	Aerospatiale, France	16- or 17-seat transport helicopter	1979	1981
AS 332 Super Puma	Aerospatiale, France	16- or 17-seat transport helicopter	1982	1983
Bell 412	Bell Textron, United States	14-seat utility helicopter	1982	1984
CN-235	Coproduction with CASA, Spain	34- to 39-seat, twin-turboprop transport	1979	1983

[redacted] 25X1

In addition to existing licensed assembly, we believe the new plant will be used to produce the CN-235, a 34- to 39-seat turboprop aircraft designed and built on an equal-risk basis between Nurtanio and Spain's CASA. Nurtanio will manufacture the outer wings, rear fuselage, and vertical tail surfaces. This aircraft is tailored to meet the growing market for small commuter aircraft. Indonesia intends to build the aircraft to US requirements and to seek FAA certification. A prototype was completed and test flown in December 1983, but [redacted]

Shortage of Skilled Labor

Nurtanio is attempting to remedy a chronic shortage of skills necessary to underpin current programs and build a work force for anticipated growth in production. Indonesian engineering graduates are studying at aerospace facilities in the United States, West Germany, France, and Spain. Others are getting on-the-job training from MBB, Aerospatiale, and CASA technicians working at Nurtanio. Current employment is about 10,000, up from only 600 in 1976. The expertise of the labor force still is deficient. By 1986 employment is scheduled to grow to 12,000, even though some foreign observers have reported that the current work force is heavily overstaffed. Habibie recently said he intends to have 60,000 employees by the year 2007. [redacted] 25X1

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Outlook

Nurtanio will seek additional coproduction arrangements and offset production work in the next few years to upgrade its manufacturing capabilities. Indonesia already stepped up talks with Airbus and Boeing about production of components for large commercial jet aircraft. Indonesia's Garuda Airlines is discussing potential purchases of either the Airbus A320 or Boeing 757. As part of any deal, Nurtanio wants to produce components for the purchased aircraft. Although procurement decisions probably will not be made before mid-1984, negotiations have included:

- French offers of concessional financing to set up an aircraft maintenance facility tied to the purchase of up to 20 Airbus A320s.

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