23

Directorate of
Intelligence

~~Secret~~

25X1

LDC State Trading Organizations: Stunting Development and Obstructing Trade

25X1

A Research Paper

~~Secret~~

GI 86-10047
June 1986

Copy 355

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Page Denied

Directorate of Intelligence

Secret

25X1

LDC State Trading Organizations: Stunting Development and Obstructing Trade

25X1

A Research Paper

This paper was prepared by Office of Global Issues. Comments and queries are welcome and may be directed to the Chief, Economics Division, OGI,

25X1

25X1

Reverse Blank

Secret

GI 86-10047
June 1986

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

25X1

LDC State Trading Organizations: Stunting Development and Obstructing Trade

25X1

Preface

This paper examines the role of parastatals in domestic LDC economies and the world trading arena. We focus on those parastatals that trade internationally—what we broadly define as state-trading organizations—because these are often the largest and most important state-run enterprises. Moreover, these organizations pose unique, yet largely overlooked, challenges to the international trading system.

25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

[redacted] 25X1

LDC State Trading Organizations: Stunting Development and Obstructing Trade [redacted]

25X1

Summary

Information available as of 1 May 1986 was used in this report.

American political, economic, and military interests are keenly tied to the economies of many developing countries. The ability of these LDCs to repay their debt and maintain stable political systems hinges, in large part, on the ability of their economies to grow. Our analysis indicates that a critical factor limiting prospects for growth in the Third World is the reliance on state trading organizations (STOs) to promote development. [redacted] 25X1

In our judgment, many of these organizations have created numerous distortions in LDC economies that have derailed the development process by:

- *Creating inefficiency* that drives up domestic prices, pulls capital away from private firms, and saps LDC treasuries of scarce resources. [redacted] 25X1
  [redacted] 25X1

- *Engendering corruption* that has drained the state coffers of billions of dollars. For example, Zaire's President Mobutu has siphoned off at least $1 billion from SOZACOM, according to local press reports.

- *Blocking foreign investment* through domestic monopolies and practices that discourage the inflow of foreign funds, thereby restricting competition, efficiency, and flow of technology. [redacted] 25X1
  [redacted] 25X1

- *Distorting production incentives* by setting artifically low producer prices that discourage production, especially in the agricultural sector. [redacted] 25X1
  [redacted] 25X1

STOs also engage in practices that hinder the smooth functioning of the world trading system. US interests are damaged because these practices reduce the competitiveness of US companies and are inimical to free trade. Some of the challenges to free trade that are increased by the existence and operation of STOs include:

[redacted] 25X1

- *Unfair export practices*, such as subsidies and dumping, that distort the efficient allocation of global resources and threaten the competitive position of American firms. The US Commerce Department found that the majority of US imports from SIDOR, the Venezuelan state-owned steel enterprise, were subsidized at a rate of 72.6 percent.

- *Restricted trade* through nontransparent tariff- and quota-like measures. Paraguay, for example, restricts wheat imports through an STO as part of its National Wheat Self-Sufficiency Program.

- *Countertrade* resulting in higher costs, discrimination, and restrictive trade practices. In one countertrade arrangement, Brazil's CVRD agreed to supply 30,000 tons of iron ore annually to Malaysia in exchange for 10,000 barrels of oil per day. [redacted] 25X1

The United States currently has a unique opportunity to try to limit the growth and combat the trade-distorting effects of STOs. As a result of recent developments—LDC debt overhang and the forthcoming GATT round—we believe there are more opportunities than perhaps ever before to redress the problems posed by STOs. Moreover, developing countries are now more receptive to undertaking reform because of their concern over large STO losses, inefficiency, corruption, blocked foreign investment, the need to comply with World Bank and IMF programs, and their generally more pragmatic, less ideological stance. For example, India and Algeria are reducing the staffs of their STOs and streamlining procedures. Many other countries—including Argentina, Brazil, Guinea, Mexico, and Pakistan—are seeking to privatize or liquidate some STOs. [redacted] 25X1

Despite these pressures for reform, dismantling LDC STOs will meet with considerable political resistance. STOs often house the vested interests of many LDC elites. Some LDC leaders siphon off huge sums of money from STOs for political or personal purposes, thereby making these leaders unwilling to reduce the role of these organizations in their economy. STOs also play an important role in maintaining political stability by subsidizing critical commodities. Moreover, attempts to eliminate STOs could stir nationalist sentiment, making the disbanding of these organizations politically difficult. For example, Argentine labor groups opposed President Alfonsin's February 1986 economic package in part because the scarcity of domestic capital made it likely that only foreign companies could afford to buy the state enterprises that were up for sale, according to local press reports. [redacted] 25X1

25X1

Contents

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

[redacted] 25X1

LDC State Trading Organizations: Stunting Development and Obstructing Trade [redacted]

25X1

LDC STOs: A Pervasive Role

State trading organizations (STOs)—government organizations involved in export or import trade—play a pervasive role in the LDCs. A 1982 UN survey estimates that there are at least 269 STOs in 66 developing countries.[1] Most are located in Africa and Latin America. Of the 269 STOs counted by the survey, more than 39 percent are in Africa and 25 percent in Latin America. Of the countries surveyed, Sri Lanka, Cuba, Malawi, the Dominican Republic, Syria, and India had the most STOs—89 in all. [redacted]

Our own examination of several LDCs turned up numerous STOs not accounted for in the UN survey. This undercounting occurred either because some countries failed to respond to UN requests or did not consider certain state firms to be STOs. For example, according to the UN study, Mexico has one STO—the food-importing organization CONASUPO—but we have identified at least five, including the giant oil monopoly PEMEX. Moreover, the UN reports that Algeria has no STOs, but, [redacted] there are a number of state-run enterprises—about 466—many of which trade internationally. On the basis of the information derived from such samplings, we believe the number of LDC STOs is at least three times the UN total. [redacted]

STOs control and trade the most economically important commodities, such as foodstuffs, industrial inputs, and energy resources. Moreover, they dominate trade in many LDCs; in Peru, Egypt, and Burundi, STOs account for more than 85 percent of national exports. In Algeria, Burma, Guinea, Iraq, Syria, Uganda, and Zaire, foreign trade sectors have become virtual state monopolies. [redacted]

[1] *Handbook of State Trading Organizations of Developing Countries*, United Nations Conference on Trade and Development, New York, 1983. [redacted]

STOs: A Definition

We define STOs in broad terms to include any state-run organization involved either in export or import trade. The major types of STOs are:

- Government departments. *Agents of the state that enter into the world market to buy or sell goods on the nation's behalf.*
- Marketing boards. *Organizations set up to channel exportable goods through a single government body. Domestic producers are usually required to sell all of their output to the board. The board thus acts as a monopoly buyer with the power to set domestic prices. Government marketing boards largely exist because of the lack of a sophisticated tax infrastructure—they are one of the few reliable methods for collecting revenues.*
- Public production enterprises. *Firms using either their own trade infrastructure or sales agents abroad to market their output. The state-owned oil and steel companies are the most significant examples of public production enterprises involved in foreign trade.*
- State trading companies. *Government-controlled commercial corporations that are primarily engaged in activities related to international trade and that are organized and operated for the purpose of carrying out their entrepot mission.* [redacted]

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

Table 1
Profile of Representative STOs

STO	Country	Year Founded	STO [a] Type	Principal Objective	Turnover [b] *(Millions US $)*	Services Provided	Major Products Traded
BCC, Burundi Coffee Company	Burundi	1975	Marketing board	Revenue	90	Financing, forwarding and clearing, quality control, shipping, warehousing.	Coffee exports.
BULOG, Budan Urasan Logistik	Indonesia	1967	Government agency	Social, secure food imports	1,800	Domestic distribution, forwarding and clearing, quality control, shipping, and warehousing.	Sugar, wheat, and rice imports.
CONASUPO, Compania Nacional de Subsistencias Populares	Mexico	1965	Government agency	Social, import foodstuffs, and subsidize price	3,670	Internal distribution and warehousing.	Beans, corn, sorghum, and wheat imports.
CVRD, Companhia Vale do Doce	Brazil	1942	PPE	Export promotion	713	Shipping.	Mineral exports, primarily iron ore.
INTERBRAS	Brazil	1976	STC	Export promotion	2,874	Financing, quality control, shipping, and warehousing. Also actively engaged in product and market development.	Diverse range of products, the most important being petroleum byproducts, sugar, and soybeans.
KPC, Kuwait Petroleum Corporation	Kuwait	1980	PPE	Revenue	24,332	Shipping.	Oil exports.
The Mineral and Metals Trading Corporation	India	1963	STC	Control	1,905	Domestic distribution, financing, and clearing, quality control, underwriting, and warehousing.	Wide range of Metals and minerals, usually representing 100 percent of India's trade in the product.

[a] Public Production Enterprise (PPE) and State Trading Company (STC).
[b] Turnover periods: BCC 1979/80, BULOG and the Minerals and Metals Trading Company of India 1981-82, CONASUPO 1981, CVRD and INTERBRAS 1983, and KPC 1980/81.

25X1

Objectives

Over the years, LDCs, through STOs, introduced the state into the trading arena for a variety of economic, political, and social purposes. These include economic development, export promotion, regulation of trade, revenue collection, and social restructuring. 25X1

Many STOs attempt to promote *economic development* through the coordination of scarce resources. The STOs' investments are designed to create backward and forward linkages that will foster more rapid growth. The trading organizations take a long-run view of the development process, incorporating many social and employment considerations that are not accounted for by private firms. 25X1

Export promotion involves mobilizing the productive capacity of domestic firms to increase sales of a country's products in overseas markets. This is accomplished by using the STO's trading expertise to lower the information barriers that often block domestic firms from trading their products internationally. 25X1

Control of trade in strategic products, such as food, minerals, energy, and arms, is an important mission of some STOs. Many LDCs attempt to control trade to secure a supply of critical commodities, prevent the undervaluation of exports, or reduce dependence on other commercial entities—particularly multinational corporations. Control is also exercised to regulate trade with particular countries. 25X1

LDCs often create STOs to obtain *revenue* for the state. This is motivated by a desire both to maintain the profits from trade within the country and to spread the benefits in an equitable manner to all members of society. Revenue collection has become the principal goal of most marketing boards. The boards, through their ability to break the connection between world and domestic prices, are able to earn large profits. The state oil companies are also principally operated to generate revenue for the nation. 25X1

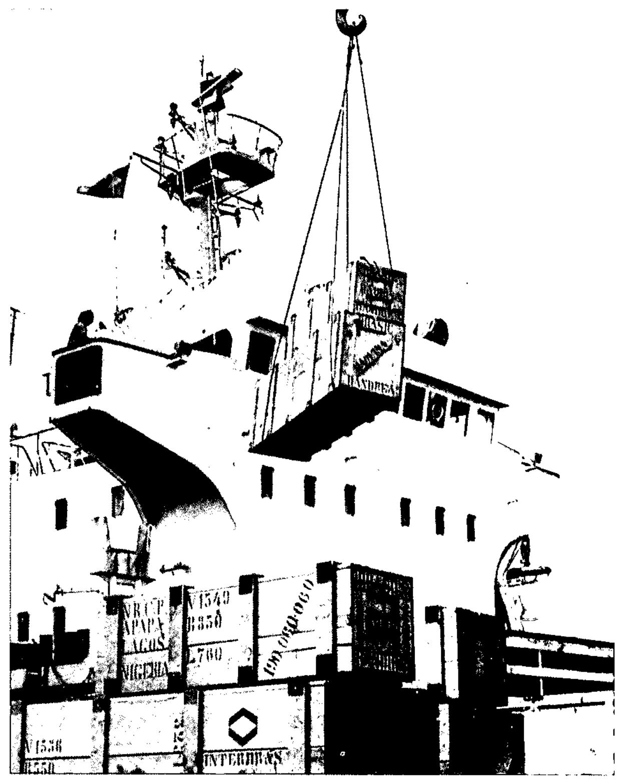


Figure 1. INTERBRAS. The STO is shown above loading Brazilian machinery for shipment to Nigeria. 25X1

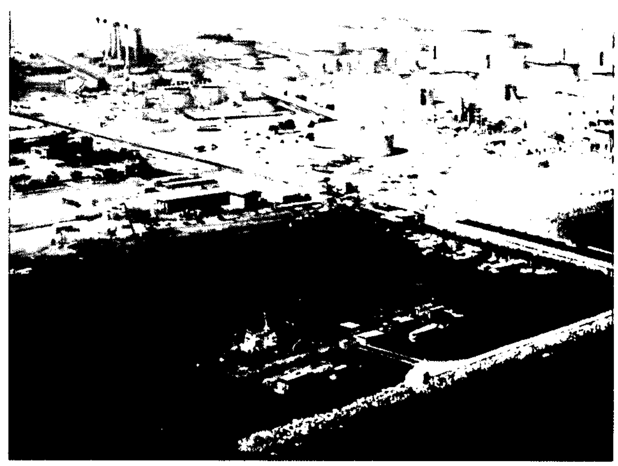


Figure 2. Kuwait Petroleum Corporation. KPC is an oil exporting STO that is operated to generate profit for the state. 25X1

Figure 3
Mission of State Trading Organizations (STO)

○ Primary mission ◎ Secondary mission **O** Tertiary mission

Type of STO	Export promotion	Revenue and development	Control of trade	Social objectives
Marketing board	**O**	○	◎	◎
Government department	**O**	◎	◎	○
State trading company	○	◎	**O**	**O**
Public production enterprise	◎	○	**O**	◎

[redacted]

309172 5-86

The achievement of *social objectives,* such as training the population, subsidizing certain imports, and stabilizing the incomes of domestic producers, is another mission of many STOs. For example, the primary mission of Malaysian STOs, operating within the context of the New Economic Policy, is to transfer skills and wealth to indigenous Malays. Alternatively, CONASUPO, an agency of the Mexican Government, imports foodstuffs that it then sells to the domestic population at subsidized prices. [redacted]

Stunting Development

Although STOs have some positive effects on LDC economies, they are largely overshadowed by their negative impacts. Indeed, we believe STOs have stunted Third World development by causing numerous distortions in LDC domestic economies. [redacted]

Creating Inefficiency
Many STOs create costly inefficiencies because of conflicting goals, excessive staffs, and inappropriate integration:

- LDC governments have imposed conflicting goals, such as onerous social welfare requirements, that have impaired the STO's ability to earn a profit. In Zimbabwe, when a private mining company moved to close down an unprofitable copper mine that employed more than 1,200 people, the Zimbabwean Mining Development Corporation (ZMDC) was instructed by the government to take over the money-losing enterprise, [redacted] To cover the mine's losses, the government provides ZMDC with $9 million annually, costing at least $7,500 per job saved.

- Use of STOs for patronage and politicization have caused major overstaffing problems, creating a tremendous financial drain on the treasury and fostering redtape. Overstaffing problems can reach very high levels. For example, the Ghana Cocoa Marketing Board employs, according to the US Embassy, a whopping 105,000 people—equivalent to one bureaucrat per one and a half tons of cocoa exported.

- Many STOs strive to control every aspect of production through horizontal and vertical integration. This penchant for "bigger is better" has led to oversized, unwieldy enterprises. Mexico's oil monopoly PEMEX, for example, performs almost all exploration, drilling, refining, and distribution of

Nicaragua: Growth and Inefficiency of the National Basic Foods Corporation

On seizing power in mid-1979, the Sandinistas centralized food distribution through the newly created National Basic Foods Corporation, which was given sole authority to import, export, and wholesale basic foodstuffs. Over time, [redacted] *the organization:*

- *Took over the previously privately owned supermarkets in Managua.*
- *Created "people's stores" to supply basic goods at subsidized prices.*
- *Furnished priority supplies to some private stores in exchange for pledges to sell controlled items at official prices.*
- *Built marketplaces with stalls for private vendors in neighborhoods throughout Managua in the apparent hope of closing the Eastern Market, the capital's bastion of small-scale free enterprise.*
- *Subsidized foodstuffs and consumer goods by enforcing wholesale and retail price ceilings.* [redacted]

During the first two years of Sandinista rule, food imports and donations compensated for the sharp decline in agricultural production during the revolution. By 1982, however, a falloff in donations and the growing shortage of foreign exchange limited the flow of foodstuffs from abroad, leading to frequent shortages. In response, Managua set up a rationing system that supposedly guarantees each family the right to buy at least a specified amount of foodstuffs each month through government outlets at official prices. Nonetheless, supplies of these goods have become increasingly scarce, giving impetus to a prospering black market. [redacted] 25X1 25X1 25X1

Shortages are partly caused by inefficient handling and distribution, [redacted] *For example,* [redacted] *burdensome import procedures prevent prompt use of donated goods. Opposition journalists claim incompetence is hindering distribution of available supplies of cooking oil and grains. We believe low producer prices drive many farmers to divert goods to the black market.* [a] [redacted] 25X1 25X1 25X1 25X1

[redacted] 25X1

petroleum and petroleum products in Mexico, as well as some production of petrochemicals. PEMEX also directs many activities only remotely related to running the petroleum business, including medical care and hospitals, construction of offices and other facilities, and janitorial services. This results in one executive director being responsible for the operation of a large number of different activities and creates bottlenecks, communication problems, and other forms of inefficiency. [redacted]

Inefficiency is perpetuated because the trading organizations usually lack domestic competitors and, therefore, are not driven out of business. Governments protect STOs from competition by providing special access to foreign exchange and commercial information, financial support, and monopoly trading rights. For example, private Brazilian traders claim that the government provides the Brazilian state trading company INTERBRAS with information on forthcoming trade deals, allowing the STO to beat out private competitors. In addition, INTERBRAS receives benefits from being owned by the Banco do Brasil, allowing INTERBRAS to easily obtain foreign exchange—avoiding the delays experienced by private traders. [redacted] 25X1

Because of these inefficiencies, STOs usually require massive government subsidies to stay afloat—costing LDC taxpayers countless dollars, pulling capital away from private firms, and adding to the country's debt. 25X1

For example:

- Argentina's state petroleum company, YPF, runs up some of the biggest corporate losses in the world. Last year's surpassed $600 million, according to YPF officials.
- Mexico's food-importing STO, CONASUPO, is expected to lose about $1.5 billion in 1986—equivalent to 1 percent of GDP, [redacted]
- CARONI, Trinidad and Tobago's national sugar enterprise, received government subsidies of more that $120 million in 1984, according to US Embassy reporting.
- Revenue earned by SIDERBRAS, the Brazilian steel company, covered only 51 percent of total expenditures in 1985, according to US Embassy reporting. [redacted]

Engendering Corruption

STOs are often plagued by corruption—an engrained element of many LDC economies—that compounds inefficiency and drains state coffers of billions of dollars. For example, a Brazilian Coffee Institute (BCI) audit of warehouse records discovered that nearly 17,000 sacks of coffee worth nearly $900,000 disappeared in March 1985, according to press reporting. Moreover, coffee stored in the BCI's warehouses was found to be an inferior and less expensive type than purchase records indicated. In another case, 37 members of the Ghana National Trading Corporation are accused of embezzling $6.2 million, according to local press reports. [redacted]

[redacted]

STO corruption sometimes involves officials at the highest levels of government. [redacted]

[redacted]

[redacted] 25X1

25X1

President Mobutu is reported to have siphoned off at least $1 billion from SOZACOM, Zaire's now disbanded mineral trading company, according to press reports. [redacted] 25X1

25X1

Corrupt practices can easily skew an STO's mission. Employees frequently become more concerned about enriching themselves rather than fulfilling their corporate responsibility. [redacted] 25X1

25X1

25X1

[redacted]

[redacted] corruption distorts hiring practices by favoring those who can afford to purchase their jobs. [redacted] 25X1

25X1

Blocking Foreign Investment 25X1

STOs also slow development by impairing the flow of foreign investment, thereby reducing competition, efficiency, and the transfer of technology. With STOs often granted monopoly rights by governments, foreign investment is blocked and countries become dependent on inefficient enterprises for development. Reversing the trend is difficult because these organizations build a constituency for protection. [redacted] 25X1

25X1

In addition to precluding foreign investment through outright state monopolies, STOs, in some cases, hamper foreign investment by raising the cost or perceived risk of a project. Some LDCs, for example, limit 25X1

25X1

foreign investors to a minority ownership position with an STO partner. The lack of direct control and therefore decisionmaking authority reduces the attractiveness of such investments. In Mexico's mining industry, foreigners can hold no more than a 34-percent equity position with an STO holding the majority equity position. Foreign investment in LDC oil industries is impaired by tight restrictions on foreign participation that often includes majority control by the national oil company. Under new Argentine hydrocarbon legislation, YPF has the option to become a 15- to 50-percent partner on all commercially exploitable petroleum finds. Moreover, STOs may control a host of factors, such as production rates, local labor requirements, marketing strategy, prices, and form of payment, creating further disincentives to invest.

Distorting Production Incentives

In our judgment, STOs probably have caused their most severe distortions in Third World agriculture by setting artificially low producer prices. Many LDCs, particularly in Africa, require domestic producers of important export commodities to sell their products to state marketing boards, which usually purchase the commodities at below world market prices. By paying one price to growers and receiving a higher price for exports, marketing boards raise revenue for the state. According to US Embassy reporting:

- Actual receipts by Kenyan farmers are generally between 75 to 85 percent of the free market price.
- The Nigerian Cotton Marketing Board paid growers less than half the export price of cotton during the early 1980s.
- The Ethiopian Government's price for 50 pounds of barley was $14 last year; the world market price was $50.
- In Tanzania, the producer price of coffee was $1.42 per kilo while the export price was $3.25 during February 1986.

Moreover, most marketing boards are also cash poor—the government takes all the earned revenue—forcing the boards to delay payments to producers.

In extreme cases, producer prices are below actual production costs, forcing growers to give up producing these crops or turn to subsistence farming. For example, Tanzania's Sisal Authority has frequently not paid farmers at all for their crops, according to the US Embassy. In one of the worst cases of low producer prices, Indonesian farmers receive so little for their sugar that they must be coerced into producing the crop. According to the US Embassy, if a farmer selected by the government to produce sugar refuses, access to irrigation water is cut off or, in rare circumstances, the military may destroy alternative crops planted in fields designated for sugar production. 25X1

These policies have caused major declines in agricultural production in many LDCs. For example, Ghana—which earns well over 50 percent of its export revenue from cocoa sales—has experienced a massive decline in agricultural output largely because of the ill-conceived policies of the cocoa marketing board. According to previous analysis, low producer prices have been the principal cause of the decline in cocoa production—plummeting from a peak of about 540,000 tons in 1965 to about 158,000 tons in 1984.[2] Cocoa experts estimate that about 20,000 tons annually go unharvested because of low government producer prices or transportation problems. 25X1

Low producer prices have also encouraged commodity smuggling.[3] In turn, government revenues and foreign exchange have been lost and political tensions with neighboring countries have been heightened. Some examples of smuggling 25X1 include: 25X1

- About 20 percent of Ghanian cocoa and 10 percent of the Nigerian crop is illegally exported each year.
- Much of Thai mineral production evades official channels because of artificially low prices. The official tungsten price, for example, is under a quarter of the amount received over the border.
- As much as half of The Gambia's and Senegal's export mainstay—peanuts—may be held back by farmers or sold on the black market for higher prices. 25X1

25X1

25X1

Table 2
STOs' Share of National Trade in Selected LDCs

Percent

Country	Exports [a]	Imports [a]
Algeria	100	100
Argentina	4	13
Brazil	35	65
Burundi	95	50
Egypt	90	72
India	20 [b]	60
Mexico	75	43
Peru	87	27
Sri Lanka	9	26
Syria	89	8
Tanzania	75	75
Venezuela	95	20

[a] CIA estimates.
[b] Exports have run as high as 50 percent in recent years because of crude oil sales that are expected to be a temporary phenomenon.

Obstructing Trade

In addition to its adverse impacts on LDCs' domestic economies, STOs create many problems in the international trading system. Their negative impact can be sizable because of their importance in the world trading system. Overall STO involvement in international trade is estimated by various authorities to range from 10 to 40 percent. According to open sources, state trading is especially important in world commodity markets: more than 20 percent of traded agricultural goods, bauxite, copper, iron ore, and tin is supplied through STOs. In addition, one-third of the world's phosphate supply is controlled by a single Moroccan STO. STOs are perhaps the most active in the oil market—handling the petroleum imports and exports of most LDCs. Although the mere presence of STOs in international trade is not inherently negative, some STOs engage in a variety of practices that obstruct the world trading system.

Unfair Export Practices

Although unfair export practices are not exclusive to STOs, these organizations make it easy for governments to engage in such practices to achieve a variety of political, economic, and social goals. STOs may practice dumping—pricing exports below their marginal cost—to boost employment, expand the volume of goods traded, increase their share of foreign markets, and earn needed foreign exchange. Dumping occurs because mismanagement and improper planning and price incentives often result in overproduction. STO's may be forced to off-load excess production in overseas markets to recover as much of their costs as possible. In addition, since STOs face little or no competition at home, they can discriminate between markets by charging a lower price in foreign markets. Finally, the organizations may engage in predatory dumping to capture a commanding share of a foreign market. Governments encourage such behavior because officials seek to diversify exports and promote industrial development. 25X1

25X1

25X1

Many LDC governments also subsidize STOs in targeted export industries, which, in turn, allows the STOs to sell at lower prices. These subsidies can take many forms:

- Direct financial transfers from the government to the STO.
- Favorable interest rates.

25X1

Figure 4. Carajas Project, CVRD. The Carajas project is the world's largest iron ore mine, operated by the Brazilian public production enterprise CVRD. The resulting iron ore exports could disrupt the American market.

25X1

- Easy access to government funds, permitting large overdrafts with the central bank.
- Subsidized inputs that lower total production costs.
- Government payment for certain aspects of the organization's activities, such as research and development and transportation of materials.
- Indirect subsidies, such as the transfer of state-owned goods and services to the STO, at no, or substantially, reduced cost.

25X1

Numerous examples of these practices exist. In February 1985 the Department of Commerce determined that steel wire imports from Saudi Arabia, produced by the state Iron and Steel Company (Hadeed), were benefiting from grants equivalent to 5.48 percent of

South Korea: A Different Direction

The South Korean Government's direct involvement in international trade is more limited than that of most developing countries. Instead of using STOs to manage trade and promote exports, Seoul relies on the private sector. Korea's foreign trade is dominated by its eight general trading companies. These private firms are modeled after the Japanese soga shoshas*—multinational in scope with diversified operations and tremendous size. Total sales of these eight companies were more than $13 billion in 1983, and seven of them were among the 10 largest corporations in South Korea. The government encourages the formation of large trading companies by granting special incentives to corporations that exceed 2 percent of the national export goal.* [redacted]

A lack of ownership, however, does not preclude control. In fact, Seoul exercises considerable influence through informal channels. A close government-business relationship exists in which Seoul sets broad priorities—for example, diversification of export markets—and the general trading companies receive favors for cooperation, [redacted] *Government control over credit allocation is Seoul's primary tool for getting private companies to comply, but threats of higher taxes are also used.* [redacted]

their value. Those subsidies were said to have included a government loan, the preferential provision of equipment, and government equity provisions to Hadeed. The Commerce Department also recently found that the majority of US imports from Siderugica del Orinoco (SIDOR), the Venezuelan state-owned steel enterprise, were subsidized at a rate of 72.6 percent. [redacted]

Restricted Imports

On the import side, LDC governments often use STOs as an indirect means of implementing restrictive trade policies. The lack of transparency allows LDCs to bear a lower risk of partner-country retaliation. Furthermore, STOs are subject to less international scrutiny, increasing, in our view, the likelihood that LDCs will use STOs to circumvent recognized trading norms. STOs restrict trade by applying taxes, high markups, and commissions to imported products. These restrictive policies act as a tariff, reducing the level of trade and encouraging consumers to purchase domestically produced substitutes. In addition, STOs restrict trade through import quotas. Paraguay, for example, restricts wheat imports through an STO as part of its National Wheat Self-Sufficiency Program. Indonesia does the same with sugar in the face of world prices that are less than one-eighth of the domestic cost of production, according to the US Embassy. [redacted] 25X1

STO inefficiencies also lead to restricted trade through higher cost imports and lengthy, burdensome administrative procedures. [redacted] 25X1

[redacted]

25X1
25X1
25X1
25X1
25X1

Countertrade

The governments of many LDCs encourage STOs to enter into barter arrangements in hopes of increasing exports, conserving foreign exchange, and improving the balance of payments. STOs are in an excellent position to engage in countertrade because they can justify the added expense as necessary to meet national goals. Furthermore, governments consume a wide range of goods, making it easier for STOs to place the bartered products. This reduces the need for resale, 25X1 lowering the cost of countertrade. Finally, governments force their trading partners to accept domestically produced goods in exchange for imports by exercising their monopsony power—the power an organization has over sellers when it is the predominant buyer. [redacted]

Brazilian STOs are among the most active participants in countertrade. We estimate that about two-thirds of Brazil's oil imports are obtained through countertrade arrangements. In 1982 PETROBRAS, the state-owned oil company, announced that all countries exporting oil to Brazil were required to purchase an offsetting amount of Brazilian goods. These countries were then directed to identify potential Brazilian exports and negotiate terms with INTERBRAS, its trading subsidiary. According to US Embassy reporting, such deals have been concluded with Algeria, Iran, Iraq, Malaysia, Mexico, Nigeria, and Venezuela.[4] Brazilian goods and services being exchanged include motor vehicles, foodstuffs, chemicals, textiles, and agricultural machinery. PETROBRAS has curtailed its imports from Kuwait, Libya, Qatar, and the United Arab Emirates because these countries were not buying sufficient quantities of Brazilian goods. [redacted]

[redacted]

[redacted]

[redacted] 25X1

25X1

The Future of STOs: Pressure for Reform, But Political Resistance

STOs will continue to play an important role in LDC domestic economies and the world trading system; we expect the rate of growth to slow from the pace of the past few decades, however. The slowdown is likely to occur because many LDCs are beginning to recognize that corruption, costly subsidies, and inefficiency plague the organizations. According to open sources, the president of the Brazilian Coffee Institute recently stated that the institute can carry out its mission with only 200 people as opposed to the 4,500 it currently employs. CARONI, Trinidad and Tobago's sugar enterprise, intends to reduce its ranks by 4,500 jobs over the next three years, according to press reports. 25X1
In a few cases, LDC governments—Argentina, Brazil, Guinea, Mexico, and Pakistan, for example—are 25X1
seeking to privatize or liquidate some smaller public enterprises, but the large STOs are not likely to be affected. [redacted] 25X1

Compliance with IMF-backed austerity programs also is driving some LDCs to reduce public transfers to STOs and undertake certain structural adjustments. In response to such pressure, Mexico is eliminating its subsidies on most foods. Similarly, the IMF has pressured Mali to reduce losses of the trading company SOMIEX by terminating the STO's monopoly on the sale of basic foodstuffs. In a tentative understanding between the IMF and Sierra Leone, Freetown has agreed to reduce the role of the Precious Metals Marketing Company, the Gold and Diamond Office, and the Produce Marketing Board. In fact, the

25X1

Table 3
STO Objectives and Their Negative Effects on International Trade

STO Objectives	STO Policies and Practices	Effect on Domestic and International Trade
Boost employment, exports. Increase share of foreign markets. Increase foreign exchange earnings.	Unfair export practices	Undercuts private firms. Less efficient allocation of global resources. Injures US firms by providing foreign firms with unfair trade advantage.
Protect domestic producers. Stem foreign exchange outflow.	Restricted imports	Fewer goods and services exchanged. Reduced efficiency, consumer choice, and export competitiveness. Higher domestic prices.
Increase exports. Conserve foreign exchange. Improve balance of payments.	Countertrade	Raises costs to both STO and partner country. Reduces foreign exchange earnings. Increases discrimination and restrictive trade practices.

25X1

Sierra Leone Minister for Development and Economic Planning stated in early March that "we cannot and will not revert back to the use of entities such as the marketing board. We can't afford the marketing board's efficiency when it comes to something as sensitive as rice," according to the US Embassy. Austerity is also forcing some governments to squeeze the budget of profitable STOs to service large public debts—causing declines in investment that may result in lower production in the future.

In another move to reduce the role of STOs, some governments are opening up certain sectors of the economy to private competition, reducing the size of the organizations' bureaucracy, and streamlining procedures. Algiers, for example, has decentralized its import monopoly and now permits private firms to import certain goods—bypassing STOs. New Delhi has reduced its licensing requirements, making it easier to obtain imports. The new government of Tanzania is also moving in this direction with plans to streamline its many public enterprises, although progress to date has been minimal.

LDC governments are also likely to attack corruption in STOs as part of their effort to reduce public-sector expenditures. Such attacks, however, have dim prospects in many LDCs, where corruption is a way of life and often involves regime members and families at the highest levels. 25X1

25X1

Many LDCs are also likely to undertake agricultural reform. Backed by the World Bank, the gross inefficiency and poorly conceived policies of producer marketing boards will be reduced. Ghana, for example, has announced that it will reduce the size of the cocoa board by 19,000 positions. In addition, the government has recently boosted price incentives by 50 percent to encourage production. These efforts, according to the US Embassy, appear to have at least halted the 20-year decline in Ghanian cocoa production. Zambia has also made recent efforts to reform its agricultural marketing board, NAMBOARD. On 17 January, President Kaunda announced that NAMBOARD will no longer have monopoly status for the marketing of maize and fertilizer. By no means, however, are a large number of LDCs likely to disband their marketing boards or relinquish the use of the boards as instruments of taxation. LDCs will

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

STOs: Instruments of Foreign Policy

Many LDCs use STOs to influence their relations with other nations. STO officials frequently visit foreign capitals as representatives of their government. These contacts often stimulate stronger commercial ties, enhancing political relations. Many LDCs, for instance, use their STOs to increase the level of trade with Eastern Bloc countries. One purpose behind such policies is to strengthen South-East ties to reduce the LDCs' dependence on the West. [redacted]

LDC governments also use STOs to establish contact with certain countries as a first step in creating stronger political relations. Alternatively, some LDCs instruct their trading organizations not to undertake certain commercial decisions because they may have negative political effects. [redacted] *Moreover, STOs balance their commercial ties with competing countries so their governments can maintain political influence in both. For example, some Brazilian STOs balance their trade with such rivals as Pakistan and India, or Iran and Iraq,* [redacted] 25X1

In addition to these more or less routine uses of STOs as tools of foreign policy, LDCs may use their trading organizations to undertake specific foreign policy missions. [redacted] 25X1

25X1

25X1

25X1

25X1

25X1

continue to set low producer prices—restraining output and causing smuggling—because the LDCs have few alternative means of collecting scarce revenue. [redacted]

Despite these pressures for reform, dismantling LDC STOs will meet considerable political resistance: STOs house the vested interests of many LDC elites, play an important role in maintaining social stability, and respond to popular feelings of nationalism. Some LDC leaders and their political backers siphon off huge sums of money from STOs, making them unwilling to reduce the role of these organizations in their economy. STOs also provide LDC leaders with the power to distribute government positions to loyal supporters, family members, or co-opted rivals. For example, Indonesian President Suharto has placed family members and close associates in charge of the country's trading organizations. In Somalia, Mogadishu continues to avoid taking effective steps to reform government-owned businesses, despite IMF pressure to do so. According to the US Embassy, the Somalis dragged their feet on instituting reforms—probably fearing losses of patronage and control—and are attempting to keep in the public sector all businesses that benefit top Somali officials and their friends and relatives. [redacted] 25X1

25X1

Many LDC governments also use STO subsidies for critical commodities to enhance political stability among key groups of society. Morocco subsidizes consumer prices of flour, sugar, and vegetable oil, according to the US Embassy. In Jamaica, there were riots following PETROJAM's effort to raise the price of gas. Moreover, some marketing boards set low producer prices and in turn sell these inexpensive agricultural products to urban consumers. This transfer of income is designed to maintain political support among the much more politically threatening city dwellers at the expense of the dispersed farming community.

Finally, attempts to eliminate STOs could stir nationalist sentiment, making the disbanding of these organizations politically impossible. Such sentiment is likely to be especially strong if some of the STOs' business is turned over to foreign multinational corporations. For example, Argentine labor groups opposed President Alfonsin's February 1986 economic package, in part because the scarcity of domestic capital made it likely that only foreign companies could afford to buy the state enterprises that were up for sale, according to local press reports.

Implications and Opportunities for the United States

The United States has a considerable stake in the outcome of STO reform. The dismantling of these organizations would help US Government efforts under the Baker Plan to promote structural adjustment in the Third World, thus helping to reduce the burden of large LDC debts. Improved adjustment performance would also reduce LDC needs for increased economic aid and other concessions. In the long run, reform would support US interests in enhancing political stability by reducing domestic economic frustration resulting from low economic growth. Finally, reform could reduce political strains—stemming from growing economic disparities—between LDCs and industrialized countries.

On the commercial side, reform would enhance opportunities for US business by reducing the scope of STO involvement in LDC economies. American firms would gain from an improved investment climate; greater access to LDC markets; and a reduction in countertrade, dumping, and subsidies. Moreover, US financial institutions that have lent abroad would benefit from an increased likelihood that the interest and principal on their Third World loans will be paid.

Several avenues exist through which the United States can encourage reform:

25X1

- *GATT*. Article XVII of the GATT—the primary provision dealing with STOs—attempts to ensure that the trading organizations operate solely in accordance with commercial considerations, behave in a nondiscriminatory manner, and refrain from imposing quantitative restrictions on traded goods. The provision, however, has been largely ineffective in controlling the excesses of STOs. The rules have been subject to widely divergent interpretations, few cases have been raised for examination, and member countries have not provided information on their operations—failing to meet their duty of notification. In the forthcoming trade round, the United States could strongly support the Chilean initiative to reform GATT state trading rules. The United States could also attempt to develop a code for state trading that would reduce restrictive and discriminatory practices.

25X1

- *Bilateral Negotiations*. Through bilateral talks, LDCs could be reminded of the various negative effects of STOs—particularly lower production incentives and blocked foreign investment. The high costs of inefficient organizations such as increased consumer prices and expensive government subsidies may also be emphasized. LDCs could be encouraged to privatize STOs as a means of solving some of these problems.

- *IMF/World Bank*. The IMF and the World Bank could be encouraged to crack down on costly government subsidies to STOs, refuse to lend to inefficient organizations, and assist in restructuring misdirected agricultural policies. The two sister organizations could also take into fuller account the real costs—preferential interest rates and low-priced inputs—of certain benefits provided to STOs that LDCs usually do not take into consideration.

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

- *Other International Bodies.* The Organization for Economic Cooperation and Development (OECD) could study STOs and combine the study with political action noting disapproval of their effects. Also, UNCTAD, a traditional supporter of STOs, could be requested to examine the problems of inefficiency and price distortions associated with STOs. Although UNCTAD has refused to undertake such studies in the past, the new more market-oriented leadership may now be willing to examine the issue. Finally, the United Nations Transnational Center could develop a code of conduct for STOs as well as for Western multinationals. [redacted] 25X1

As a result of recent developments—LDC debt overhang and the forthcoming GATT round—there are more opportunities than perhaps ever before to redress the problems posed by STOs. Moreover, large STO losses, inefficiency, blocked foreign investment, corruption, the need to comply with World Bank and IMF programs, and in general a more pragmatic, less ideological stance on the part of most LDCs make the developing countries somewhat more receptive to undertake reform. Despite many political obstacles, these conditions increase the likelihood that US initiatives can reduce the growth of STOs and perhaps scale them back in some countries. [redacted] 25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Brazil

Appendix A [5]

Brazil

Brasilia owns some of the largest and most important STOs in the Third World. They handle approximately two-thirds of Brazil's imports and one-third of all exports. Brazilian STOs engage in a wide range of trading activities. Some of the trading organizations—PETROBRAS, CVRD, and SIDERBRAS—are large public production enterprises trading petroleum, metals, and steel, respectively. These enterprises are primarily geared toward promoting national development either through the exploitation of Brazil's vast natural resources or through the creation of a modern infrastructure that will foster growth. Some STOs, such as INTERBRAS—an affiliate of PETROBRAS—and COBEC are trading companies that are operated to promote Brazilian exports.

CVRD

Companhia a Vale do Rio Doce (CVRD) is an integrated mineral-producing and -exporting company. The STO's activities have expanded from its original focus on iron ore to a whole range of minerals. The STO has also moved into all aspects of mineral trade—shipping, processing, marketing, research, and upstream production. Through CVRD, Brasilia is able to maintain control over a large share of the production and export of Brazil's mineral resources. Iron ore and pellet exports by CVRD and its subsidiaries, for instance, account for approximately 75 percent of Brazil's iron ore and pellet sales.

The Carajas project is CVRD's most important venture. Carajas is a $4.9 billion mining operation containing the largest iron ore deposits in the world. The project includes the development of a mine, railroad, processing plant, and deepwater port. When the complex is completed in 1987, the state mining company expects its annual production of iron ore to increase by one-third, reaching 35 million metric tons. The US Embassy reports that the first shipment from the project—to Japan—took place in May 1985. In the coming years, the government may reduce its equity position in CVRD—selling off some of the company's stock as a means of building up its capital base for future investments. 25X1

CVRD has been involved in a number of countertrade arrangements, mainly with Communist countries. The STO uses a clearing account system with Romania, Czechoslovakia, and Poland. In a 10-year arrangement with Poland, CVRD swapped iron ore for coal that, in turn, was sold to SIDERBRAS, the public Brazilian steel production enterprise. In a deal with Czechoslovakia, guidelines were established for the sale of Brazilian iron ore for a variety of Czechoslovak products. Countertrade arrangements with non-Communist countries include an October 1983 arrangement to supply 300,000 tons of iron ore annually to Malaysia in exchange for 10,000 barrels of oil per day. 25X1

25X1

PETROBRAS

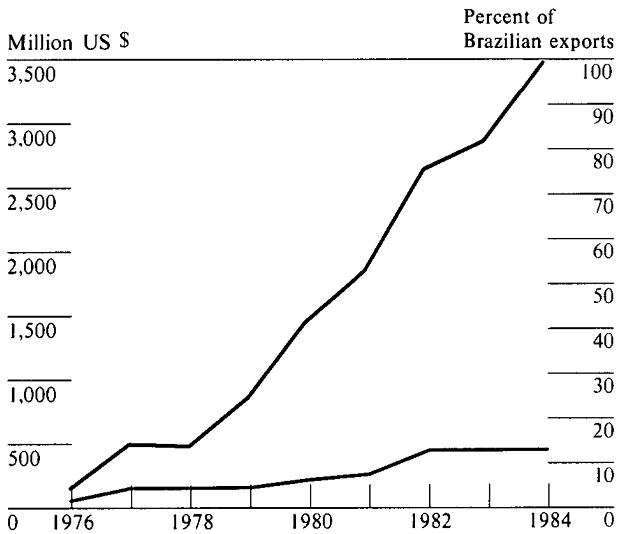
PETROBRAS, the national oil company of Brazil, develops the country's petroleum resources and regulates all crude oil imports. PETROBRAS has the most sales of any Brazilian firm—almost $8.8 billion in 1984—and is one of the largest companies in the developing world. In 1982 the STO employed more than 50,000 people. 25X1

25X1

INTERBRAS is the petroleum company's foreign-trading arm whose main objective is to promote Brazilian exports. Because of this function, INTERBRAS is the principal focus of countertrade activity in Brazil. The STO has concluded numerous

25X1

Figure 5
INTERBRAS Sales



309167 5-86

countertrade deals, most linked to the purchase of oil by PETROBRAS. This became a matter of policy in 1982 when PETROBRAS announced that all countries exporting oil to Brazil must purchase an offsetting amount of Brazilian goods. The oil-exporting LDCs were directed to identify potential Brazilian exports and negotiate terms with INTERBRAS. Consequently, INTERBRAS entered into countertrade arrangements with Algeria, Iran, Iraq, Malaysia, Mexico, Nigeria, and Venezuela. The Malaysian arrangement—a $100 million deal—traded Malaysian rubber and oil for Brazilian steel, iron ore, and paper. PETROBRAS reportedly curtailed oil imports from countries that refused to offset their oil sales with purchases of Brazilian products.

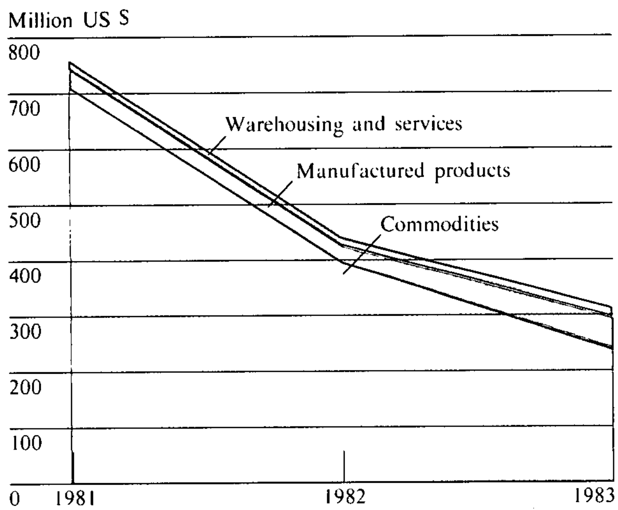
In addition to using oil countertrade arrangements as a means of promoting Brazilian exports, INTERBRAS provides small- and medium-size firms with a variety of services, including financing, quality control, shipping, and warehousing. Developing brand recognition for certain products in overseas markets is one important service that INTERBRAS provides. The development of "Hippopotamus" shoes for sale in the United States is one successful example of this export promotion service. To promote Brazilian shoes, the trading company established a network of agents and retailers in the United States and invested extensively in advertising—spending an average of nearly $3 million per year. INTERBRAS also assists 21 shoe factories in Brazil by providing financing, helping design shoes to meet current market tastes, and monitoring production to ensure a high level of quality. The product promotion drive has been very successful. INTERBRAS's shoe sales grew from $8 million in 1980 to $39 million in 1983. 25X1

INTERBRAS has grown rapidly with sales rising more than 285 percent in the past 10 years. The organization has also expanded its trading operations by both country and product. Part of INTERBRAS's growth, however, has come at the expense of private Brazilian traders. The trading company captures lucrative contracts by offering lower prices or more attractive terms. For example, it was reported that INTERBRAS once went to US purchasers of Brazilian candy and offered them a better price. The company then bought significant quantities of candy production and undercut other private Brazilian traders. The STO's competitive edge is partly derived from the low-cost credit it receives from PETROBRAS and a reduced pressure to show a profit. 25X1 25X1

COBEC

Companhia Brasileira de Entrepostos e Comercio (COBEC) is a state trading and warehousing company founded in 1972 primarily to promote Brazilian exports. During the course of its first year, the company hastily expanded its trading activities both in terms of product and geographical coverage. In recent years COBEC has encountered financial difficulties resulting from substantial trading losses and mismanagement. The overly rapid expansion of the STO's trading operation created a large and costly 25X1

Figure 6
COBEC Sales



[redacted] 25X1

309168 5-86

infrastructure—such as offices and warehousing facilities abroad. This siphoned capital away from the STO's trading operations and into unproductive overhead. The STO was also highly vulnerable to changes in the business environment because most of the organization's profits were earned from two agricultural commodities—soya and corn. After a few years, soya producers acquired the necessary knowledge and grew to a sufficient size to trade directly with end users—bypassing the STO. The company also suffered from mismanagement that resulted in significant commodity trading losses. For example, [redacted] 25X1 COBEC recently lost $30 25X1 million in a soya trade deal with India. [redacted] 25X1

The STO has been able to survive these business shocks partly because COBEC receives preferential treatment, such as subsidized credit from the government through the Banco do Brazil. Furthermore, private traders allege that Brasilia extends specific trade opportunities to COBEC to keep the STO afloat. In 1983, for example, responsibility for importing certain agricultural products was given to COBEC instead of opening the trade up to private firms. In response to its many financial difficulties, the STO has been moving to diversify its trading operations to reduce the risk of future commodity losses. The organization is also attempting to upgrade its management skills, improve efficiency, and take a less risky position in its dealings. [redacted] 25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Malaysia

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Appendix B

Malaysia

The Malaysian STOs were created primarily to promote social restructuring under Kuala Lumpur's New Economic Policy (NEP). Traditionally, the nation's wealth has been concentrated among both foreigners and resident Chinese. In 1971 the Malay-dominated government introduced the NEP to reduce Chinese and foreign control of businesses. In accordance with the NEP, Kuala Lumpur created a series of STOs designed to transfer wealth and skills to the indigenous Malay or Bumiputra population. [redacted]

The Pernas Group

The Pernas Group is a Malaysian public holding company that owns numerous subsidiaries—more than 100 in 1981—engaged in a variety of commercial activities. Many of these subsidiaries are wholly owned by Pernas, but several are joint ventures with foreign partners. The subsidiaries of Pernas have traded with Brazilian and Indian STOs, contracted government-to-government deals, and entered into some countertrade arrangements. Pernas seeks to employ indigenous Malays in its many operations, thus transferring skills and management expertise to the Bumiputras. [redacted]

Pernas Trading, among the largest subsidiaries in the group, was founded as a vehicle to control trade with China. The government provides the STO with oversight authority on Chinese import trade, allowing the organization to charge a 1- to 1.5-percent commission on all transactions. This trade mainly consists of foodstuffs and light industrial goods. Pernas Trading also acts as a conduit for advanced technology imports from the West. In the past year, Pernas Trading has moved into export trade, but the volume of sales remains small. [redacted]

Development Agencies

The Federal Land Development Authority (FELDA) is the Malaysian Government's agency responsible for expanding the cultivation of various agricultural commodities and the resettlement of the Malaysian rural poor. FELDA's commercial operations are designed to provide rural producers with an integrated range of services necessary to ensure the processing, marketing, and exporting of agricultural commodities. FELMA, the foreign trade arm of the agency, handles the export of 35 percent of the country's palm oil along with the sale of palm kernel, rubber, cocoa, and certain petroleum products. The foreign purchasers are often STOs in other developing countries responsible for the import of edible oils. FELMA offers a range of export services, including quality control, forwarding, clearing, shipping, warehousing, and commodity and currency hedging. [redacted]

Like FELDA, the Malaysian Rubber Development Corporation (MARDEC) is an agency designed to increase agricultural output and foster social restructuring. MARDEC specializes in assisting small rubber farmers to improve the processing of Malaysian rubber to obtain higher prices. MARDEC handles approximately a quarter of Malaysia's rubber exports. The STO attempts to stabilize producer incomes by fixing the price of rubber. The existence of private rubber traders, however, keeps the fixed price from becoming too distorted. [redacted]

25X1

25X1

25X1

25X1

25X1

Reverse Blank

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Mexico

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Appendix C

Mexico

STOs in Mexico vary greatly in size and scope of activity. Some of the STOs—principally PEMEX and CONASUPO—are large, vertically and horizontally integrated organizations that dominate their respective economic sectors. Other STOs are relatively small—a few of these are being liquidated in the current effort to privatize public enterprises. We estimate that Mexican STOs account for 75 percent of national exports and more than 40 percent of imports.

PEMEX

Mexico controls all petroleum-related activities through the state-owned petroleum company PEMEX. PEMEX's operations include exploration and production of crude oil and gas, refining, transportation, marketing, and the production of petrochemicals. PEMEX produces about 1 billion barrels of petroleum and 13 million tons of petrochemicals annually. PEMEX has experienced financial problems in recent years caused by declining oil prices and Mexico's debt overhang.

This giant STO is Mexico's largest foreign-exchange earner. PEMEX's profits are either transferred to the government or plowed back into new investments. Between 1979 and 1983 PEMEX provided the federal government with revenues averaging the equivalent of 4 percent of gross domestic product (GDP). In recent years, the de la Madrid administration has squeezed PEMEX's operating costs to raise government revenues. This has caused PEMEX to fall short of critical maintenance, development, and exploration targets needed to sustain present petroleum production levels.

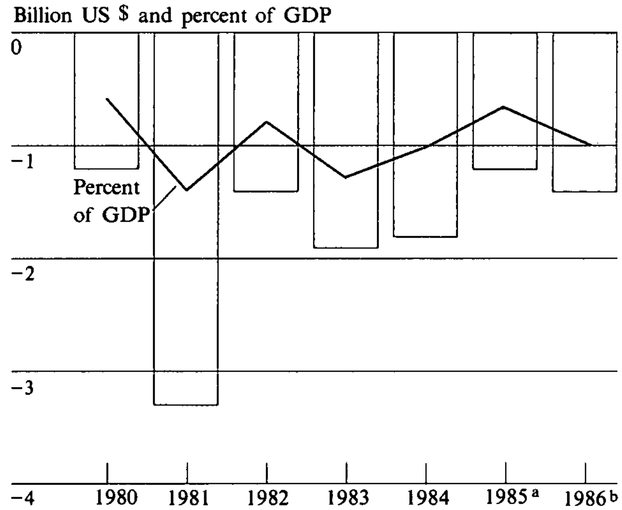
CONASUPO

The National Company for Popular Subsistence (CONASUPO) is the pricing, marketing, and trading agency for Mexican agricultural commodities. The principal function of CONASUPO is to supply basic agricultural products at low and stable prices to the Mexican population. To achieve this end, the government agency administers official support prices, imports agricultural products, manages storage facilities, processes commodities into finished food products, and distributes the food—at subsidized prices—through wholesale and retail outlets. 25X1 25X1

CONASUPO is the largest importer in Mexico with a near monopoly on food imports. CONASUPO's foreign purchases totaled $1.5 billion in 1984—approximately 20 percent of national imports. The STO purchases agricultural products—primarily beans, corn, sorghum, and wheat—through public tenders to offset domestic production shortfalls. This has become an increasingly important aspect of the organization's activities as Mexican food demand has outstripped supply in the past decade. CONASUPO also attempts to use the enormous size of its grain purchases to obtain better prices and financing in world markets. 25X1 25X1

CONASUPO has suffered from gross inefficiency and corruption. Planning and storage errors raise food costs. The STO has inaccurately estimated demand in certain areas, resulting in shortages of agricultural products. 25X1 25X1 25X1

Figure 7
CONASUPO: Operating Losses



[a] Estimate.
[b] Projected.

309169 5-86

25X1

25X1

CONASUPO's inefficiency has been very costly to Mexico. The STO has incurred large operating losses in recent years. In 1986, for example, CONASUPO's losses are projected to be equivalent to about 1 percent of Mexican GDP. In addition, corruption is a major problem. Officials of CONASUPO have been accused of misappropriating funds, altering purchase records, and misdirecting food supplies. 25X1

In an attempt to redress these problems, the de la Madrid administration is sharply cutting back on food subsidies and reducing the role of CONASUPO. This year, the STO's budget was reduced by approximately 35 percent in real terms. To take up the slack, Mexico City is permitting private traders to purchase imports if they can obtain a better price than CONASUPO. The government is also trying to crack down on graft and corruption. Some employees have recently been arrested for stealing grain. 25X1

Singapore

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Appendix D

Singapore

Singapore's STOs, unlike those of most other developing countries, are operated almost exclusively for one purpose—profit. The STOs are large money earners, with skilled management directing the organizations' varied trading functions. In this sense, the STOs are like private firms—making decisions principally on a commercial basis with minimal government interference. In recent years, many of the STOs have become heavily oriented toward export promotion.

Government ownership of the STOs is exercised through four public holding companies—Temasek, Sheng-Li, MND, and Helicon. Through these holding companies the government maintains a very large stake in the nation's economy—fully owning at least 68 companies, with controlling interests in 119 others. Sheng-Li, for example, is the public holding company associated with the Ministry of Defense. The company owns many subsidiaries that produce defense and other sensitive items. The products produced by these public companies are sold to foreign countries by the STO Unicorn—the trading and marketing arm of the Defense Ministry.

INTRACO

The International Trading Corporation (INTRACO) is one of the most important STOs in Singapore. The company was originally founded in 1968 to control trade with the Communist Bloc and promote exports. Since then, private firms have been permitted to trade with Communist countries, causing INTRACO's focus to shift to export promotion and securing raw materials to be used in manufacturing. The organization has become a diversified international trading organization with a sales volume of approximately $120 million in 1983.

Although the company operates largely as a private concern, government ownership does provide some benefits. The STO is included in most governmental trade delegations, especially to Communist countries. This gives the STO an advantage over private trading companies. For a time, INTRACO was also given the privilege to collect a one-half-percent duty on the value of business transactions with China, Laos, Albania, Vietnam, Mongolia, and East Germany. INTRACO is also the government's principal means of handling countertrade transactions in the civilian sector. INTRACO has concluded arrangements with Indonesia and Malaysia, and has discussed similar arrangements with Burma.

In exchange for these benefits, Singapore delegates certain price stabilization responsibilities to INTRACO. For instance, the organization operates the government's rice stockpile, importing rice and selling it to domestic distributors at the government's direction. INTRACO assumed this role after rice prices shot up in the early 1970s. The Office of Domestic Trade and External Trade Policy directs the STO when to sell the rice and specifies a market price. Similarly, in the late 1970s cement prices in Singapore soared because some importers were trying to make a quick profit by cornering the market. At the time, INTRACO was not importing cement, but at the government's request it located foreign sources of supply and began importing the product to break the local importers' stranglehold on the market.

Other LDCs

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Appendix E

Other LDCs

In **Algeria** all imports and exports must pass through an STO. The regulations aim to save foreign exchange, protect domestic producers, ensure that export quotas are not exceeded, and require producers to repatriate export earnings. Public enterprises are given first priority in most trade matters, causing hardship for private firms. Algerian STOs' strict control of foreign trade creates many economic problems. Private companies suffer from poor-quality imports and uncertain delivery schedules, which make planning difficult. The STOs are also inefficient, resulting in higher costs and long transaction delays. Consequently, agricultural machinery ordered by private producers may be on the dock while the commodity is in the field ready for harvest.

Algiers is undertaking some modest reform to improve the distribution of import goods and to simplify import procedures. In 1982 private firms were permitted to import low-value components and spare parts—bypassing the STOs. The import monopoly has also been decentralized—expanding the number of these STOs more than threefold.

Indian STOs dominate the nation's foreign trade and have exclusive control of several major commodities. The STOs are particularly important in the export of cotton, fuels, minerals, and handicrafts. On the import side, the trading organizations handle fertilizer, food, metals, and petroleum. We estimate that the trading organizations account for approximately 60 percent of national imports and 20 percent of exports. The high share of imports reflects the importance of a few bulk commodities in India's trade. The STO share of exports has run as high as 50 percent in recent years because of foreign oil sales from newly developed fields. The overseas sale of oil, however, is expected to cease once India develops sufficient domestic refinery capacity.

In April 1985 the Gandhi administration adopted a trade policy that further eased import licensing controls and streamlined procedures. Under the policy, 53 items will no longer be channeled through state-owned enterprises. Moreover, the responsibility for import decisions has been shifted away from producers of certain products to other government agencies to eliminate the perception of price manipulation by certain STOs. 25X1

Morocco's top three companies are STOs. The largest—employing 25,000 people—is the state phosphate monopoly, the Office Cherifien des Phosphates (OCP). The STO accounts for more than 40 percent of Morocco's total export earnings and creates about 8 percent of GDP. The company exploits the most extensive phosphate mines in the world and supplies about one-third of all phosphate traded internationally. 25X1

25X1

25X1

25X1

25X1

Reverse Blank

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9

Major STOs

Appendix F

Major STOs: Trade in Key Commodity Markets

Commodity	Country	STO	Basic Function
Bauxite	Ghana	Ghana Bauxite Company	Mining company
	Guinea	Kinda Project	Mining company
		Compaynie des Bauxites de Guinee	Develop bauxite deposits, calcined bauxite
	Guyana	Guyana Bauxite Company, Ltd.	Mine and refinery
		Berbice Mines	Mining company
	Indonesia	P. N. Aneka Tambang	Mining company
	Jamaica	Kaiser Bauxite Company	Mining company
		Reynolds Jamaica Mines, Ltd.	Mining company
	Taiwan	Taiwan Aluminium Company (TALCO)	Mining, primarily aluminum
	Venezuela	Corporacion Venezolana de Guyana (CVG)	Mining and smelting
Copper	Bolivia	Corporacion Minera de Bolivia	Mining
	Chile	Corporacion Nacional de Cobre Chile (CODELCO)	Mining and smelting
		Compania Minera Andina	Mining and smelting
		Empresa Nacional De Minera (ENAMI)	Mining
	Iran	Sar Cheshmen Copper Mining Company	Copper mining
	Peru	Empresa Minera del Peru (Minero-Peru)	All phases of mining production, refining, marketing
	Taiwan	Taiwan Metal Mining Corporation	Mining company
	Uganda	Kilembe Mines, Ltd.	Copper mining
	Zaire	La Generale des Carrieres et des Mines du Zaire (Gecamines)	Mining
	Zambia	Zambia Consolidated Copper Mines	Mining and smelting
Grain	Algeria	Office Algerien Interprofessionel des Cereales (OAIC)	
	Angola	Instituto dos Cereais de Angola (ICA)	
	Bangladesh	Ministry of Food and Civil Supplies of the Government of the People's Republic of Bangladesh	
	Brazil	Superintendencia Nacional do Abastecimento (SUNAB)	
	Burma	Myanma Export and Import Corporation	
	Cambodia	Government of Cambodia	
	Chile	Empresa de Comercio Agricola (ECA)	
	Colombia	Instituto de Mercadeo Agropenano (IDEMA)	
	Cuba	ALIMPORT	
	Egypt	General Authority for Supply Commodities	

Major STOs: Trade in Key Commodity Markets (continued)

Commodity	Country	STO	Basic Function
	India	Food Corporation of India and Department of Food	
	Indonesia	Bureau of Logistic Affairs (BULOG)	
	Iran	Foreign Transactions Corporation (FTC)	
	Iraq	Grain Board of Iraq	
	Korea, North	Korea Cereals and Foodstuffs Export and Import Corporation	
	Korea, South	Korea Flour Mills Industrial Association	
	Lebanon	Cereals and Sugarbeets Office—Ministry of National Economy	
	Libya	National Supply Corporation (NSC)	
	Malaysia	National Padi and Rice Authority	
	Mexico	Compania Nacional de Subsistancias Populares (CONASUPO)	
	Morocco	Office National Interprofessionel des Cereales et des Legumineuics (ONICL)	
	Nigeria	Nigerian National Supply Company (NNSC)	
	Pakistan	Ministry of Food and Agriculture, Government of Pakistan	
	Philippines	National Food Authority	
	Saudi Arabia	Grain Silos and Flour Mills Organization	
	Sri Lanka	Food Commission	
		Sri Lanka State Flour Milling Corporation under authorization from the Food Commission	
	Syria	General Establishment for Cereal Processing and Trade	
	Taiwan	Taiwan Supply Bureau	
		China Trade and Development Corporation	
		Central Trust of China	
	Tunisia	Office des Cereales (ODC)	
	Venezuela	Corporacion de Mercadeo (CORPOMERCADEO)	
	Vietnam	Agrexport	
	Zambia	National Marketing Board	
Iron ore	Argentina	Mierro Patagonico de Sierra Grande SA (MI-PASAM)	Steel company
	Brazil	Companhia Vale do Rio Doce (CVRD)	Mines, railroads, pelletizing plants
		Companhia Siderurgica Nacional (CSN)	Steel products
	Chile	Compania de Acero del Pacifico (CAP)	Iron mining
	India	Minerals and Metals Trading Corporation	Trading in minerals, iron, steel, and fertilizer
	Iran	National Iranian Steel Industries Corporation (NISIC)	Smelting company

Major STOs: Trade in Key Commodity Markets (continued)

Commodity	Country	STO	Basic Function
	Peru	Empresa Minera del Peru	Iron mining
	South Africa	South Africa Iron and Steel Industrial Corporation, Ltd. (ISCOR)	Pig iron and steel
	Venezuela	Orinco Mining Company and Iron Mines Company	Iron mining
Oil	Algeria	National Company for Hydrocarbon Transport and Trade (SONATRACH)	
	Angola	Sonagol	
	Argentina	Yacimentos Petroliferos Fiscales (YPF)	
	Bahrain	Bahrain Petroleum Corporation (BAPCO)	
	Bolivia	Yacementos Petroliferos Fiscales Bolivianos (YPFB)	
	Brazil	PETROBRAS	
	Chile	Empresa Nacional del Petroleo	
	Egypt	Egyptian General Petroleum Corporation	
	India	Indian Oil Corporation, Ltd.	
	Iran	National Iranian Oil Company (NIOC)	
	Iraq	Iraqi National Oil Company (INOC)	
	Kuwait	Kuwait Petroleum Corporation (KPC)	
	Libya	Libya National Oil Company	
	Malaysia	Petroleum Nasionol Berhad (PETRONAS)	
	Mexico	PEMEX	
	Pakistan	Oil and Gas Development Corporation (OGDC)	
	Peru	Petroperu	
	Qatar	General Petroleum Corporation	
	South Africa	Strategic Oil Fund	
	Sri Lanka	Ceylon Petroleum Corporation	
	Syria	Syrian Petroleum Corporation	
	Uruguay	ANCAP	
	Venezuela	Petroven	
Tin	Bolivia	Corporacion Mineria de Bolivia (COMIBOL)	Mining company
	Indonesia	Perusaman Negara Tambang Timah (P. N. Timah)	Exploration, mining, processing, and smelting
	Malaysia	Perbadanan Nasional Bhd	Tin prospecting and mining operations
		Pernas Mining Sdn. Bhd	Tin prospecting and mining operations
	Nigeria	Nigerian Mining Corporation	Mining, processing, and marketing
		London Tin Sdn. Bhd (LIMB)	Mining company
		New Tradewinds Sdn. Bhd	Mining company
	Rwanda	Societe de Mines de Rwanda	Cassitevite, ferberite, and columbite production
	Zaire	Compagnie Geomines	Cassitevite and tautalite concentrates

25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/11/18 : CIA-RDP97R00694R000600230001-9