Directorate of
Intelligence

~~Secret~~

25X1

Please do
not remove

file copy

International Economic & Energy Weekly

25X1

27 April 1984

~~Secret~~

DI IEEW 84-017
27 April 1984
Copy 685

25X1

Page Denied

Secret [redacted]

25X1

International Economic & Energy Weekly [redacted]

25X1

27 April 1984

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

25X1

25X1

International Economic & Energy Weekly

25X1

Synopsis

25X1

1 **Perspective—*Food Problems in Sub-Saharan Africa: 1984 and Beyond***

More than 150 million Africans in 26 countries will depend on some form of food relief this year. Drought and other extreme weather conditions are widespread, afflicting not only the Sahel region, but also most countries south of the Sahel.

25X1

11 **Sub-Saharan Africa: Food and Drought** 25X1

Although food crises have occurred in Africa several times during the last 15 years, the pervasiveness of current food problems makes the present situation more serious. 25X1

17 **World Grain Outlook: Spotlight on the LDCs** 25X1

The world market continues to be glutted with wheat, while coarse grain supplies will remain tight until the US corn harvest in late summer. LDC foreign exchange shortages could force grain exporters to cut prices—either directly or through concessionary terms—in an effort to curtail stocks. 25X1

21 **Summit Issues: EC Protectionism Against LDCs** 25X1

The increasing competitiveness of LDC exports and chronically high unemployment throughout the European Community are causing the EC to raise trade barriers against LDC products. 25X1

25 **Summit Issues: A New GATT Round** 25X1

Summit participants remain split over endorsing a new round of GATT trade talks. 25X1

27 **Brazil's Armed Forces: The Impact of Austerity** 25X1

Brazil's economic problems have taken a toll on the military. Combat readiness has deteriorated, and the armed forces have had to emphasize improvements with minimal foreign exchange outlays. 25X1

25X6

Page Denied

Declassified in Part - Sanitized Copy Approved for Release 2012/03/01 : CIA-RDP97-00771R000706970001-3

25X1

International Economic & Energy Weekly

25X1

27 April 1984

25X1

Perspective

Food Problems in Sub-Saharan Africa: 1984 and Beyond [1]

25X1

Food has again become one of Sub-Saharan Africa's most pressing problems. More than 150 million Africans in 26 countries will depend on some form of food relief this year,

Although food crises have occurred in Africa several times during the last 15 years, the pervasiveness of current food problems makes the present situation more serious:

- Drought and other extreme weather conditions are widespread, afflicting not only the Sahel region, but also most countries south of the Sahel.
- Political turmoil resulting from guerrilla insurgencies has disrupted crop production and distribution, creating millions of displaced persons and complicating existing food problems in Angola, Chad, Ethiopia, Mozambique, Somalia, Sudan, Uganda, and Zimbabwe. 25X1

Underlying these phenomena are more profound, chronic problems that have made Africa the only continent where per capita food production has declined over the past 20 years:

- Rapid population growth has disrupted traditional methods of shifting cultivation, causing soil exhaustion and stagnant crop yields.
- Some food problems are due to basic and longstanding constraints of water resources, climate, soil conditions, crop disease, and pestilence.
- Other food problems are the direct result of government mismanagement, corruption, and pricing and marketing policies that have favored urban consumers over farmers. 25X1

Most African governments have turned to imports to close the widening gap between domestic food production and food demand. Paying for steadily rising food imports—even for those offered on a concessional basis—has proved difficult. The burden of rising food imports has threatened the ability of a number of countries to comply with existing IMF-supported economic adjustment programs and may make it difficult for other countries to negotiate IMF arrangements.

25X1

Even if the drought abates, prospects for improved food production and distribution in the immediate future are not good because the necessary policy changes are seen as too risky:

- Governments are afraid to boost farm prices because this would mean either increases in food subsidies or food price hikes unacceptable to politically important city dwellers. 25X1

- Governments are reluctant to dismantle the parastatal organizations that control food purchasing and distribution because they provide an important source of employment and patronage.

Pursuit of such policy options could cost many governments critical political support and spark civil disorders. 25X1

Although food-related civil unrest could provide opportunities for exploitation by Moscow and its allies, pro-Soviet regimes are plagued by food problems at least as serious as those experienced by governments friendly to the West. Moreover, the Soviets are unlikely to provide Sub-Saharan African countries with food aid. 25X1

Over the long term, hopes for increasing the productivity of African agriculture rest not only on changes in pricing, marketing, and distribution policies, but also on the application of known agricultural technologies and the development and use of new ones to overcome basic deficiencies. Most African governments, however, have not yet established the kinds of agricultural extension services necessary to bring innovations to farmers. 25X1

Many governments have used food aid both to meet immediate needs and to postpone the hard political decisions required if policy changes are to occur. Unless these governments can be pursuaded to make politically risky policy changes soon—and can be convinced that failure to make such changes could entail even greater risks—requests for substantial amounts of Western food aid will come with increasing frequency from countries throughout Sub-Saharan Africa. 25X1

25X1

Briefs

25X1

25X1

25X1

25X1

Energy

Vietnamese Offshore Petroleum Developments

Hanoi—with Soviet help—is accelerating its oil exploration activities in the South China Sea. Viet-Sov-Petro, the joint Soviet-Vietnamese petroleum exploration company, plans to drill 12 exploration and 20 development wells by 1985. Drilling from a fixed platform should begin late this year, A Soviet exploration ship, which began operations early this year southeast of Vung Tau, may have already struck oil. Vietnam may make additional small finds over the next few years. Two US companies discovered oil in the area in the early 1970s but did not carry out development activities. 25X1

25X1

25X1

Australian Tax on Oil Industry

Canberra has proposed taxes on oil discoveries after 1975 that previously escaped taxation. Offshore petroleum ventures not yet in the development stage will be subject to either a 45-percent "resource rent" tax on profits after exploration and development costs are deducted or a sliding 40- to 60-percent rate if government subsidies for exploration are provided. Other "new oil" projects will be taxed on a lower scale. Treasurer Keating expects the new taxes to provide revenues of $275 million a year beginning in fiscal year 1984/85, and Canberra is pressing to have the new tax structure in place by 1 July. the proposed taxes are less of a burden than they had anticipated, and there remain adequate incentives for exploration.

25X1

25X1

25X1

25X1

25X1

[redacted] 25X1

Status of Polish Debt Talks

[redacted]

[redacted] Western commercial banks may soon sign a tentative agreement to reschedule Polish debt. The agreement would defer for 10 years 95 percent of principal payments due to banks during the 1984-87 period. The bank negotiators also offered to refinance $365 million due next year under the rescheduling agreement for 1982 and to extend $350 million in new loans. Meanwhile, progress in debt negotiations with Western governments has been slowed by Warsaw's ambiguous response to an offer by the Paris Club to reschedule principal and interest payments due during the 1982-84 period, if Poland pays arrears under the agreement negotiated in 1981. [redacted] 25X1 25X1 25X1

Although Warsaw and the banks apparently have moved closer on terms, a final agreement could take several months because there still is strong resistance by many banks to provide new credits. Poland's continued foot-dragging with the Paris Club probably reflects divisions in the regime about meeting terms set by Western governments. [redacted] 25X1

Cuba Hardens Stance on Debt Renegotiations

[redacted]

In a recent press interview to discuss Havana's request to reschedule $365 million of debt falling due this year, the president of Cuba's National Bank stated that the terms of last year's rescheduling agreement would be unacceptable. He blamed Cuba's debt problems solely on external factors: low world sugar prices, inflation in Western industrial countries, the withdrawal by Western bankers of $500 million of short-term deposits in Cuban banks, and high world interest rates. He further alleged that Havana's economic policies were sound and that Cuba exceeded the economic performance targets set in its 1983 rescheduling agreement. [redacted] 25X1 25X1

Havana probably will push for a lower interest spread and longer grace and repayment periods. Last year's agreement provided for an 8.5-year repayment period, including a 3.5-year grace period, with an interest rate set at 2.25 percentage points above the LIBOR. Cuba also may attempt to reschedule principle falling due in 1985. [redacted] 25X1

LDC Reaction to IMF Interim Committee Meeting

[redacted]

The failure of the IMF's policymaking Interim Committee to take action on a request from developing countries for an additional allocation of Special Drawing Rights (SDRs) is unlikely to dispel the issue. The proposal was originally advocated by the Group of 24—a committee representing the developing nations in the IMF—and has gained support from some industrialized nations including France, Italy, Netherlands, and Sweden. In public statements after the 12 April meeting, the Finance Ministers of Brazil and 25X1

India blamed the United Kingdom, the United States, Japan, and West Germany for blocking the allocation proposal and for failing to recognize the urgent need to rebuild developing country reserves. The G-24 is expected to press the issue more vehemently at the September annual meeting of the IMF. By that time, several Fund observers believe resistance from the four industrialized nations may soften sufficiently to allow the Fund to move ahead on a new allocation.

25X1

Summit Issues

EC Consumer Confidence Rising

Consumer confidence in the European Community is rising, according to the January 1984 EC consumer survey. Confidence is climbing in all of the EC countries except France and Greece, where public dissatisfaction with economic policies is increasing. The upturn in sentiment is strongest in the United Kingdom, which started recovery from the recession in late 1982; in West Germany, where GNP growth has exceeded most forecasts; and in Denmark.

25X1

25X1

Although consumer expectations for improved economic performance in the Community have moved up smartly over the past year, most households foresee little improvement in their own financial situation this year; the willingness to buy big-ticket items and reduce savings has barely budged since 1982. According to the survey, consumers believe that most of the improvement in economic growth will show up in lower unemployment, not higher wages. If, as we expect, the EC economies fail to make progress on the job front, confidence in the durability of the recovery in Western Europe could be undermined.

25X1

Global and Regional Developments

25X1

New Zealand To Phase Out Import Licensing

The Muldoon government finally has hammered out an agreement with manufacturers to replace New Zealand's import-licensing system with tariff-based protection over the next five years. Although the percentage of imports subject to licensing has fallen from 75 percent in the 1960s to only 23 percent, the government believes the controls are partly responsible for New Zealand's poor economic performance. Wellington hopes the switch to tariffs—which lowers the overall rate of protection—will force manufacturing firms to become more competitive and will complement the New Zealand–Australia Closer Economic Relations (CER) Agreement, which guarantees Australia free access to the New Zealand market by 1995.

25X1

National Developments

Less Developed Countries

Southern Lebanon's Deteriorating Economy

Israeli restrictions on traffic across the Awwali River are making the already bad economic situation in southern Lebanon even worse. The US Embassy reports that agricultural production, which accounts for 60 percent of the income of the south, has declined by almost 50 percent. Farmers are letting their citrus and banana crops remain unpicked because of the difficulty of moving the fruit to markets in Beirut and the Gulf states. Farmers reportedly are now having to pay transportation costs that are six times higher than a few months ago. Industry in southern Lebanon is operating at about 20 percent of 1981 levels, and unemployment in some occupations reportedly has reached 90 percent. 25X1 25X1

Israeli restrictions on transportation stem largely from security concerns. Israeli officials also are trying to convince the Shias in southern Lebanon that the cost of resistance to Israeli occupation is high. We believe, however, that few Shias will accommodate the Israelis because of the strong opposition to Israeli occupation by most religious leaders. 25X1

Lebanese Oil Problems Ease

Repairs to storage facilities at the Tripoli refinery will allow tankers to unload petroleum products and will help ease Lebanon's energy problems. Refining at Tripoli is scheduled to resume by early June. The refinery—which provided products to Beirut and northern Lebanon—suffered $500 million in damage during heavy fighting between Palestinian groups last November, and this has caused gasoline and fuel oil shortages over the past few months. The US Embassy reports that the Medreco refinery—located near Sidon in territory occupied by Israel—is not operating, but is importing products for distribution in southern Lebanon. 25X1 25X1

Jordanian Labor Force Problems

The ranks of skilled workers in Jordan are swelling at a time when slower economic growth is limiting the availability of jobs. An estimated 10,000 Jordanians have recently lost jobs in the Gulf states, and the Minister of Labor estimates that 12,500 new graduates are added to the labor force each year. In contrast, out of 15,000 new jobs each year, only 5,000 are for skilled workers. Government officials are concerned that dashed expectations will result in social unrest. 25X1 25X1

Concern about rising unemployment is generating public pressure to restrict foreign labor in Jordan. Several candidates in the recent parliamentary by-elections campaigned on this issue. An estimated 130,000 to 180,000 unskilled foreign workers—mostly Egyptians—are employed in agriculture, construction, and services. The US Embassy reports, however, that skilled Jordanians currently are unwilling to take the low-paying jobs held by foreign workers, and this limits the extent to which restrictions on foreign labor will provide a solution. 25X1

Jordanian officials have taken some stopgap measures to deal with the situation. The Labor Ministry is searching for jobs for Jordanians in places like Somalia, Djibouti, and North Yemen. The government also is planning to establish more vocational schools and to discourage study in professional fields.

25X1

Sudanese Islamic Laws Create Uncertainty

President Nimeiri recently signed two laws that introduce Islamic concepts into the Sudanese economy. A new law on commercial companies abolishes limited liability corporations and most interest payments. The Alms and Tax Act changes taxes on income, wealth, and internal trade beginning in September 1984. Failure to comply with the Islamic tax—or corruption in collecting it—will be punishable by lashing and imprisonment for up to three years. Regional governments will be responsible for collecting the new taxes and will be allowed to keep the funds; they may, however, lose funds now transferred from the central government. This could cause special problems for the southern regions, which have small tax bases and predominantly non-Muslim populations who may resist the Islamic taxes. The business community throughout Sudan is concerned about Nimeiri's failure to consult his economic ministers before adopting the new policies, and, according to US Embassy officials, there are reports that capital flight is picking up.

25X1

25X1

Moroccan Agricultural Outlook Dims

Poor rainfall has reduced Morocco's important winter grain crop to 3.5 million metric tons—80 percent of normal—based on preliminary field assessments. This could require as much as $140 million in additional cereal imports this year. Morocco's financial difficulties and its economic austerity program will make it difficult for the government to deal with this agricultural shortfall. Moreover, the lack of significant snowpack in the Atlas mountains has reduced the average operating capacity of water systems throughout the country to below 20 percent of normal. Harvests of irrigation-dependent crops such as citrus and fresh vegetables—one-fourth of export receipts—are vulnerable. Apportioning water among human, agricultural, and hydroelectric generators is a growing problem that could stimulate new unrest later this summer when water shortages peak and the full impact of the agricultural production shortfall occurs.

25X1

25X1

Libyan Spending Cuts

Spending will be squeezed again this year as Tripoli attempts to reconcile domestic needs with oil revenues of $11 billion—down from the peak of $23 billion in 1980. The General Peoples' Congress cut the overall budget by 9.5 percent compared with 1983 allocations, according to press reporting. The 7-percent drop in the administrative budget—the first under the Qadhafi regime—is in addition to an 11-percent cut in development spending. Budgeted imports—excluding priority military purchases of about $1.6 billion—will remain constant at $5.6 billion. Qadhafi probably will have to draw on the remaining $4.7 billion in foreign reserves, not including gold, to make ends meet

25X1

this year. Achieving budget spending goals will require continued austerity with the concurrent risk to the regime of increasing discontent over ongoing shortages of consumer goods. [redacted] 25X1

Malaysia Encourages Population Growth

[redacted] 25X1

Reversing two decades of family planning efforts, Kuala Lumpur this month announced a policy aimed at increasing the current population of 15 million to 70 million by early in the next century. The government is encouraging families to have up to five children and plans to extend maternity leave and other benefits (including tax relief) to working mothers. Population growth rates have declined steadily from an annual average of over 3.0 percent during the 1960s to the present rate of 2.3 percent as the country has become more educated and urbanized. Although Prime Minister Mahathir publicly maintains that Malaysia needs a much larger population to provide economies of scale for heavy industry, his new population policy may instead be intended to strengthen the position of the politically dominant Malays, who now account for only slightly more than half of the population. The Malay birth rate already is substantially higher than that of the wealthier Chinese community, and the new policies may further increase the difference between the growth rates. [redacted] 25X1

Communist

25X1

[redacted]

China's Expanding Air Service

[redacted]

The Civil Aviation Administration of China (CAAC) continues to expand service largely with US-built passenger jets. CAAC's 21 international routes now cover 150,000 kilometers—nearly double the 1979 figure—reaching 22 cities in Asia, the Middle East, North Africa, Europe, and the United States. This September, CAAC will open direct air service between China and Australia. The need for a long-range, wide-body transport on this new route 25X1

25X1

probably is behind China's interest in additional 747s. [redacted] 25X1

[redacted] Since 1980, CAAC has purchased five Boeing 747s, which now fly European, Middle Eastern, and US routes. [redacted] 25X1

25X1

CAAC has told the Chinese press that about 100 long- to medium-haul aircraft are needed for expanding domestic service between 1983 and 1990. CAAC took delivery of five Boeing 737s in 1983 and two McDonnell Douglas MD-80s this year. Another five Boeing 737s are to be delivered by March 1986. Since the last British Trident was delivered in the mid-1970s, the United States has been the sole supplier for foreign passenger jets, and we believe CAAC will continue to look to US firms as its major supplier of passenger aircraft. [redacted]

25X1

Lao Economy Moves Slowly

[redacted]

25X1

The Lao GDP increased by at most 1 percent in 1983, according to preliminary statistics. This performance was roughly comparable to the previous year but contrasts sharply with the 8-percent annual growth recorded between 1979-81, when agricultural production was boosted by the reclamation of land abandoned during the Indochina war. Two years of unfavorable weather have caused food grain production to stagnate. Industrial output slowed last year as well, while food shortages and a rapid increase in the money supply generated an inflation rate of 70 percent—up from 40 percent in 1982. Although better weather in 1984 should increase agricultural production, slow growth probably will continue until the government is able to increase agricultural productivity. [redacted]

25X1

25X1

25X1

East German Economy Recovering

[redacted]

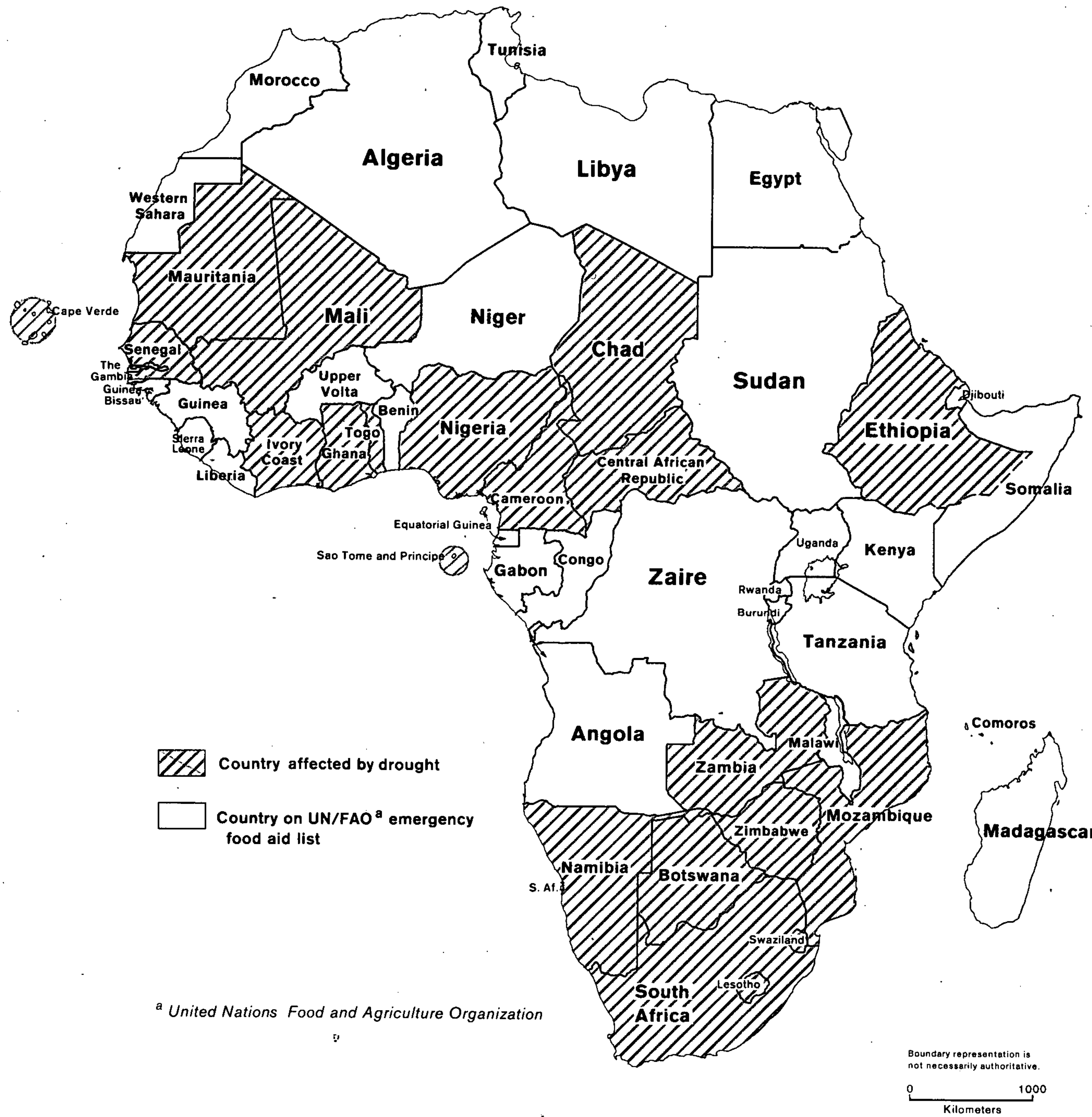
East Germany earlier this month reported higher growth in the first quarter, suggesting that the economy is recovering well from the slump induced by East Berlin's efforts to avoid a foreign liquidity crisis in 1982-83. [redacted] national income grew at an annual rate of 5 percent in the first quarter after accelerating late in 1983 to reach 4.4 percent for the year, up from 2.5 percent in 1982. Part of the recovery stems from higher imports of industrial goods, which have reduced shortage-induced disruptions of production. The regime also has made a number of administrative and policy changes that we believe have improved efficiency. [redacted] 25X1

25X1

Domestic economic recovery in 1983 was accompanied by improvements in foreign trade performance. The foreign trade bank in early April announced a \$1.3 billion hard currency trade surplus for 1983 generated by a 12.8-percent boost in exports to the West. At the same time, East Germany reduced its trade deficit with the USSR to 202 million rubles, compared with 643 million rubles in 1982. East Berlin apparently intends to run another hard currency trade surplus this year even as it boosts imports; [redacted] a resurgence of buying at the Leipzig Fair in March. [redacted] 25X1

25X1

African Drought and Countries Requiring Food Aid



702221 4-84

25X1

Sub-Saharan Africa: Food and Drought

25X1

At least 26 Sub-Saharan African countries are experiencing emergency food needs this year. In most of these countries, drought has created the immediate crisis. Other longstanding problems—rapid population growth, poor resources, pests, government mismanagement and corruption, and inappropriate agricultural pricing policies—are responsible for the long-term decline of per capita food production and chronic food shortfalls.

25X1

West Africa and the Sahel

Thirteen countries on the United Nations Food and Agriculture Organization emergency food list are in West Africa and the Sahel, where the food crisis worsened sharply in the early 1980s as drought pushed the Sahara Desert another 150 to 200 kilometers farther south, destroying vegetation in its path.

25X1

The Sahel [2]

Few parts of the Sahel had adequate rainfall in 1983 or so far this year. Intensifying drought created conditions reminiscent of the famine that struck the region a decade earlier. Grain production per capita has continued a long-term decline, cattle herds in some countries are dying from lack of pasture, irrigation capacities are seriously diminished, and seven of the eight Sahelian countries are experiencing severe food shortages. None of the Sahelian countries can afford to make up these shortfalls with commercial purchases.

25X1

25X1

[2] The Sahel is a geographic belt that extends along the southern edge of the Sahara from Chad to the Atlantic Ocean, consisting of Cape Verde, Chad, The Gambia, Mali, Mauritania, Niger, Senegal, and Upper Volta.

25X1

The Sahel's desperate economic condition has made it one of the largest per capita recipients of foreign assistance. Since the drought of the 1970s, roughly $7.5 billion has gone to the region. The economic and budgetary problems of France, the region's principal benefactor and former colonizer, limit Paris's ability to bail out Sahelian governments. Sahelian leaders are likely to turn increasingly to the United States with requests for additional financial and food assistance.

25X1

In addition to the drought, efforts to boost Sahelian food production have been hampered by poor soils, primitive agricultural methods, inadequate extension and marketing services, high transportation costs, and government policies that traditionally have encouraged farmers to grow export crops such as cotton and peanuts. Governments that have shown the political will to tackle agricultural and other economic problems have often found their efforts frustrated by local resistance to change. For example, government-imposed rotational grazing schemes that could increase forage are resisted by fiercely independent nomads.

25X1

Even when food is available, political turmoil often disrupts its distribution. Deliveries of food to Chad through Nigeria have been delayed by the stricter enforcement of border controls since the New Year's coup in Lagos. In addition, the fighting in Chad is disrupting the distribution of food aid to some areas.

25X1

Ghana

Ghana's food production—already in decline for several years—has been devastated by the current drought, and the Rawlings government has declared a food emergency. The drought is most severe in the northern agricultural regions, an area that had to absorb more than 1 million Ghanaian workers expelled by Nigeria early last year. Reports from a private voluntary relief organization indicate that more than half of the 250,000 Ghanaian children it regularly surveys are undernourished. Because of foreign exchange shortages, Ghana will find it difficult to meet its food shortfall with commercial imports. The food situation will become critical during June when the early harvest begins, and civil unrest over food shortages could add to popular dissatisfaction over economic decline and threaten the regime. 25X1

In hopes of obtaining greater Western food and financial aid, Ghana's leaders have quieted their anti-Western rhetoric. The regime is responding to Western economic counsel and has embarked on an ambitious economic reform program that has qualified Ghana for an IMF standby agreement. Nonetheless, a turnaround in Ghana's food situation is unlikely any time soon. 25X1

Nigeria

Northern Nigeria—the country's most productive agricultural region—is suffering from serious drought conditions that have resulted in shortages of water for both human and livestock consumption and have greatly reduced irrigation. Northern grain output is down 30 percent from the unusually good performance of 1982, with all of the key staples—sorghum, yams, and cassava—seriously affected. 25X1

Some 20 million northerners will be directly affected by the shortages, including several million city dwellers. Stocks of grain are low, and Nigeria's overall food import bill will be boosted significantly by the additional 2-2.5 million tons of foodgrains required. Moreover, distribution problems, along with black-marketeering of food, will likely hamper the allocation of imported food this year. 25X1

Nigeria's food shortfall, however, is also the result of years of neglect. Successive Nigerian governments—including the recently deposed Shagari administration—have paid lipservice to initiating a "Green Revolution" in Nigeria, but have taken few actions to stimulate output. Farmers have found investment credit hard to obtain, and the distribution of fertilizers and other inputs has been poor because of internal transportation problems. 25X1

The new Buhari government is unlikely to make effective investments in the agricultural sector, and Nigeria's severe financial crisis will limit any government development efforts over the next few years. According to the US Embassy, the Buhari regime is aware that adequate food supplies, especially in urban areas, could be crucial to maintaining political stability and will try to prevent critical shortages. Lagos can be expected to look to the West—particularly the United States—for credits to fund food imports. 25X1

East and Central Africa

Six countries from eastern and central Africa are on the FAO list of food emergency countries. The Central African Republic, Sao Tome and Principe, and Ethiopia are afflicted seriously by drought—while the rest suffer from production problems caused by government policies that create disincentives to production and obstacles to distribution. 25X1

Ethiopia

Ethiopia is one of the countries worst hit by drought. In addition, shipment of food donations to inland distribution centers often are delayed because official agencies responsible for disbursing food aid lack the trucks, funds, spare parts, tires, mechanics, managerial expertise, and—some donors suspect—a strong commitment to transport food effectively. Addis Ababa estimated the 1983/84 harvest at roughly the same level of recent years, which is well below domestic demand. In the strife-torn northern provinces of Eritrea and Tigre, and parts of Welo and Gondar, harvests were again hit by drought and civil war. In other areas, overgrazing of pastoral lands by nomads has limited food production. Moreover, prospects for the 1984/85 harvest are deteriorating rapidly because continued scant rains in the central Ethiopian highlands—the country's breadbasket—probably will hinder planting of the main grain crop to be harvested in late 1984.

25X1

Some 3-5 million people—roughly 10-15 percent of Ethiopia's population—face food shortages, according to the Ethiopian Government. Perhaps two-thirds of these are inaccessible because of insurgencies and poor transportation. The food situation is further complicated by sizable refugee movements, both within country and cross-border.

25X1

Even if drought abates, food production is likely to remain depressed by government efforts to collectivize agriculture. Farmers have resisted the establishment of state farms and peasant collectives, which, despite being lavished with machinery, fertilizer, seed, and technology, are badly managed by government-appointed administrators and generally have lower productivity than the average peasant holding. Extensive soil erosion has impaired the prospects for recovery.

25X1

Ethiopia probably will continue to import food, even in years of favorable weather. Western governments, private voluntary organizations, and multilateral institutions will continue to be the most important donors because the Soviets and their allies are not likely to furnish substantial amounts of food assistance.

25X1

Southern Africa

Most countries in southern Africa are suffering from a third consecutive year of drought, probably the worst in a century. Moreover, the drought has turned South Africa and Zimbabwe, normally grain exporters to the region, into net grain importers. Only Malawi and Angola have been unaffected by drought.

25X1

Mozambique

Typhoon Domoina and subsequent torrential rains struck southern Mozambique in late January/early February, adding to the crop losses resulting from two years of severe drought. The drought, which caused an almost complete failure of the March 1983 crop, had already affected about 4 million people, mostly in the south, and domestic food stocks had become depleted by last November.

25X1

Flooding from the typhoon further devastated cattle herds and destroyed what would have been the first harvest in three years of corn, rice, and sorghum—the main food crops—in the south. The typhoon destroyed dams and pumping stations vital to the limited irrigation system and washed out roads and bridges. Moreover, the winds did extensive damage to citrus, coconut, and cashew crops. The recovery of such tree crops will take years.

25X1

Typhoon losses probably have boosted Mozambique's food aid requirement through April 1985 to as much as 700,000 tons. Chronic shortages of foreign exchange preclude commercial purchases of seeds and foodgrains and underscore Maputo's dependence on aid. There is a critical need for seed corn and fertilizer by October, and vegetable seeds by November. Domestic seed stocks have been depleted as a result of multiple replantings over the past two years.

25X1

The Machel regime's resources for famine relief are almost nonexistent, according to the US Embassy, thereby limiting the effectiveness of international aid efforts. Mozambican ports will be unable to handle an influx of food shipments unless arrivals are scheduled carefully. Although Mozambique for the first time has allowed the participation of private international relief organizations, few vehicles are available to bring food to rural areas.

25X1

Despite the recent nonaggression accord signed by Mozambique and South Africa, food supply convoys remain susceptible to confiscation by insurgents of the South African–backed National Resistance of Mozambique (RENAMO). The RENAMO insurgency operates in nine of the

country's 10 provinces, and guerrilla attacks have disrupted the country's rail and road transport, agricultural production and marketing, and its economic links with neighboring Zimbabwe. The attacks have transformed the once food-abundant
25X1 central provinces—a traditional insurgent stronghold—into deficit regions.

Mozambique also suffers from the effects of eight years of government mismanagement and policy failure. Large, state farms, created by the regime as its most important agricultural objective, have been a failure. Communal villages and cooperative farms have taken a backseat to state farms in the allocation of what few government resources have been available. Even before the onset of sustained drought, Mozambique was importing over 30 percent of its foodgrain requirements. Although the ruling party last year supported a shift toward more private enterprise, the US Embassy reports that efforts to revitalize the private commercial and agricultural sectors have made little progress. Better weather for the 1984/85 growing season would improve the food situation, but not enough to
25X1 eliminate Mozambique's dependence on international food aid.

South Africa

South Africa has been hit by three years of failing rains and declining agricultural output since the record corn harvest in 1981 of 14.6 million tons. This year's output of corn is estimated at no more than 4 million tons for the second successive year, well below the roughly 7.5 million tons usually needed for annual domestic consumption. Corn imports may reach 4 million tons because South Africa enters the current harvest without carryover stocks. South Africa has sufficient foreign exchange for commercial imports, however, to ensure that no aggregate food shortage occurs. Imports at this level, however, will clog South African ports and inhibit its ability to transship food destined for other countries in the region, such as Zambia, Zaire, and Zimbabwe. Crop failure this year also means a continued suspension of South African corn exports to states in the region that
25X1 have traditionally been customers.

Conditions in South Africa's black homelands are deteriorating further from drought. According to the US Embassy, crops failed last year, and livestock losses were massive—probably over 700,000 head. In addition to the immediate consequences of drought, the long-term effects may be even more serious because cattle in the homelands are used not only for food but are a source of farm power. Recovery of livestock herds and grazing land will take years. 25X1

A recovery of production and export capacity faces obstacles even when the weather improves:

- Following the disastrous harvest in 1983, South Africa's white commercial farmers were left deeply in debt, which has required the provision of government assistance. Many farms have gone out of business, and continuing drought is adding to debt and prompting official concern about the long-term impact on white farming in the main growing areas.

- Drought has reduced surface and ground water levels so severely that irrigation capacity is likely to take at least another season to recover, assuming more normal rainfall.

- Even South Africa has barely been able to expand production to keep pace with rapid population growth. Per capita food production increased by only 2 percent in the 1970s, according to the FAO. 25X1

Zimbabwe

Although normally self-sufficient in food, three successive years of drought have sharply reduced Zimbabwe's output of corn, depleted stocks, killed over 300,000 cattle, destroyed grazing land, and lowered surface and ground water levels. Drought conditions have been most prolonged and severe in the normally low rainfall, livestock raising areas in the south and west, including all of dissident-plagued Matabeleland. 25X1

Food shortages emerged in several areas last year, forcing the government to begin an emergency food and drought relief program using domestic grain stocks. Demands for relief became so great that rationing of corn was introduced in October 1983. The number of those dependent on relief now approaches 3 million. Mounting relief costs have contributed to Harare's recent failure to meet targets in its IMF-supported adjustment program. Meanwhile, as many as 180,000 Mozambicans seeking refuge from the insurgency and drought in their own country have, since late last year, placed additional strains on Zimbabwean food supplies. 25X1

Despite record plantings last November in response to the government's guaranteed minimum preplanting producer prices, prospects for the harvest now under way are extremely poor. The most optimistic of recent official projections calls for a wheat crop about half its normal level and a total corn crop—including subsistence production—of 1 million tons. No more than 600,000 tons of corn are expected to be marketed with the rest retained on farm. We estimate Zimbabwe will need 700,000 tons of imported corn between now and the next harvest in April 1985. 25X1

Until last year, Zimbabwe had large surpluses of corn available for export. This had enabled it to sell corn to 12 black African countries, with substantial amounts going to Zambia and Zaire. For the next year at least, Zimbabwe will be critically dependent on commercial imports and Western and multilateral food aid. The greatest need will begin to be felt by October as domestic stocks from this year's expected poor harvest are exhausted. Harare is likely to look to the United States as a principal donor of food assistance. 25X1

Even if adequate rains occur for the next planting season beginning in November 1984, other factors will affect the extent of recovery in food production and export capacity. Zimbabwe's large commercial farms are capable of a rapid recovery but will require relief from their credit squeeze and debt burden. In addition, shortages of foreign exchange will inhibit the purchase of imported inputs such as fertilizer and machinery; Harare probably will want to rebuild food reserves before exporting to neighboring countries. 25X1

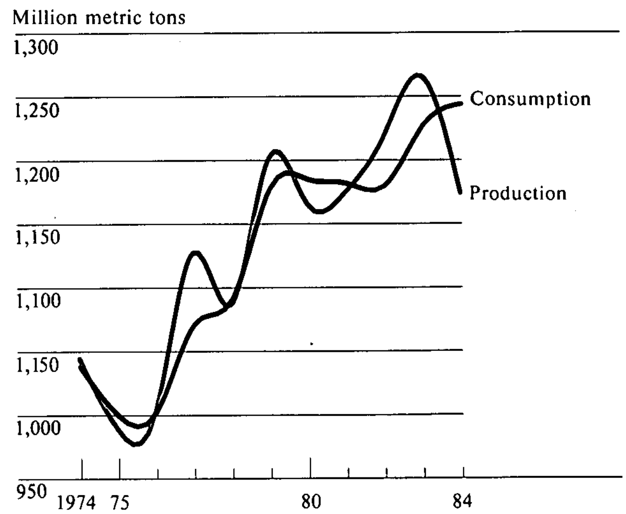
25X1

World Grain Outlook: Spotlight on the LDCs

The world market continues to be glutted with wheat, while coarse grain supplies will remain tight until the US corn harvest in late summer. Looking ahead to the 1985 marketing year (July 1984–June 1985), a near-record global grain crop is expected. In 1985 and beyond, a key uncertainty in the market will be the ability of LDCs to purchase grain. LDC foreign exchange shortages could force grain exporters to cut prices—either directly or through concessionary terms—to curtail stocks.

25X1

World Grain Supplies, 1974-84[a]



[a] Data from USDA.

25X1

302675 (A04552) 4-84

25X1

The 1984 Crop in Retrospect

With over 90 percent of the crop now harvested, USDA expects global grain output in MY 1984 to total 1.2 billion metric tons—about 7 percent below the previous year's record harvest. MY 1984 has been marked by sharp contrasts. World coarse grain production is about 12 percent lower than the previous year largely because of the impact of the US payment-in-kind program and drought-reduced corn yields in the United States and South Africa. The US corn crop fell by 50 percent—slightly more than 100 million tons. Global wheat output, on the other hand, will reach a record 488 million tons. Record harvests in China, Australia, and India more than compensated for reduced wheat crops in the United States and the Soviet Union.

Global grain consumption in MY 1984 is expected to hit a record 1.2 billion tons, according to USDA estimates. Consumption of wheat, although rising, will fall short of production, pushing world stocks higher for the third consecutive year. Most of the increase in wheat consumption has been in China, India, the EC, and the United States, where other bumper crops have encouraged usage or where wheat is being used for feed grains. Since wheat is priced only about $25 per ton higher than corn, wheat will remain an attractive alternative for feed purposes at least until the Northern Hemisphere crops are harvested late this summer. Despite a 30-percent rise in prices since last fall, record global coarse grain consumption is expected, largely because of better-than-average harvests in the Soviet Union and China; coarse grain supplies are expected to be tight through the summer months.

25X1

The Trade Picture

World grain trade in MY 1984 will show the first increase in three years by inching up 2 percent—3 million tons—according to USDA estimates. The

Competitors of the United States

Although the United States still accounts for about half of world grain exports, its share of the market continues to erode. The US market share in MY 1984 will fall by 1 percentage point while Canada, Argentina, and Australia will increase their collective share from 32 to 35 percent. The strength of the competition is reflected in the generous offers of the major exporters:

- *Canada's exports this year will remain at last year's record level of 28.5 million tons. A recent sale of 625,000 tons of wheat to Egypt was priced $30 per ton below world levels. A similar price discount was given to Sri Lanka. Canada has also given Brazil favorable credit terms for 1.5 million tons of grain this year.*

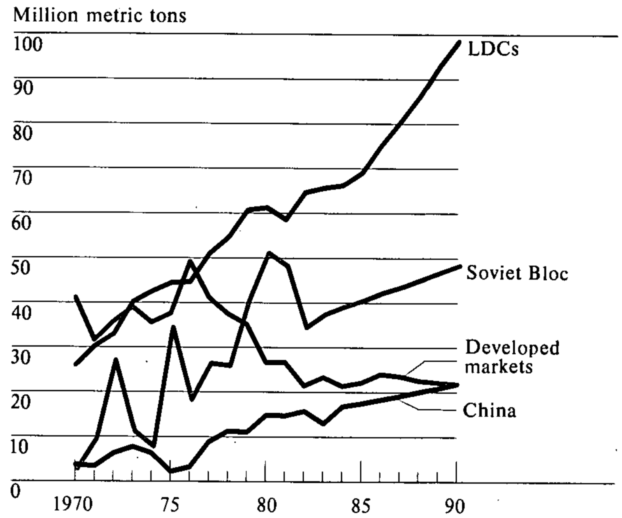
- *Argentina will have record exports this year of 21.3 million tons. The Argentines have consistently discounted their wheat by $25 to $30 per ton. Buenos Aires recently closed wheat export registrations, suggesting its surplus is now committed, including wheat sales of 3.5 million tons to the USSR and 1 million tons to Iran.*

- *Australia's exports will increase by 6 million tons in MY 1984, 40 percent greater than last year.*

rise in trade is about evenly divided between wheat and coarse grain. Wheat continues to be marketed aggressively by major US competitors who will have a 9-percent increase in exports. In contrast, US exports are expected to be lower for the second successive year. For coarse grain exporters, the one remaining question will be the size of South African corn imports. Drought-stricken South Africa, normally an exporter of about 4 million tons of corn, may have to import as much as 4 million tons. 25X1

25X1

Net Grain Imports, by Primary Regions, 1970-90[a]



[a] Includes wheat and coarse grain. Source: Michigan State University, Department of Agricultural Economics, *Long-Term Forecast of US and World Agriculture, Fall 1983.* 25X1

302674 (A04553) 4-84

For the three largest grain buyers—the USSR, China, and Japan, who account for one-third of the market—the import picture varies considerably: 25X1

- To date, the USSR has bought about 29 million tons of grain from all sources out of expected imports of 30-32 million tons. Soviet purchases from the United States already total 10 million tons. An additional 1 million tons may be bought from the United States if Argentina continues to have problems in shipping corn already purchased by the USSR.

- For China, estimated imports of 11.5 million tons in MY 1984 will be their lowest in five years—some 5 million tons below last year's record imports. A record harvest in China and higher foreign corn prices have limited purchases.

- Japan's grain imports have remained stable at about 25 million tons. Wheat purchases have been declining slightly, reflecting the government's policy of diverting rice land to wheat production.

25X1

The Outlook for 1985

Although it is too early to confidently predict the MY 1985 grain crop, a sharp rebound in production usually follows a poor crop year. Since 1960 there have not been two successive years of decline in the global harvest. Preliminary reports indicate that global grain production in MY 1985 could approach the record set in MY 1983. A USDA report indicates that prospective wheat plantings in the United States will be up 7.5 percent and that farmers plan to increase corn plantings by about 35 percent.

25X1

Most crop forecasts for other producing areas point to increases. The US agricultural attache in Paris forecasts MY 1985 grain production for France at nearly 50 million tons, up 7 percent from last year's harvest and 2 percent above the previous record. According to Coceral, a European grain trade organization, next year's EC wheat crop could increase by as much as 13 million tons—about 25 percent higher than this year's harvest. The US Embassy reports that China is well on its way to another record wheat harvest if favorable weather continues. In the Soviet Union, weather has been better this year than last for winter wheat with adequate soil moisture in the Ukraine, one of the main growing regions. Furthermore, sown area has recovered to more recent averages, and winterkill is below average.

25X1

Future Demand: Focus on the LDCs

The LDCs have become major buyers in the global grain market. These countries currently account for about 90 million tons or 45 percent of total grain imports. In MY 1984, LDC wheat imports are expected to be up 10 percent, while coarse grain purchases will rise by nearly 4 percent, according to USDA estimates. Although the world grain trade has fallen from a peak of 202 million tons in MY 1981 to 193 million tons in MY 1984, LDCs have increased their imports by 13 million tons. African countries, especially, have increased their grain imports. Imports comprised 12 percent of total coarse grain consumption during MY 1980-84, compared with 5 percent in the previous five years. Imports of wheat rose from 56 percent to 65 percent of total consumption. Reasons for the shortfall in domestic grain production and the growing reliance on imports by LDCs include a lack of sufficient incentives for farmers, a change from growing foodcrops to cash crops, population pressures, drought conditions in Sub-Saharan Africa, and shortages of inputs such as fertilizer.

25X1

Our analysis of the increase in LDC imports since MY 1981 shows that debt problems appear to have had a significant impact on many of these countries' ability to buy grain. LDCs that have restructed their debts reduced their imports by 2 percent during MY 1982-84 despite an overall decline in their grain production. In contrast, LDCs that have not had to restructure their debts increased grain imports by 26 percent during the same period.

25X1

We believe the LDC debt problem will limit the growth in demand for grain through the rest of the decade. Nonetheless, most of the growth in world grain import demand still will come from the LDCs. Grain imports by the Communist countries are expected to increase only slightly. Grain imports by the developed countries have fallen 56 percent since 1976 and will decline even further. At the same time, production expansion programs by the major exporters will be well under way in the

LDC Grain Imports, 1981, 1984 *Thousand metric tons*

25X1

	Grain Imports		Percent Change
	MY 1981	MY 1984	
Total LDC grain imports	**73,832**	**86,750**	**17.5**
LDCs with debt restructuring 1982-83 [a]	22,886	22,455	−1.9
Brazil	5,593	5,000	−10.6
Chile	1,322	1,265	−4.3
Central African Republic	0	13	NA
Costa Rica	161	135	−16.1
Dominican Republic	333	450	35.1
Ecuador	373	464	24.4
Guyana	69	65	−5.8
Liberia	23	10	−56.5
Madagascar	76	100	31.6
Malawi	107	10	−90.7
Mexico	8,315	6,700	−19.4
Morocco	2,220	2,450	10.4
Nicaragua	98	50	−49.0
Niger	25	25	0
Nigeria	1,701	1,710	0.5
Peru	1,290	1,540	19.4
Senegal	191	203	6.2
Sudan	392	450	14.8
Togo	0	0	0
Turkey	0	800	NA
Uganda	100	150	50.0
Uruguay	56	155	176.8
Zaire	342	275	−19.6
Zambia	99	435	339.4
Other LDCs	50,946	64,295	26.2

[a] Excludes Argentina, a grain exporter.

late 1980s. With LDC debt problems almost certain to persist, grain sellers will be under continuing pressure to offer concessionary terms and other inducements to market their grain.

25X1

25X1

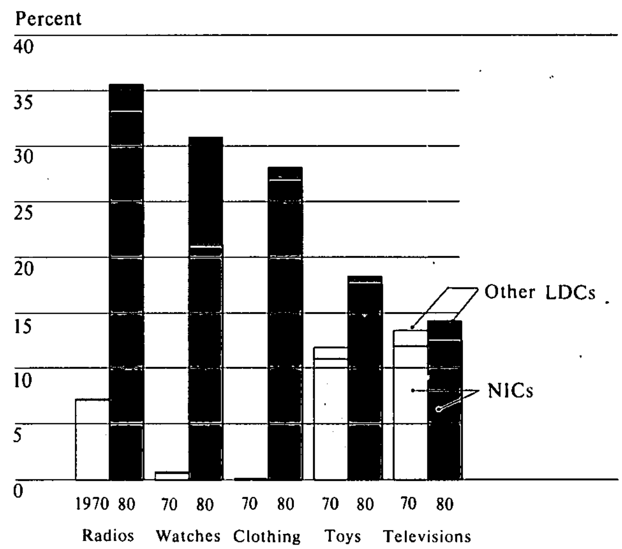
Summit Issues: EC Protectionism Against LDCs

25X1

The increasing competitiveness of LDC exports and chronically high unemployment throughout the European Community are causing the EC to raise trade barriers against LDC products. Most of the protectionist measures have been directed against the newly industrializing countries (NICs) because these countries have made major inroads into a number of EC markets, such as steel and textiles. Additional trade restrictions against LDCs are likely, particularly as these countries move into higher technology industries—the same industries the Community members hope will generate new job opportunities.

25X1

European Community: LDC Share of Selected Manufactures Imports, 1970 and 1980



25X1

Recent Measures

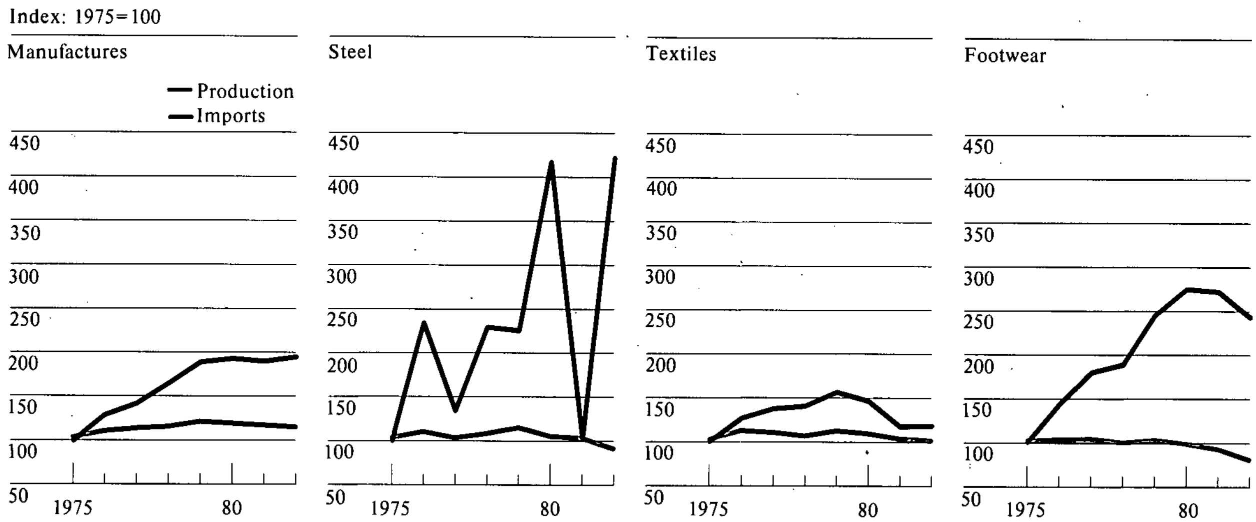
The EC's most stringent LDC trade restrictions are against steel and textiles. The Community already restricts imports of South Korean steel and Brazilian pig iron. Under the European Coal and Steel Community Treaty, the EC Commission has the authority to control iron and steel imports by negotiating voluntary restraint agreements (VRAs) with foreign steel producers. This year, Brussels is seeking to limit steel imports from outside the EC to 87.5 percent of the 1980 level of 11.5 million metric tons—the same restrictions as in 1982 and 1983. Until recently, imports from other developed countries and Eastern Europe had been the major target of the restrictions, but LDC steel increasingly is viewed as a threat by the EC. Following the initiation of several antidumping investigations last year, the EC is now seeking VRAs on steel with Brazil, Argentina, and Venezuela.

25X1

The EC limits imports of textiles from LDCs through the Multifiber Arrangement (MFA), a multilateral agreement governing trade in textiles between industrialized importers and LDC exporters. The MFA, first signed in 1974 and subsequently renewed in 1977 and 1982, provides the legal framework for determining when imports are sufficiently disruptive to justify restraints and sets the minimum terms for bilateral restraint agreements or unilateral actions. Under the MFA, the growth of EC textile imports from LDCs is limited by quotas to between 1 and 6 percent annually over the four-year duration of the agreement. The size of the quotas depends on the product category and the country of origin, with tighter restrictions applied to the dominant suppliers—mostly NICs. Furthermore, the EC quickly responds to import surges by tightening quotas. For example, last fall the EC reduced quotas on underwear and knitted outer garments from Thailand, Macao, and Peru following a rapid increase in imports during the summer.

25X1

European Community: Selected Industrial and Import Indexes, 1975–82 25X1



The EC footwear industry is now pressing for an MFA-type agreement to control imports from LDCs. The shoemakers argue this form of arrangement would simply institutionalize, on an EC-wide basis, quota restrictions that already exist in some EC countries; Britain and France have VRAs with Taiwan and South Korea. Imports from Taiwan, South Korea, Brazil, Hong Kong, and several other LDCs have been closely monitored by the EC since 1978 in response to industry pressure.

The Community moved last week to limit imports of digital quartz watches from LDCs. Last summer, the Commission initiated an antidumping investigation against a number of LDCs at the request of France—whose import quotas on digital quartz watches from Hong Kong had been condemned by the GATT. France, with production of 8 million watches last year, represents about 70 percent of total EC production. On 19 April the Commission authorized France to restrict its imports of digital quartz watches from Hong Kong, Macao, South Korea, and Taiwan for the next three years. 25X1

The Pressures

The increasing competitiveness of LDC goods coupled with double-digit EC unemployment have been the main driving forces behind EC protectionist efforts. Between 1975 and 1982, EC imports of LDC manufactures rose at an average annual rate of 10 percent in volume terms. At the same time, EC production of manufactured goods increased only 1.6 percent annually. Imports of LDC steel grew the most rapidly, rising at an annual rate of 23 percent; EC steel production, on the other hand, declined 1.8 percent annually. 25X1

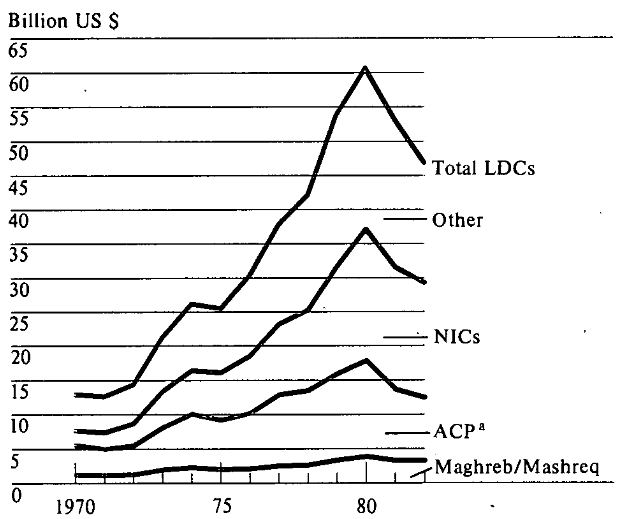
25X1

European Community: Preferential Trade Agreements With LDCs

Agreement	Countries Covered	Provisions
Lome Convention II	64 African, Caribbean, and Pacific (ACP) countries	Nonreciprocal duty-free access to EC markets for all raw materials and industrial goods and 96 percent of agricultural goods. (Rice, corn, and oranges are excluded.) An expansion of the Yaounde Convention originally signed in 1963 with 18 African countries. Negotiations for renewing the Lome Convention—which expires in 1985—began last September.
Maghreb	Algeria, Morocco, and Tunisia	Duty-free access for raw materials and industrial products except textiles. For agricultural goods tariff concessions of 20 to 100 percent excluding products covered by the CAP. Signed in 1976, unlimited duration.
Mashreq	Egypt, Jordan, Syria, and Lebanon	Duty-free access for most industrial goods with the EC reserving the right to introduce import ceilings on certain products if necessary. Tariff, concessions of 40 to 80 percent on most agricultural goods. MFA applied to Egypt. Signed in 1977, unlimited duration.
Generalized System of Preferences (GSP)	All LDCs (excluding Taiwan, which is not recognized by the EC)	The least preferential arrangement for LDCs. Offers duty-free access for industrial and agricultural goods; however, 150 products are subject to quotas. Renewed in 1981 for another 10-year period.

25X1

European Community: Nonenergy Imports From LDCs, 1970-82



[a] African, Caribbean, Pacific. Primarily former colonies of EC countries.

The NICs are viewed as a special problem by EC manufacturers. Although the NICs receive the least preferential trade access to EC markets of any LDCs, they have been able to garner a growing share of the EC's total nonenergy imports from LDCs; between 1970 and 1982, the NICs' share expanded from 17 percent to 36 percent. NIC inroads into EC markets have been the greatest for radios, toys, televisions, watches, and clothing.

25X1

As LDC exports to the EC expanded in the 1970s, Community-wide unemployment grew substantially, particularly in those sectors facing LDC import competition. This has intensified EC protectionist

25X1

pressures. Over the past decade the Community has lost almost 300,000 jobs in the steel industry and more than 1 million jobs in the textile industry. The EC-wide unemployment rate now stands at 11 percent—up from 2 percent in 1970. 25X1

Prospects

The number of EC trade restrictions against LDCs is likely to grow, and the NICs will bear the brunt of new protectionist measures against the LDCs. Restrictions against traditional NIC exports such as textiles and steel, along with the growing number of other LDCs emerging as low-cost producers of the same products, are encouraging the NICs to restructure their industrial sector toward higher technology industries. Key industries targeted by the NICs include machine tools, microelectronics, and telecommunications equipment. Because these are the same industries that the EC members hope will help to solve their unemployment problems, we expect EC-LDC trade frictions to persist. 25X1

25X1

Summit Issues: A New GATT Round [redacted] 25X1

25X1

The London Summit participants remain split over endorsing a new round of trade talks under the GATT. Canada and West Germany have agreed to the proposal made last year by Japan and the United States. Other West European participants—particularly the French and the EC Commission—are reluctant to commit themselves while West European economic recovery remains sluggish. Nevertheless, we believe the Summit is likely to be another step in the consensus-building process that eventually will lead to new trade negotiations. [redacted] 25X1

GATT Preparation

The agenda for the GATT negotiations is unlikely to be determined for at least a year. Much of the current GATT and OECD work on services, agriculture, textiles, safeguards, tropical products, and high-technology goods—is intended to be in preparation for future trade talks. Moreover, the next GATT negotiations may address tariff and nontariff barriers between developed and developing countries. [redacted] 25X1

Country Positions

Officials of most Summit countries accept—either publicly or privately—the inevitability of a new round. Views differ widely on what should be done this year. **West Germany**—the most supportive West European participant—will officially announce endorsement for new GATT negotiations at the London Summit, according to press reports of Economics Minister Lambsdorff's comments in Tokyo this month. The **United Kingdom** is also supportive but has little enthusiasm for rapid progress. **Italy**, according to the US Embassy, concedes the benefits and appropriateness of the talks, but, [redacted] probably will push for finishing the OECD's current trade liberalization program and for careful planning before moving on to a new round of trade talks. [redacted] 25X1

French officials probably hope to satisfy the United States and Japan by cautiously making a commitment to new round preparatory work. [redacted] 25X1 [redacted] 25X1 According to Embassy reporting, the French are likely to try to link trade talks with their proposals for changing the international monetary system. [redacted] 25X1

The **EC Commission,** like the French, hope to mollify the United States and Japan while delaying future trade talks. According to diplomatic and press reports, the EC points to slow growth, the US elections in November, the need to assure LDC participation in a new round, and concern for finishing the GATT Ministerial and OECD work programs as grounds for delaying the trade talks. [redacted] 25X1

Japan's enthusiastic promotion of the talks has been closely identified with Prime Minister Nakasone and he is likely to be the most outspoken proponent. Some Japanese politicians probably also hope that the prospect of new trade negotiations under the GATT can be used to defer aspects of bilateral trade disputes with the United States and the EC. [redacted] 25X1

Canada, according to the US Embassy, will emphasize the need for a broadening of consultations among GATT participants to develop a consensus for new trade talks within a year or so. [redacted] 25X1

After the Summit

Disputes are likely to develop over whatever is agreed upon at the London meeting. According to US trade officials, shortly after the Williamsburg Summit an EC Commission official admonished the GATT Secretariat not to take seriously the language in the Williamsburg text, claiming it was agreed upon hastily and differed from what Summit planners had drafted. Use of similar tactics after the London Summit would be consistent with the strategy of delay that is being followed by key European countries and that we expect they will pursue at least through this year. [redacted] 25X1

[redacted] 25X1

Brazil's Armed Forces: The Impact of Austerity

25X1

Brazil's four-year recession has taken its toll on the military. Budget cuts and reduced foreign exchange allocations have meant:

- Dwindling stocks of fuel and ammunition.
- Inadequate training.
- Reduced equipment purchases, especially from foreign sources.

As a result, combat readiness has deteriorated, and Brazil's armed forces have had to emphasize improvements—such as the expansion of troop strength—that do not involve significant hard currency costs. In addition, Brazil's need to boost exports has caused local defense industries to look to foreign markets, particularly in the Middle East.

25X1

Adverse economic conditions have strengthened the armed forces' commitment to return power to civilians by 1985. The military hopes to avoid further damage to its prestige by ceding responsibility for resolving the country's economic woes. In addition, the high command seems eager to concentrate on professional matters and leave government to civilian politicians.

25X1

The Military's Mission

Historically, the Brazilian armed forces have served as the guarantor of internal security and the arbiter of politics. External security has received less emphasis because of the country's relatively safe geographic position. Although it shares borders with every nation in South America except Ecuador and Chile, Brazil is largely protected on its frontiers by jungles, mountains, and swamps. The few modern roads near the borders usually are on the Brazilian side. Only the southern borders with Uruguay, Argentina, and Paraguay provide relatively suitable terrain for military operations, and it is here that Brazil's strongest forces are concentrated. 25X1

Despite extensive frontiers and a continuing rivalry with Argentina for regional dominance, Brazil has not had a border conflict in more than 80 years, and its military planners regard the threat of external attack as remote. Instability in neighboring Suriname, however, has motivated the armed forces to take an uncharacteristically visible role in promoting military cooperation as a means of displacing Cuban influence. 25X1

Brazil is set apart from its Latin American neighbors not only by a different language, culture, and history, but also by the ambition to become a world power in the 21st century. This aspiration influences the country's approach to force modernization. Unlike the other regional military powers—Argentina and Peru—which have sought to increase their military strength by importing advanced weapons, Brazil has emphasized investment in defense industries and acquisition of modern technology. Although, as a short-term cost of this policy, Brazil currently has fewer advanced weapons—such as supersonic fighter aircraft—than its neighbors, the high command prefers to build a substantial arms capacity for the future.

25X1

Economic and Political Dynamics

After presiding over more than a decade of extraordinary economic growth (1968-79), the Brazilian armed forces are preparing to leave government with the country's most severe economic crisis unresolved. Since 1980, recession and inflation have reversed Brazil's historic rapid rise in living

702183 (A02970) 4-84

25X1

standards. Last year, prices tripled, GDP fell 5 percent, and industrial output dropped 8 percent. Private business failures have accelerated, and Brazil's middle and lower classes have been hard hit by high unemployment and real wage declines. An austerity program imposed to stabilize prices and reduce foreign indebtedness has put a premium on production for export while requiring sharp cuts in imports and government spending. [redacted] 25X1

Although a minority of military officers caution against returning the country to civilian rule while the economic crisis persists, the US Embassy reports that most continue to favor a return to the barracks. The prevailing view within the military holds that the armed forces can only suffer a further loss of prestige the longer they are responsible for running the government. [redacted] 25X1

Impact of Austerity on the Military

The 20-year period of military rule did not greatly benefit the armed forces from a purely professional standpoint. In terms of equipment, they were relatively better off in 1964 than they are today. Even during the boom years of the "Brazilian miracle," military regimes interpreted national security more in terms of promoting economic growth and internal order than in terms of acquiring the latest military hardware or undertaking a thoroughgoing modernization of the nation's armed forces. The Anglo-Argentine conflict over the Falklands in 1982 alerted the Brazilian military to the inadequacy of its materiel, doctrine, and training, but severe foreign exchange shortages have hindered any modernization plans requiring significant expenditures of hard currency. [redacted]

Manpower

Although large by regional standards, the Brazilian armed forces are moderate in size, considering the country's population and size. A military force of 280,000 for a country of some 134 million represents some two-tenths of 1 percent of the population, a significantly smaller share than in either Argentina (0.5 percent) or Peru (0.7 percent). Moreover, despite rapid population growth, Brazil's armed forces have not expanded in the last 10 years. Current plans to boost Army strength from 183,000 to 296,000 by 1993, for example, have been deferred for at least two years because of funding constraints. [redacted] 25X1

Even when the proposed troop increase begins to take effect in 1986, it will be undercut by continuing financial stringency. With 1984 inflation projected to be about 150 percent, the recently announced doubling of the Army's annual budget will mean a decline in the Army's real purchasing power. [redacted] 25X1

Training

[redacted] complain that the lack of funds is resulting in inadequate basic and weapons training, serious restrictions on field exercises, and improper equipment maintenance. [redacted] training for tank and truck drivers and artillerymen is hampered by fuel constraints and severe shortages of artillery shells. [redacted] indicate that proficiency in crew-served weapons in one airborne infantry battalion is now so severely limited by ammunition shortages that the unit may soon revert to a battalion of riflemen with no sustained combat capability. Although Brazilian unit commanders have learned to cope with minimal budgets—using such practices as sending troops home early to save food, selling food to buy gasoline, and parking vehicles for half the year to save fuel for maneuvers—the situation is serious enough to strain even the Brazilians' talents for improvisation. [redacted] 25X1

Training on advanced weapons has been particularly affected. The Air Force reportedly has never fired either of its two types of air-to-air missiles. The few test firings of the Navy's Exocet antiship

missiles have revealed serious training deficiencies,
25X1 ones that cannot be remedied any time soon because funds are not available.

Weapons Purchases

Austerity has meant a reduction in foreign weapons acquisitions. Only two classes of weapons have been exempted:

- Those that have no domestically produced counterpart, such as submarines, torpedoes, A-4 carrier-based aircraft, antisubmarine and medium transport helicopters, and Maverick air-to-surface missiles.

- Those that are cheaper to buy abroad than to produce domestically, such as used 105-mm and 155-mm howitzers. 25X1

Even in these cases, the decision to buy depends largely on the vendor's willingness to transfer technology—a requirement that Brazil attaches to most foreign defense acquisitions. 25X1

25X1

Final selection of an antiship missile for Brazil's domestically produced frigates likewise revolves around technology transfer. 25X1

Defense Industries

Brazil plans to rely on its expanding defense industries for most of its needs. According to US Embassy reporting, the Army will buy small arms and ammunition, armored personnel carriers, and at least 50 newly designed 35-ton tanks from domestic producers in the next few years. Brazil's aviation industry will supply the Air Force with 168 new Tucano light trainers, about 80 AM-X subsonic ground attack fighters, and at least 25 medium transports over the next decade, according to press and attache reports. Navy plans are less certain because of inadequate funding; the projected run of 12 Niteroi frigates appears to have been halted at seven, including one training ship, and plans for 12 corvettes appear to have been cut back. 25X1

25X1

Brazil's Projected Foreign Military Acquisitions, 1986-90

Army	
Sikorsky S-70 medium helicopters	12 to 90
105-mm howitzers (used)	48
155-mm howitzers (used)	16
Navy	
A-4E carrier-based fighters	10
T-A4 jet trainers	2
ASW helicopters	28
Maverick AGM 65 air-to-ground missiles	40
Submarines	2
Torpedoes	40

25X1

Brazil's Projected Domestic Military Production (Major Systems), 1986-90

Army	
EET-1 Osorio 35-ton tanks	50
Air Force	
AM-X subsonic ground attack fighters	48
T-27 Tucano turboprop trainers	100
Brasilia medium transport aircraft	25
Navy	
Corvettes	4

25X1

25X1

25X1

Brazil's focus on defense industries has enhanced its independence from foreign suppliers and expanded the range of Brazilian exports, earning vital foreign exchange. 25X1

Outlook

Brazil's economic difficulties will hinder the armed forces from undertaking any thorough modernization over the near term. Nonetheless, they will be able to replace some outdated equipment, and they probably will push for a greater share of the budget once out of office. A civilian president might support a higher military budget, according to the US Embassy, both to strengthen national security and to keep the high command content and on the political sidelines. 25X1

Keeping the military focused on professional pursuits and modernization, however, will require political stability. If social tensions generate widespread unrest, the military will be drawn back into the political process. Likewise, the potential election of an ideologically unacceptable candidate to the presidency, or the threat of an investigation into military corruption or human-rights abuses, probably would provoke direct intervention. 25X1

Implications for the United States

Brazil's economic crisis and the armed forces' post-Falklands emphasis on professionalism have contributed to a gradual improvement in bilateral military relations. 25X1

25X1

A minority within the military advocates a more nationalistic economic policy, a confrontational attitude toward multinational firms, and repudiation of the country's debt, according to the US Embassy. These views are voiced primarily by retirees, however, and probably carry little weight with active-duty officers. 25X1

25X1 at the middle-grade level, older officers tend to be well disposed to the United States, while their younger colleagues are generally neutral. 25X1

25X1

Page Denied

Next 3 Page(s) In Document Denied