

# Economic Intelligence Weekly Review

10 August 1978

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ER EIWR 78-032  
10 August 1978

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Approved For Release 2005/04/18 : CIA-RDP80T00702A000700080004-2

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**ECONOMIC INTELLIGENCE WEEKLY REVIEW**

**10 August 1978**

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## WEST GERMANY: TAX CUTS TO LIFT ECONOMY

Pursuant to Chancellor Helmut Schmidt's commitment at the Bonn Summit, the West German Cabinet on 28 July approved a \$5.6 billion stimulation package for 1979 (the equivalent of slightly less than 1 percent of GNP) and an additional stimulus of \$1.6 billion for 1980. Hammered out during a three-day marathon Cabinet session, the package represents an uneasy compromise within the governing coalition—between (a) Social Democratic Party (SPD) demands for tax cuts and increased family allowances benefiting primarily low and lower-middle income groups and (b) Free Democratic Party (FDP) preferences for tax relief and investment incentives for business. Gross tax reductions and expenditure increases exceed the amounts stated above, but the government intends to offset some of the budget impact through a 1 percentage point increase in the value-added tax (VAT) effective 1 July 1979. A simulation using our West German econometric model suggests that Schmidt's program could raise next year's GNP growth rate by nearly 1.5 percentage points, to as much as 4.5 percent.

**Details of the Program**

The heart of the 1979 package is a \$5.5 billion cut in personal income taxes—part of a basic reform of the income tax structure supported in principle by all political parties. The major reform element is substitution of gradually progressive rates for a system that has combined a flat 22-percent rate on the first \$8,000 of taxable income for single persons (\$16,000 for married couples) with steeply progressive rates, starting at 30.8 percent, on higher earnings. In addition, the reform raises the basic tax exemption from \$1,650 to \$1,845 for single persons and from \$3,300 to \$3,690 for married couples. Depending on their respective tax brackets, annual tax savings for individuals and married couples would range from \$45 and \$90 to \$450 and \$900. Other measures in the 1979 package include:

- \$1 billion for family allowances, primarily increased maternity benefits and higher child support payments for families with three or more children.
- \$450 million for investment incentives and research in advanced technology industries.

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For 1980 the government proposes:

- A further \$1.6 billion reduction in income taxes through an increase in deductions for self-employed persons.
- A \$1.4 billion reduction in business taxes through abolition of a much criticized tax on wage bills and an increase in exemption from the levy on enterprise capital.
- \$850 million in additional outlays to increase support payments for a second child and finance a reduction in the voluntary retirement age of disabled persons.

The 1 percentage point increase in the VAT on 1 July 1979 is expected to offset revenue losses by \$1.25 billion in 1979 and an additional \$2.25 billion in 1980.

### **Expected Impact**

For both economic and political reasons, Schmidt opted for a tax cut package even though it normally carries a smaller short-run stimulative impact than an equivalent public spending program; the respective multipliers for West Germany are 1.4 and 1.8. A reform of the tax structure was long overdue and is widely supported, if for divergent reasons, by all political parties and interest groups. Schmidt obviously hopes tax cuts will generate political gains for his government in upcoming state and parliamentary elections. The benefits from public works spending, though normally larger than gains from equal tax cuts, are less obvious to most voters. Moreover, the government probably could not implement a like-sized public works program under present circumstances. Spending on public works initially affects the construction sector, the one sector of the German economy that is currently bumping against capacity.

To measure the likely impact of the proposed stimulation package, we ran a simulation on our quarterly econometric model of the West German economy. The program has its strongest and most immediate effect on private consumption and residential housing, because nearly all of the measures effective 1 January 1979 are specifically designed to increase disposable household incomes. The impact on consumption nevertheless is not as large as would be expected in the United States because of (a) significant leakages abroad as shown in the sizable response of imports of goods and services; and (b) a much higher marginal savings rate.

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West Germany: Projected Impact of Stimulation Program  
Deviation from Base Line

	Billion 1970 DM							
	1979				1980			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	Billion 1970 Deutsche Marks							
GNP .....	1.1	2.5	3.7	3.9	3.9	3.6	3.0	2.3
Private consumption .....	0.8	1.7	2.4	2.4	2.5	2.3	2.1	1.8
Government consumption .....	0	0	0	-0.1	-0.2	-0.3	-0.3	-0.4
Business fixed investment .....	0.3	0.8	1.4	1.5	1.7	1.7	1.5	1.2
Residential housing .....	0.1	0.3	0.6	0.8	0.9	1.1	1.1	1.2
Stockbuilding .....	0.1	0.3	0.6	0.8	0.8	0.7	0.5	0.3
Export volume .....	0	0.1	0.2	0.3	0.3	0.3	0.3	0.2
Import volume .....	0.2	0.7	1.2	1.5	1.7	1.8	1.7	1.5
	Percent							
GNP deflator .....	0	0	0.1	0.2	0.4	0.6	0.7	0.9
	Billion US \$							
Current account balance .....	-0.2	-0.4	-0.8	-1.0	-1.1	-1.2	-1.1	-1.0

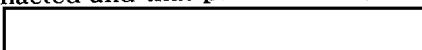
Increased consumer spending triggers a rise in business investment by mid-1979; the higher investment level is maintained through mid-1980, helped by the reduction in business taxes scheduled for the beginning of that year. The program's effect wears off during 1980 under the influence of the VAT increase and an acceleration of inflation reflecting capacity constraints and shortages of skilled labor.

Our model simulation indicates that this stimulation package raises real GNP growth in 1979 to as high as 4.5 percent, compared with little more than 3 percent in the absence of government action. The speedup in growth reduces unemployment to 4.3 percent of wage and salary workers (from 4.5 percent in 1978), or roughly 3.5 percent of the labor force (3.7 percent in 1978). The inflation rate is only slightly higher in 1979 than it otherwise would be but accelerates by an additional 0.5 percentage point in 1980. Although the feedback from increased imports induces a rise in exports, the current account surplus in the simulation is \$2.4 billion less in 1979 and \$4.4 billion less in 1980 than in the base case. No allowance has been made, however, for further shifts in deutsche mark parities.

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**Package Likely To Be Changed**

Although approved by the Cabinet, Schmidt's stimulation package will encounter tough sledding both in the Bundestag (the lower house, where the governing coalition holds a thin majority) and in the Bundesrat (the upper house, which is controlled by the Christian Democratic Union/Christian Social Union opposition). The opposition parties, while supporting tax reform, seek a better break for middle and upper income groups and especially more tax relief for business, a view shared by many in the FDP, the junior coalition party. FDP agreement to the package in the Cabinet presumably was motivated in part by a desire to avoid intracoalition squabbles, especially prior to the crucial October state elections in Hesse. FDP leaders can expect the CDU/CSU to insist on changes in the stimulation package more in line with their own preferences as the price for Bundesrat consent. Such changes, in turn, would arouse the bitter opposition of SPD left-wingers, whose support for even the present proposals is shaky. While the ultimate shape of the stimulation package is uncertain, experience with last year's program suggests that some combination of tax cuts and spending increases will be enacted and that parliamentary logrolling will more likely increase than reduce its size.



\* \* \* \* \*

**SPAIN AND THE EC: EXTENDING EUROPE PAST THE PYRENEES**

Spain, having moved nimbly in the post-Franco era to fulfill the political conditions for membership in the European Community, now must address the task of opening its highly protected economy to European competition. Long-run gains from increased trade, free movement of resources, and more intense competition will outweigh the losses suffered by less efficient Spanish producers. Madrid's application for EC membership enjoys widespread popular support within Spain. On the Community side, admission of Spain is considered a political necessity. Nevertheless, the economic issues complicating EC enlargement—especially questions concerning agriculture and labor mobility—will lead to protracted negotiations, and integration of the Spanish economy into the Community will require a lengthy transition period.

**State of Play**

Spain applied for EC membership on 28 July 1977—two years after Greece and four months after Portugal. Madrid recently turned in lengthy questionnaires required by the Community and expects a ruling or opinion on membership from the EC Commission by the end of the year. After a favorable ruling is obtained, formal

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negotiations will take about two years. Ratification will require another one to two years, making membership possible by 1982 or 1983. EC leaders favor a further five-to 10-year transition or adjustment period for integrating the Spanish economy into the Community. Madrid is agreeable to a long economic transition provided Spain is accorded full political rights from the start.

Under a 1970 trade agreement, Spanish exports of most agricultural products and many industrial items already enjoy preferential access to the European Community. Negotiations for a renewal of this agreement began in February and are proving difficult. Madrid wants greater concessions, including preferences at least as favorable as those granted Mediterranean Arab countries and Israel for citrus fruit and other food exports. The Community seeks a substantial reduction of Spanish industrial tariffs. These negotiations are important as a harbinger of the likely course of accession negotiations.

Spain has had close economic ties with the EC since the Community was established. Currently, the Nine provide more than one-third of Spanish imports—primarily machinery, basic manufactures, and chemicals. EC countries take nearly one-half of Spanish exports, notably citrus fruits and vegetables, steel and other basic manufactures, and transport equipment. Spain's main trade partners in the Community are France, West Germany, and the United Kingdom. Spain-EC trade turnover was almost \$11 billion last year, a large amount for Spain but only 1 to 2 percent of the EC total. Spain chronically runs a deficit in trade with the Community—\$1.4 billion in 1977.

### **Hurdles To Be Cleared**

Spain, along with Greece and Portugal, faces serious obstacles to EC acceptance, but the Community has committed itself to take in all three countries provided they maintain representative forms of government. While Spain's greater size appears to make obstacles to its membership more difficult than those confronting the other applicants, the three cases are closely linked. The Community can hardly deny a concession to Spain that it has granted one of the smaller countries.

Agriculture presents the most difficult hurdle for Spanish accession. The problem is that 75 percent of Spain's agricultural production is Mediterranean—wine, fruits and vegetables, olive oil, and tobacco. These same crops are the major agricultural products of the poor regions of southern France and Italy and are already in surplus in the Community. In addition, Spanish prices are as much as 60 percent below present EC levels.

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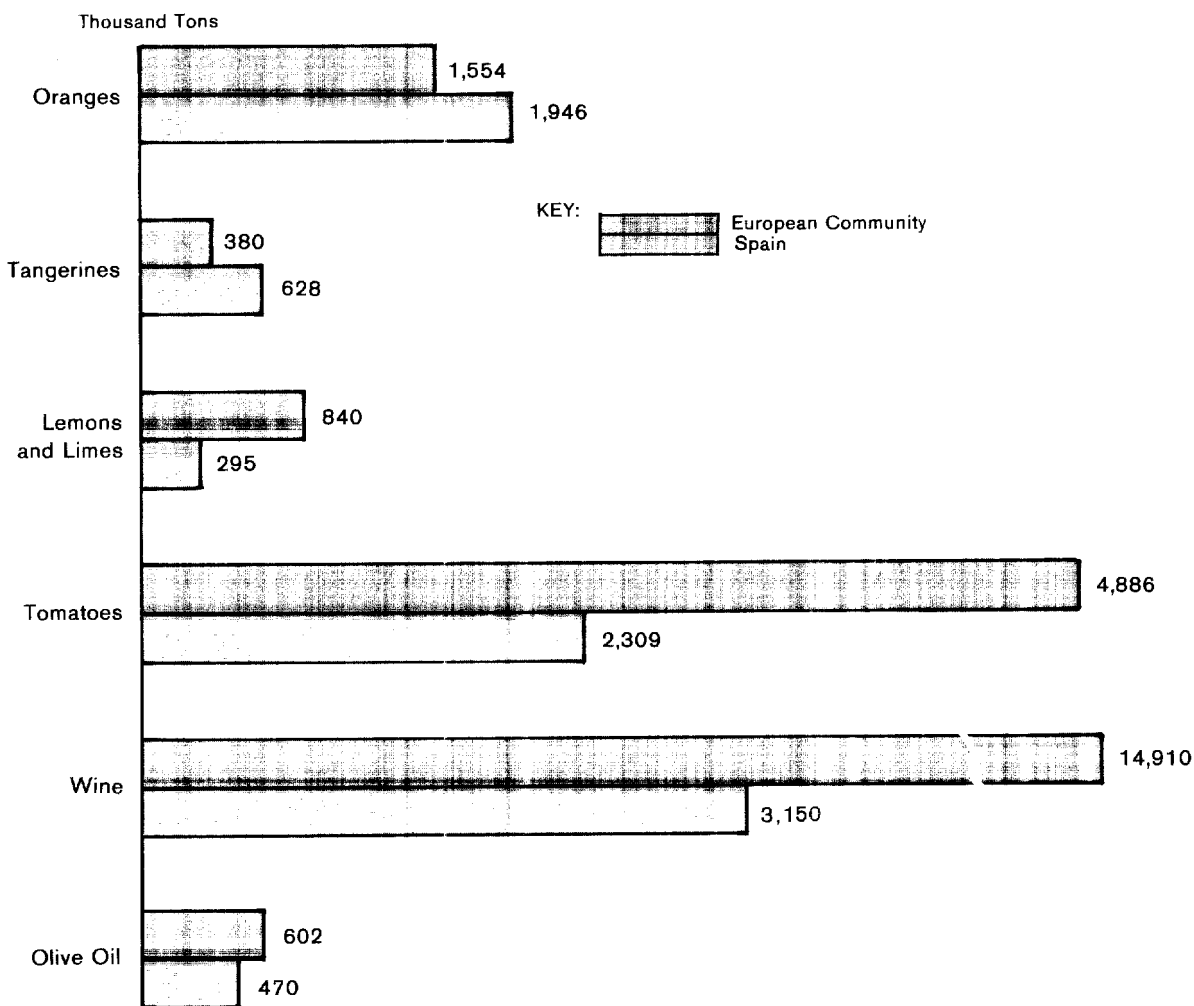
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**EUROPEAN COMMUNITY AND SPAIN:  
Production of Selected Agricultural Products  
1975**



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Spain argues that membership will boost its imports from the Community of cereals, butter, and sugar, but this is little consolation for the farmers of southern France and still less for the Italians. Wine is particularly troublesome. France and Italy already have engaged in one wine war. Spanish wine prices are even lower than Italian, and Spain has more acreage devoted to vineyards than either Italy or France. France is insisting on special aids for its Mediterranean farmers to protect them from losses due to enlargement. Italy opposes many of these special aids for France because they could jeopardize Italian food exports to France. Negotiators have not yet come to grips with this thorny issue. The solution undoubtedly will entail a special system of levies and subsidies to compensate for differences in farm prices; this system would be phased out gradually as were the systems adopted after the Community was expanded to include the United Kingdom, Denmark, and Ireland. Spanish farmers ultimately would gain from membership through expanded exports and higher prices.

Free movement of labor, a central principle of the European Community, poses another serious obstacle to EC expansion. West Germany, France, and the Benelux countries fear an influx of Greeks, Portuguese, and Spaniards that would swamp labor markets and social insurance systems. About 500,000 Spaniards already work in the Community and are accompanied by as many dependents. One-half of Spain's emigrant workers are in France. At present, Spaniards make up about 7 percent of foreign workers in the EC countries; Greeks, Portuguese, and Spaniards together account for about 20 percent. The accession problem is complicated by an outstanding EC commitment to allow free entry of Turkish labor by 1986. West Germany in particular probably will insist that restrictions be continued on workers from the acceding countries for some time. Spain will resist because the return of workers from the north since the 1974-75 recession and the slowdown in emigration have added an estimated 5 percent to a Spanish labor force already suffering from high unemployment.

### **The Industrial Dilemma**

Spanish industrialists are apprehensive about their ability to compete in the European Community even though Spain, unlike Portugal and Greece, is something of an industrial power. For years, Spanish industry has been protected by high tariffs, quotas on many imports, cheap credit, and government subsidies and tax rebates. This protection has nurtured structural distortions such as an excessive number of small-scale firms, inadequate research and development programs, and an inefficient distribution system. The increased competition and larger market should promote expansion and efficiency. Firms that fail to become more efficient of course will be hurt or eliminated by EC competition. Household appliance manufacturers and the paper products industry look particularly vulnerable.

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The elimination of industrial trade barriers will be a boon for some Spanish firms that already are competitive with EC producers. Industries with good prospects for expansion include manufacturers of machine tools, typewriters, batteries, and automobiles. The Ford Motor Company subsidiary recently became Spain's largest single exporter.

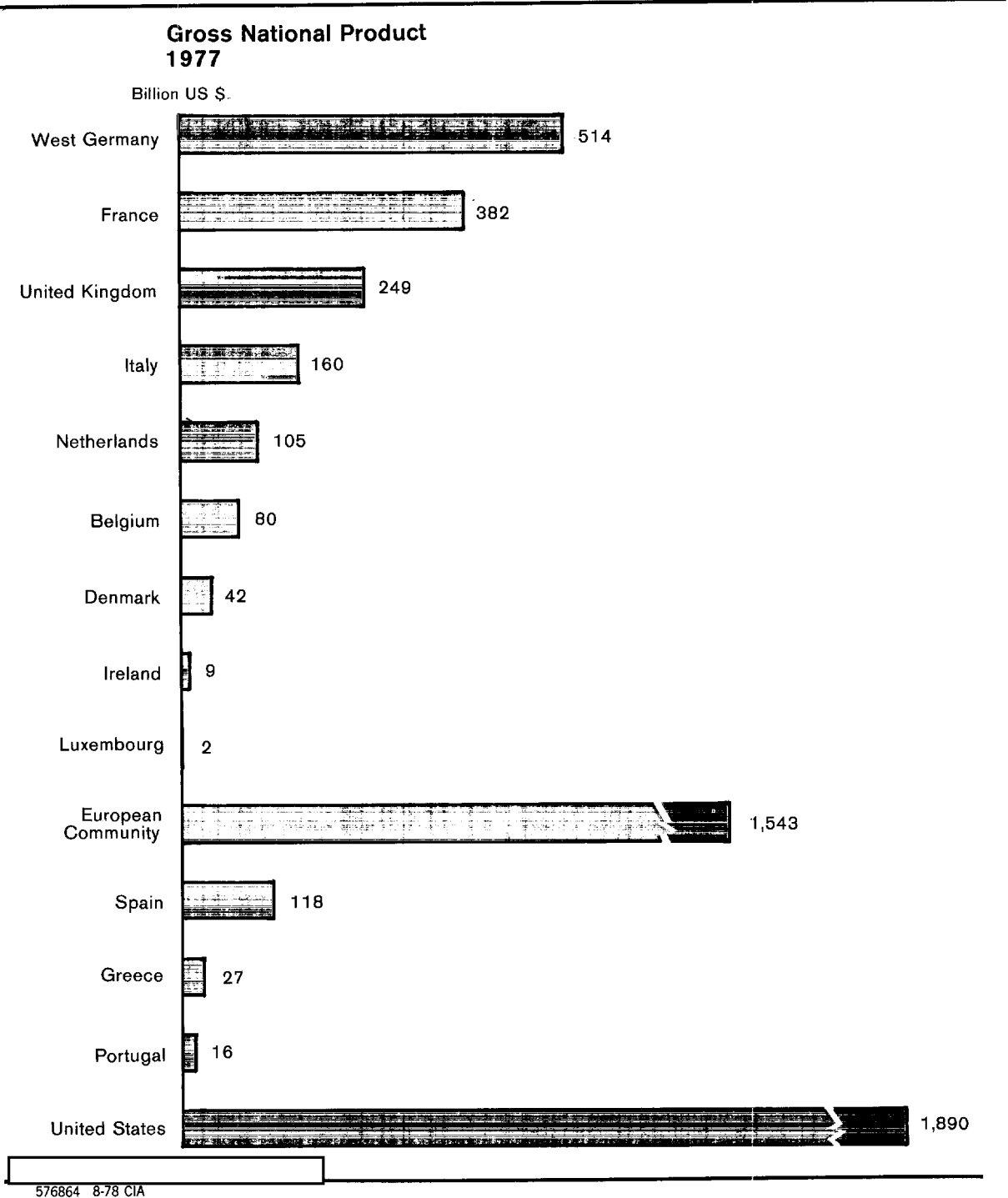
On the other hand, a number of competitive industries—iron and steel, textiles, footwear, and shipbuilding—are unlikely to see sales to the EC Nine mushroom because markets for their products are glutted. In steel, demand is slumping worldwide, leaving both Spain and the Nine with excess capacity. The Community has imposed severe restrictions on steel imports. Spain has reluctantly agreed to accept a quota of 900,000 tons per year, 9 percent below its 1976 sales to the Community. Restraints have been imposed on intra-Community steel trade, and EC producers are supposed to reduce capacity over the next few years.

One of Spain's major competitive advantages vis-a-vis EC producers is lower wages—about 50 percent lower than French or West German pay. The opening to the EC market to Spanish industrial products should attract firms hoping to take advantage of the wage differential to produce in Spain for sale in the Nine. Inflation and wage increases in Spain, however, have far exceeded the EC average over the past three years and will continue to erode Spain's competitive advantage for at least the next few years. The legalization of trade unions in 1977 is not having a dramatic effect on Spanish wage rates. Wage increases, though still rapid, are limited by an austerity pact agreed to by the unions last year.

### Other Considerations

The 1977 extension of EC territorial waters to 200 miles in the Atlantic was a severe blow to Spanish fishing. Spain retaliated in 1978 to protect this important industry by extending its own territorial waters to 200 miles. Madrid is especially concerned because the fishing fleets are based in areas already suffering from the slump in shipbuilding. The Community has granted fishing licenses to Spain pending negotiation of a fishing agreement, but these licenses are adequate to keep only about 20 percent of Spain's northern fishing fleet active. Some Spanish vessels have been seized by France and Britain for fishing without licenses. No progress on a new arrangement is expected until EC members can agree among themselves on a common fishing policy.

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Once it becomes a member, Spain will receive more money than it pays into EC coffers for many years—around \$300 million the first year. While more funds can only help, they will not amount to much in the \$100 billion Spanish economy. EC lenders like the Regional Fund, the European Social Fund, and the Agricultural Guidance Fund are too small at present to have much impact on Spain.

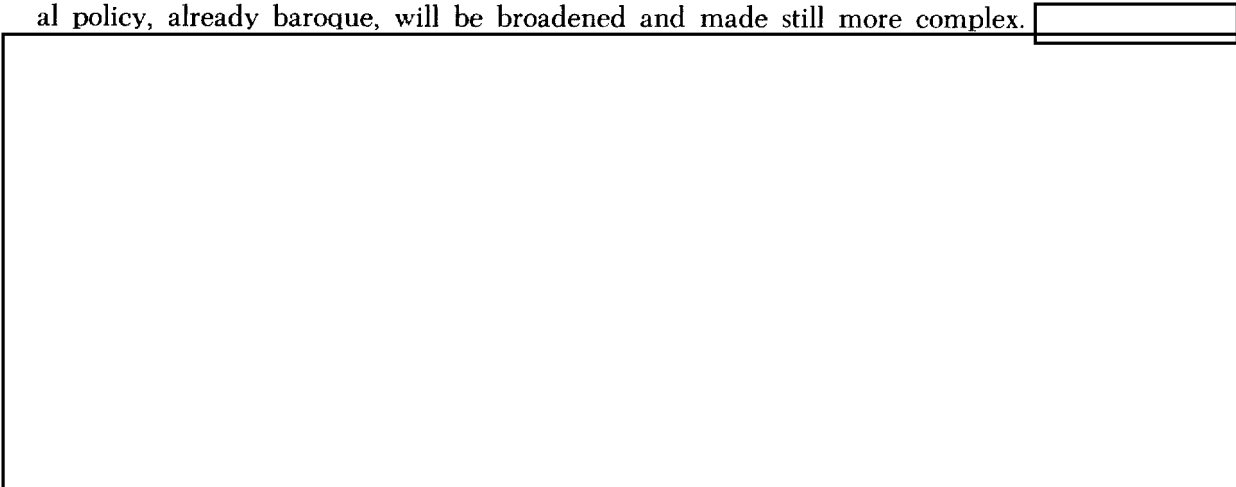
The so-called gap between the rich EC Nine and the less affluent applicants is a nonissue in the Spanish case. Per capita income exceeds Ireland's and falls only slightly below Italy's. Moreover, Greece and Portugal, which are indeed quite poor, probably will be EC members by the time Spain can join. Spain ranks eighth in the 24-member OECD in GNP, ninth in steel production, and twelfth in energy production.

### **Bullish Outlook**

Spain stands to reap substantial long-term economic gains through accession to the European Community. Spanish leaders are optimistic about membership but aware of the threat of near-term economic dislocations. Madrid will have to modify its legislation on competition, state monopolies, labor, patents, trademarks, and insurance. Bills already in parliament are designed to bring the Spanish tax system more in line with the Community norm. Reform of banking and investment policy, formerly characterized by highly monopolistic practices and pervasive government intervention, is well along. Madrid will need to find ways to smooth the transfer of labor and capital from firms and farms that cannot stand the blast of EC competition to enterprises that can thrive in the expanded market. The tough issues centering on labor and agriculture will not block Spanish entry but will require protracted negotiation and lengthy periods of adjustment. In the accession process, EC agricultural policy, already baroque, will be broadened and made still more complex.

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## PAKISTAN: ENCOURAGING BUT UNCERTAIN ECONOMIC REBOUND

In the 12 months since the ouster of Prime Minister Bhutto and the establishment of martial law, the military government of General Mohammad Zia-ul-Haq has benefited from a bumper cotton crop and a big jump in remittances from overseas Pakistanis. Real GNP in the fiscal year ending 30 June 1978 was up an estimated 6 percent. Preoccupied with restoring domestic political stability, Islamabad has for the most part avoided major economic initiatives. Specifically, the government has not faced up to the basic problems of dealing with Pakistan's sizable foreign debt or of weeding out overambitious capital-intensive development projects.

### A Perspective on the Bhutto Years

Pakistan's economy performed poorly under the Bhutto regime (December 1971-July 1977) when real growth averaged 3.6 percent annually, only slightly higher than the 3.1-percent population growth rate. Apart from external shocks to the economy over which the regime had no control, economic development was hampered by improvident government policies. Bhutto's development strategy focused on investment in a small number of high-cost, slow maturing projects, which in toto greatly exceeded available domestic resources. Thus, the government relied heavily on foreign borrowing both to cover chronic trade deficits and to support development programs. When the July 1977 coup occurred, external public debt had reached \$6.6 billion, saddling the government with a debt service ratio of 18 percent.

Political disturbances during the four months preceding the coup helped bring on a sharp deterioration in the economy. Labor disturbances periodically shut down large segments of industry; transportation links between the port of Karachi and the rest of the country were intermittently disrupted, thus slowing the movement of both exports and imports. Shortages of key commodities and production losses, together with excessive pay raises given to civil servants, undercut efforts to reduce inflation from the 20-percent-plus level in 1975 and 1976.

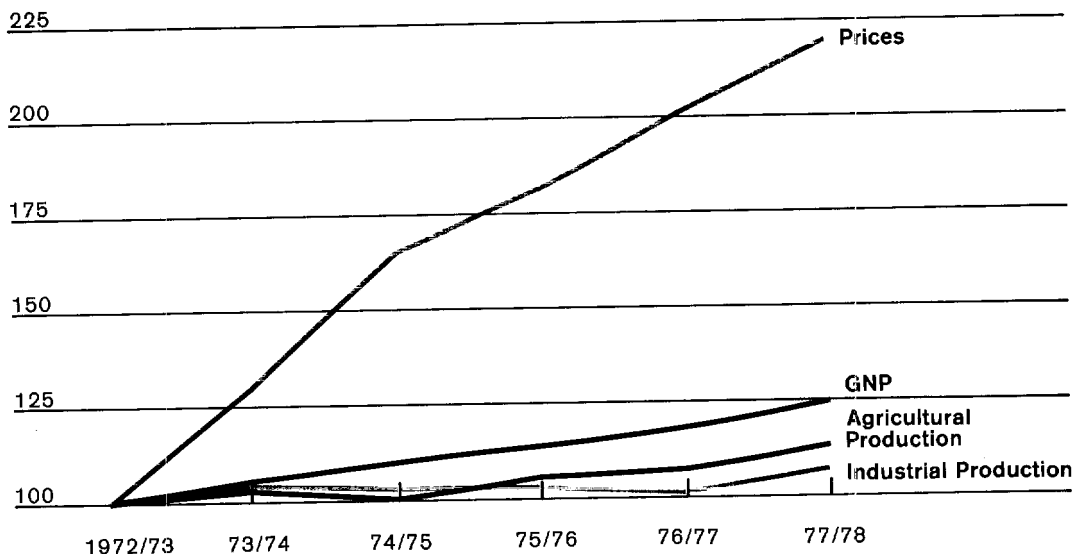
### The Postcoup Environment

Caution in economic matters has been the byword of the Zia government, largely reflecting the role economic issues played in Bhutto's overthrow. General Zia and his military colleagues have retained the civilian economic bureaucracy inherited from the Bhutto era and the top leaders of key economic organs—the Planning and Foreign Economic Affairs Division of the Prime Minister's Secretariat, the Ministries of Finance and Planning, and the State Bank of Pakistan. All are well-trained and

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**Pakistan: Encouraging but Uncertain Economic Rebound**

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competent economic managers. Although little information is available on the relationship between Zia and these economic chiefs, we believe that Zia is relying on them for policy guidance.

So far the new government has confined its actions largely to repairing the damage done under Bhutto. To stimulate agricultural production, it has denationalized agricultural industries—flour and rice milling and cotton ginning—and has raised procurement prices for rice. Denationalization has also raised hopes that cotton and rice exports, now in government hands, will be returned to private operation with a consequent increase in exports. The signing of joint oil exploration agreements between the government and several foreign oil companies also suggests a new willingness to enlarge the sphere of operation for both foreign and domestic business firms.

As for long-term planning, the government has prepared a new five-year plan that focuses on development of infrastructure, improvement of agricultural productivity, and greater involvement of the private sector. Although details of the plan remain

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sketchy, Islamabad apparently intends to go ahead with several of the major projects inherited from the Bhutto regime. Some Pakistani planners and the World Bank—which plays a leading role in the consortium of Western aid donors to Pakistan—favor postponement or cancellation of these large capital-intensive projects and a concentration of resources on agricultural development.

Among the prime examples of these economically questionable projects are the nuclear reprocessing plant and a \$1.5 billion steel mill. Similarly, the \$650 million Chashma nuclear power plant, still in the planning stages, will eventually produce electricity at a higher cost per unit than would hydroelectric or gas-fueled power plants.

### Current Trends

At present the government is not under great pressure to move rapidly in economic matters. It ended its first year in power with inflation and balance-of-payments problems fairly well under control, although both are still matters of concern. Aided by a rebound in overall agricultural production and the restoration of normal supply and distribution channels for consumer goods, inflation in FY 1978 was held to about 10 percent. On the minus side, a 10-percent decline in wheat production is forcing the government to import about 1.5 million tons in FY 1979. The shortfall largely reflects the government's failure to raise wheat procurement prices, which encouraged farmers to shift acreage into other crops. Although industrial production recovered moderately in FY 1978, it is still running only slightly above the level of FY 1974.

Balance-of-payments problems have been eased by the sharp rise in remittances from about 1 million Pakistanis working overseas, mainly in the Persian Gulf states. The inflow, an estimated \$1 billion in FY 1978, helped slash the current account deficit by one-third and allowed a \$230 million drop in financing requirements; with the remaining requirements more than covered by official project and nonproject aid, foreign exchange reserves increased by \$240 million, to \$660 million at the end of June.

### Immediate Prospects

Despite this encouraging comeback, economic recovery remains fragile. An uncertain investment climate persists as private businessmen wait to see Zia's plans to return the government to civilian rule. Over the past 12 months, he has on several

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## Pakistan: Balance of Payments

	Million US \$				
	FY 1974 <sup>1</sup>	FY 1975	FY 1976	FY 1977	FY 1978 <sup>2</sup>
Trade balance .....	-473	-1,139	-976	-1,185	-1,500
Exports, f.o.b. ....	1,020	975	1,163	1,105	1,300
Imports, f.o.b. ....	1,493	2,114	2,139	2,290	2,800
Current account .....	-548	-1,170	-946	-1,035	-660
Services (net) .....	-225	-260	-323	-446	-260
Worker remittances .....	150	229	353	596	1,100
Debt repayments .....	-216	-310	-345	-220	-367
Financing requirements .....	764	1,480	1,291	1,255	1,027
Reserve change .....	103	-93	-166	-198	240

<sup>1</sup> Fiscal year ending 30 June of stated year.<sup>2</sup> Estimated.

occasions announced plans to hold national elections but has failed to come through. The private sector is also waiting for more precise government statements on its future role in the economy.

In this environment, economic performance in FY 1979 will depend primarily on the agricultural sector and specifically on weather conditions. Another bumper cotton crop would provide a stimulus to the textile industry and to cotton exports. Although Islamabad is trying to arrange for necessary wheat imports on concessionary terms, a \$55 million hike in the wheat import bill is in prospect at the moment.

The massive external debt should remain manageable. A four-year debt rescheduling agreement expired on 30 June 1978, and the government now faces a \$235 million increase in debt servicing in the new fiscal year. Islamabad has argued that it cannot meet this added burden and has requested the World Bank, which chairs the group of major creditors, for a new rescheduling agreement. Led by the United States, which holds about 35 percent of Pakistan's total debt, the major creditors have deferred a decision until December 1978. They take the view that the need for rescheduling cannot be assessed until the government reveals more details of its new long-term development program and outlines the direction of the economy.

In any case, a balance-of-payments crisis and a default in external debt payments do not appear in the offing. Some further rise in workers remittances—though nowhere near last year's extraordinary 85-percent increase—plus the buildup of foreign exchange reserves and the anticipated inflows of official project and nonproject assistance should allow the government sufficient maneuverability in handling its external accounts.

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**CHINA: INTEGRATION OF CIVILIAN AND DEFENSE INDUSTRIES \***

Chairman Hua Kuo-feng appears to have instituted a policy requiring Chinese defense industries to contribute more to the civilian economy. Conceivably, this would involve greater sharing of China's scarcest resources—scientists and technicians, precision machinery and instruments, and imported high-quality materials—with the producers of basic industrial equipment.

Hua, in his report to the Fifth National People's Congress last February, called for greater integration of military and civilian enterprises. The speech itself, however, did not provide any specifics on how this integration was to be accomplished. Hua did indicate that such coordination of production would reduce the need for investment capital, an urgent measure in view of the ambitious construction goals set forth in the current 10-year (1976-85) plan.

**Promoting the Policy**

Two PRC press accounts published since Hua's speech provide some additional insight into the new policy. The first report, published one month after the Congress, described the efforts of an institute in the Second Ministry of Machine Building to promote the civilian uses of nuclear energy. It is a straightforward account of how the institute, for the last several years, has encouraged greater use of nuclear energy technology in the civilian economy. No reference, however, is made in the account to Hua's speech or the integration policy which he proposed.

The second article, published a month after the first, discusses the support given in recent years to civilian R&D projects by a defense research institute engaged in the development of electronic circuits for the Seventh Ministry of Machine Building—the ministry responsible for missile development. The article refers directly to the integration policy and is more informative than the first regarding the relationship between defense and civilian enterprises.

As part of its cooperative efforts, the institute reportedly participates in the selection of civilian R&D projects to be undertaken and consequently is able to influence the focus and the progress of civilian R&D in areas vital to military research. It is by this means, according to the article, that the institute uses civilian industry to promote military industry. The article also states that civilian use of the products

\* This article is a joint assessment by the Office of Economic Research, the Office of Regional and Political Analysis, and the Office of Strategic Research.

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developed in those projects shortens the development period for military products. The institute first puts prototype electronic products to use in civilian applications and then improves them over time to meet the generally more stringent military specifications.

The emphasis on benefits accruing to the defense institute because of its cooperative relationship with the civilian sector is possibly designed to persuade reluctant elements in the defense establishment to comply with the new policy.

### Shakeup in the Defense Industries

Since last fall all but one of the seven heads of the defense-related machine building ministries have been replaced. Four of the new appointees are civilian replacements for men associated primarily with the People's Liberation Army. The only career military officer retaining his position is Wang Cheng, head of the ministry controlling electronics production. While the reshuffle fits with the erosion of military influence in government affairs that has been occurring since the end of the Cultural Revolution, other factors may also be at work. Some of the ministers who lost their portfolios may have had ties with the disgraced "Gang of Four," or they may have been critical of the subordination of some military ventures to the newly emphasized goal of rapid economic modernization, of which the proposed integration is a part.

Leadership of Machine Building Ministries

Ministry of Machine Building	Present		Prior to Fall of 1977	
	Minister	Background	Minister	Background
First (civilian machinery)	Chou Tzu-chien	Civilian	Liu Shui-ching	Military
Second (nuclear energy)	Liu Wei	Civilian	Liu Hsi-yao	Civilian
Third (aircraft)	Lu Tung	Civilian	Li Chi-tai	Military
Fourth (electronics)	Wang Cheng	Military	Wang Cheng	Military
Fifth (conventional armaments)	Chang Chen	Civilian	Li Cheng-fang	Military
Sixth (shipbuilding)	Chai Shu-fan	Civilian	Pien Chiang	Civilian
Seventh (missiles)	Sung Jen-chiung	Civilian	Wang Yang	Military

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### Implications

The defense sector has long had a priority claim on scientists and technicians, precision machinery and instruments, and imported high-quality materials. Hua seems to be calling for greater sharing of these resources with producers of basic industrial equipment than at any time in the past. A large-scale diversion of resources probably would be resisted by sectors of China's military bureaucracy.

These developments do not necessarily imply a reduction in defense spending. It seems likely, however, that attempts will be made to eliminate redundancies between civilian and military efforts and, within the defense industry, to concentrate resources on projects of most immediate importance. The shakeup seems intended to bring military production into line with economic priorities and to permit more efficient use of existing plants and equipment.

At this juncture, the most significant aspect of these developments may be that Peking has found it necessary to take steps to strengthen its control over a military bureaucracy accustomed to priority treatment in matters of resource allocation. This effort, in turn, underscores the current tightness in the availability of resources for new investment as well as the need to maximize output from existing industrial facilities.

\* \* \* \* \*

### Notes

#### French Trade and Payments Outlook Improves Markedly

France's current account deficit should be brought under \$1 billion in 1978 if, as we expect, present favorable trends in merchandise trade continue. Previous forecasts of a \$1.8 billion current account deficit have to be revised in light of slower-than-expected growth in aggregate demand and a first-half surge in exports. The trade balance has improved steadily since January, registering a first-half surplus of \$147 million on an f.o.b./c.o.b. basis. Exports were up 13 percent in franc value in January-June compared with a year earlier, led by food and manufactured consumer goods. Continued slow economic growth—real GNP is rising at a rate of about 3 percent—held the rise in imports (in terms of francs) to only 6.7 percent. The trade turnaround will enhance the prestige of Prime Minister Raymond Barre, who has made elimination of the trade deficit and strengthening of the franc major economic policy goals.

\* \* \* \* \*

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### Egypt Disappointed at Level of Arab Aid

The Gulf Organization for the Development of Egypt (GODE) has agreed to provide Egypt with \$250 million in debt relief for 1978-79, as well as substantial debt writeoffs in subsequent years. Cairo had been hoping for new commitments of \$600 million to \$1 billion in quickly disbursable grants or long-term loans. Unless larger amounts of new Arab aid are forthcoming before yearend, Egypt could find itself pushing against the short-term borrowing limits contained in its recently approved Extended Fund Facility agreement with the IMF.

The GODE donors—Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar—complained  that cash flow problems, declining petroleum revenues, and the falling value of the dollar limit their ability to provide economic assistance. While these problems are important, the conservative Arab Gulf states may also want to retain their economic leverage in an attempt to insure that Sadat is responsive to their interests in the peace negotiations with Israel. Although GODE donors remain concerned about Egyptian financial management, Cairo's recent agreement with the IMF to make further economic reforms temporarily removes this longstanding Arab excuse for delaying new aid commitments.

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During 1976 and 1977, the GODE committed \$1.75 billion in loans and provided loan guarantees worth another \$250 million. All but \$100 million of this money has been used to (a) pay off foreign debt arrears which reached \$1 billion early in 1977 and (b) help Cairo cover the rest of its foreign financial gap in 1977 and the first half of 1978.

All of the new aid promised on 27 July is being provided through debt relief—\$50 million on 1977 debt, \$50 million in 1978, and \$150 million on 1979 debt. At this recent meeting, GODE also agreed in principle to write off the large debt repayments falling due beyond 1979.



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10 August 1978

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### Canadian Measures Aim at Reviving Confidence

In a surprise 1 August speech, Prime Minister Trudeau announced a series of economic initiatives to infuse new life into Canada's listless economy by building business and consumer confidence. While billed as a major shift in economic priorities, the program provides no net fiscal stimulus. A key objective is to shore up Trudeau's image for parliamentary elections that must be called by next spring. The major proposals included:

- A \$2 billion cut in government spending together with a large (but unspecified) reduction in taxes.
- Reaffirmation of Ottawa's intention to reduce government interference in private business affairs.
- A promise to continue government efforts to hold the line on public sector wage gains.

In addition, Trudeau reiterated his goal of holding federal employment stable this year and reducing it in 1979. He also announced that the postal service would be converted from a government department to a crown corporation, a concession to the powerful postal workers' union and an effort to give Canadians some hope for improved postal service. The tax cut reportedly will approximate the expenditure cutbacks. Consequently, the program's impact on national income and employment will depend on whatever boost it gives to public confidence.

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\* \* \* \* \*

### Nigeria Facing Foreign Exchange Stringency

Nigerian foreign exchange reserves fell to \$2.2 billion in July, a drop of \$2.0 billion since the beginning of the year and the lowest level in four years. Reserves are now equivalent to only about two months worth of imported goods and services. The foreign business community in Nigeria, which is experiencing longer delays in receiving payments from the Federal Military Government, believes that Lagos will devalue the naira as the next step in relieving the foreign exchange crunch.

The rapid drawdown of reserves reflects the decline of oil revenues—which account for more than 90 percent of export earnings—coupled with the rise in imports of capital goods and services essential to the economic development effort. In March

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1978, oil exports reached their lowest level in more than six years, at 1.5 million b/d. Demand for Nigerian crude has fallen off as cheaper supplies from the North Sea and Alaska have become available. Furthermore, rigid Nigerian oil pricing policies have hampered efforts to keep up with traditional competitors, particularly Libya and Algeria.

Already this year the government has taken a number of initiatives in an attempt to boost export earnings and ward off serious balance-of-payments problems. Among these measures are:

- Oil price cuts in the first and second quarters and a recently announced additional discount to third-party customers who sign long-term contracts for specified crudes and to producing companies that raise liftings beyond last quarter's average.
- Implementation in April of an austerity budget restricting consumer imports, suspending wage increases and government subsidies, and limiting federal spending to 1977 levels.
- Renegotiation of foreign contracts for major infrastructure projects to stretch out the payments periods.
- Arrangement of a \$1 billion Eurodollar loan, which has been completely drawn down, and negotiation (near completion) of a second \$1 billion Eurodollar loan.
- Pursuit of barter arrangements with Japan, Poland, Romania, and several US firms which would enable Nigeria to receive capital goods and food in exchange for oil.

Nigeria appears to be headed for a \$3 billion current account deficit in 1978, even if imports respond quickly to the April restrictions. Although the oil companies are beginning to respond to pricing incentives, oil exports for the year will average 1.8 million b/d at best, down from last year's 2.0 million b/d average. The austerity measures should hold down the rapid increase in imported services but necessary expenditures for ongoing projects will keep the deficit on services more than \$3 billion.

The devaluation reportedly under consideration would do little to improve this year's current account deficit. Indeed, its immediate effect would be to raise the import costs of the development program. Although devaluation would in the long run

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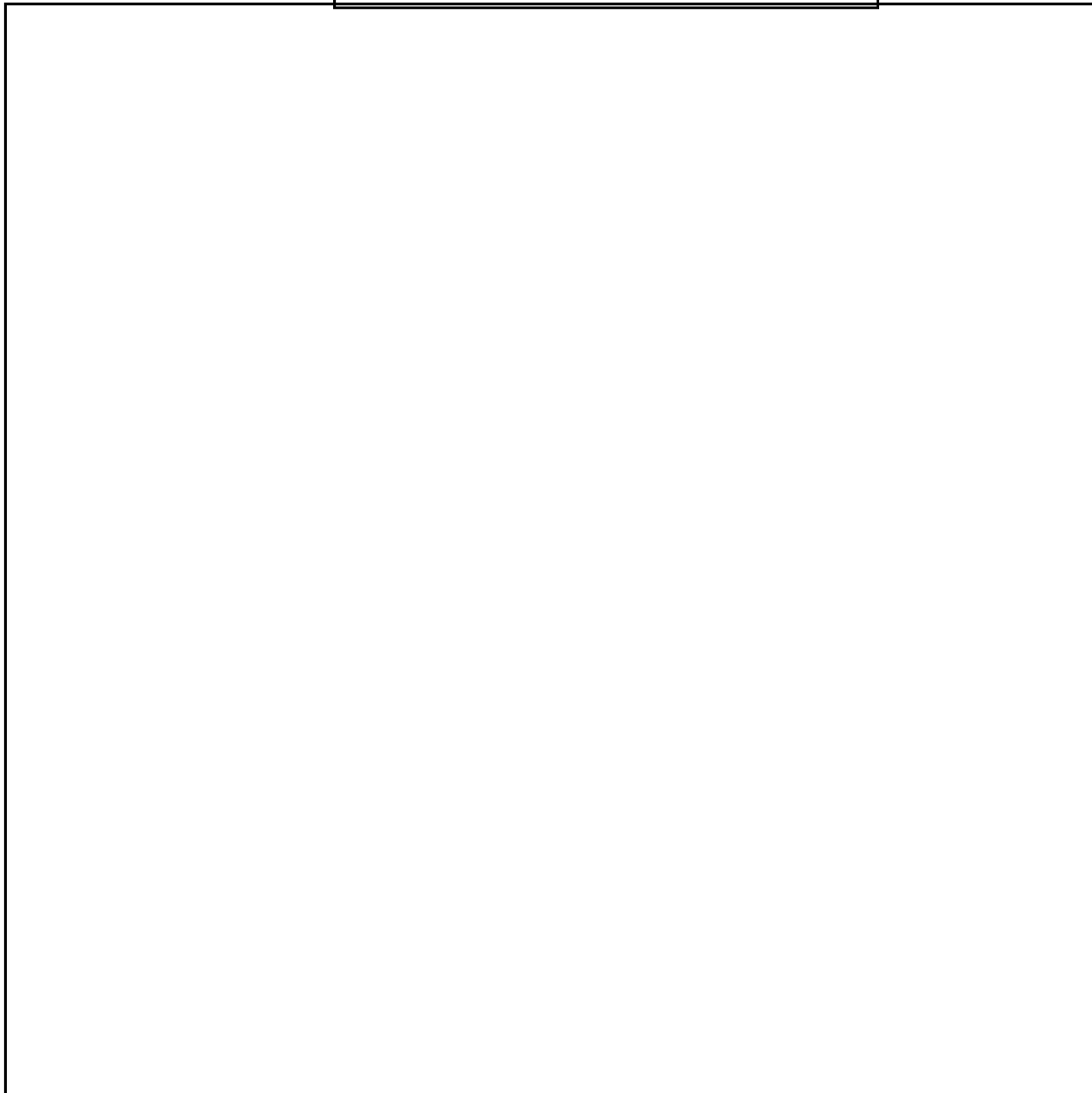
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encourage local production and import substitution, Lagos in the months ahead almost certainly will have to scale back its development effort and/or seek additional international financing.

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**Secret**



National  
Foreign  
Assessment  
Center

Approved For Release 2005/04/18 : CIA-RDP80T00702A000700080004-2

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# Economic Indicators Weekly Review

10 August 1978

*ER EI 78-032  
10 August 1978*

Approved For Release 2005/04/18 : CIA-RDP80T00702A000700080004-2

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### FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

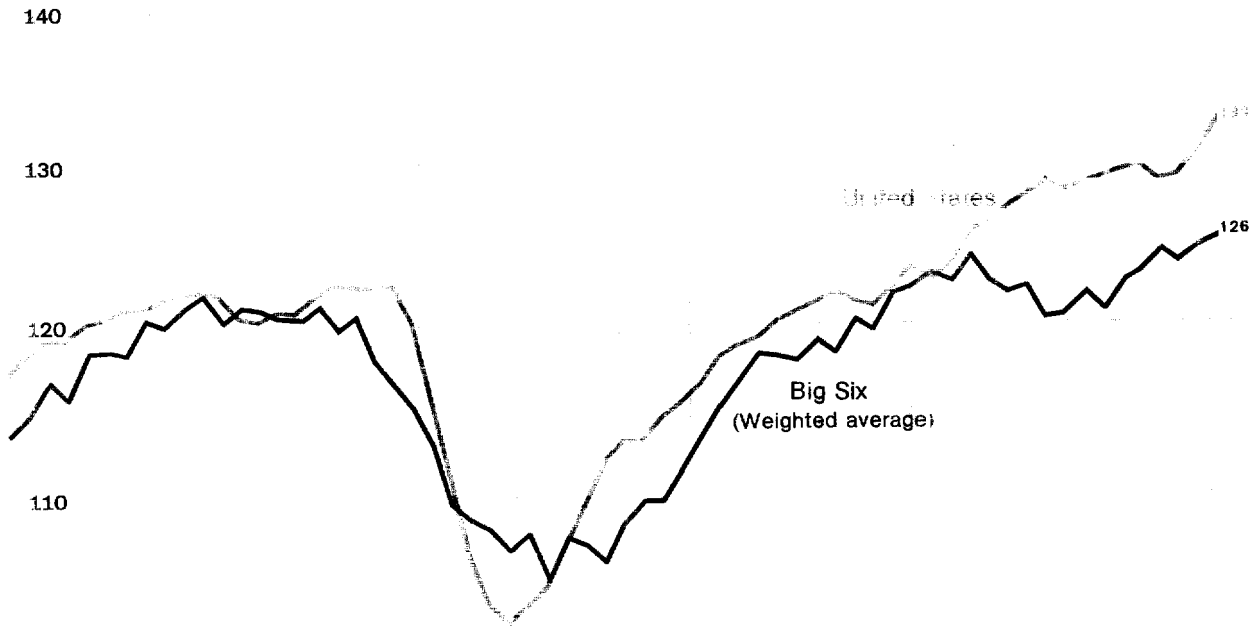
2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

# BIG SIX FOREIGN COUNTRIES<sup>1</sup> COMPOSITE INDICATORS

Industrial Production

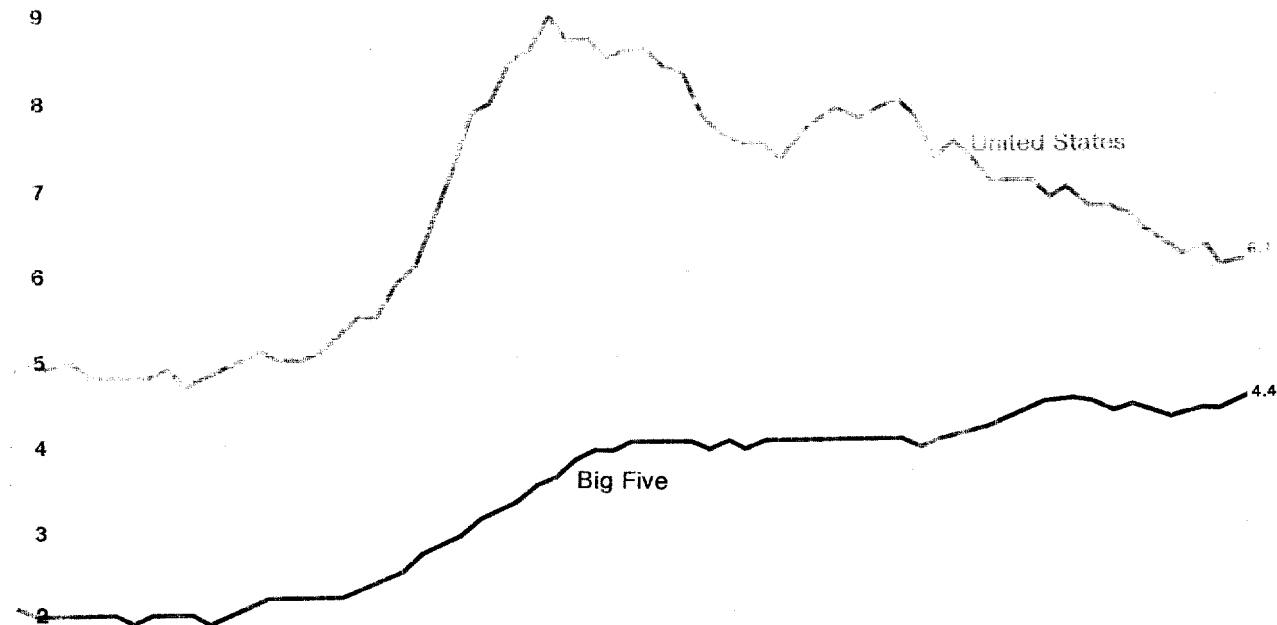
INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale



Unemployment Rate

Percent



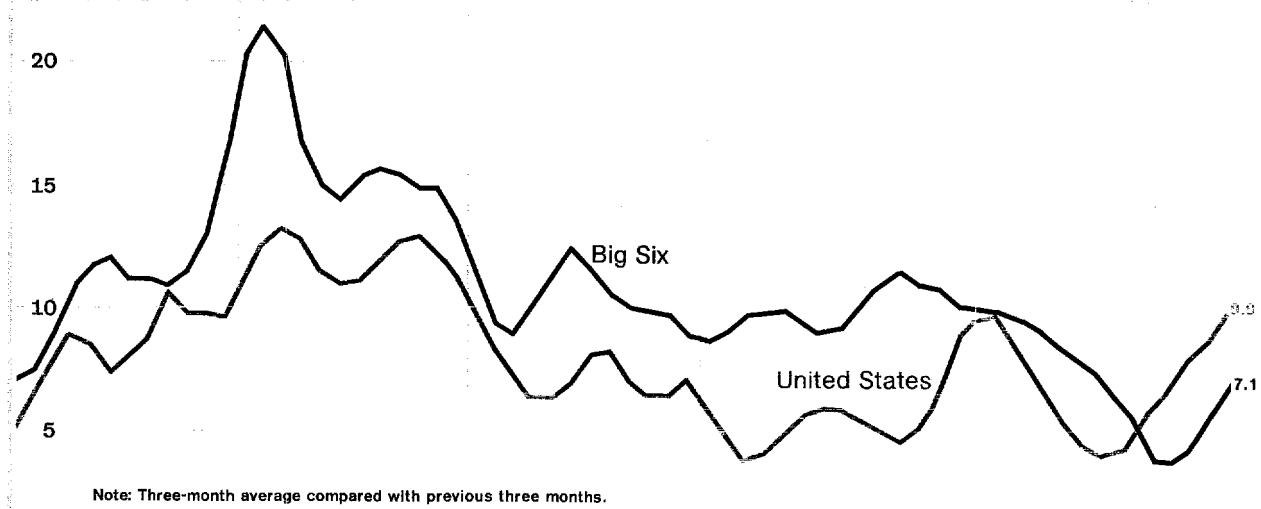
Note: Excluding data for Italy.

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1973 1974 1975 1976 1977 1978

<sup>1</sup>Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

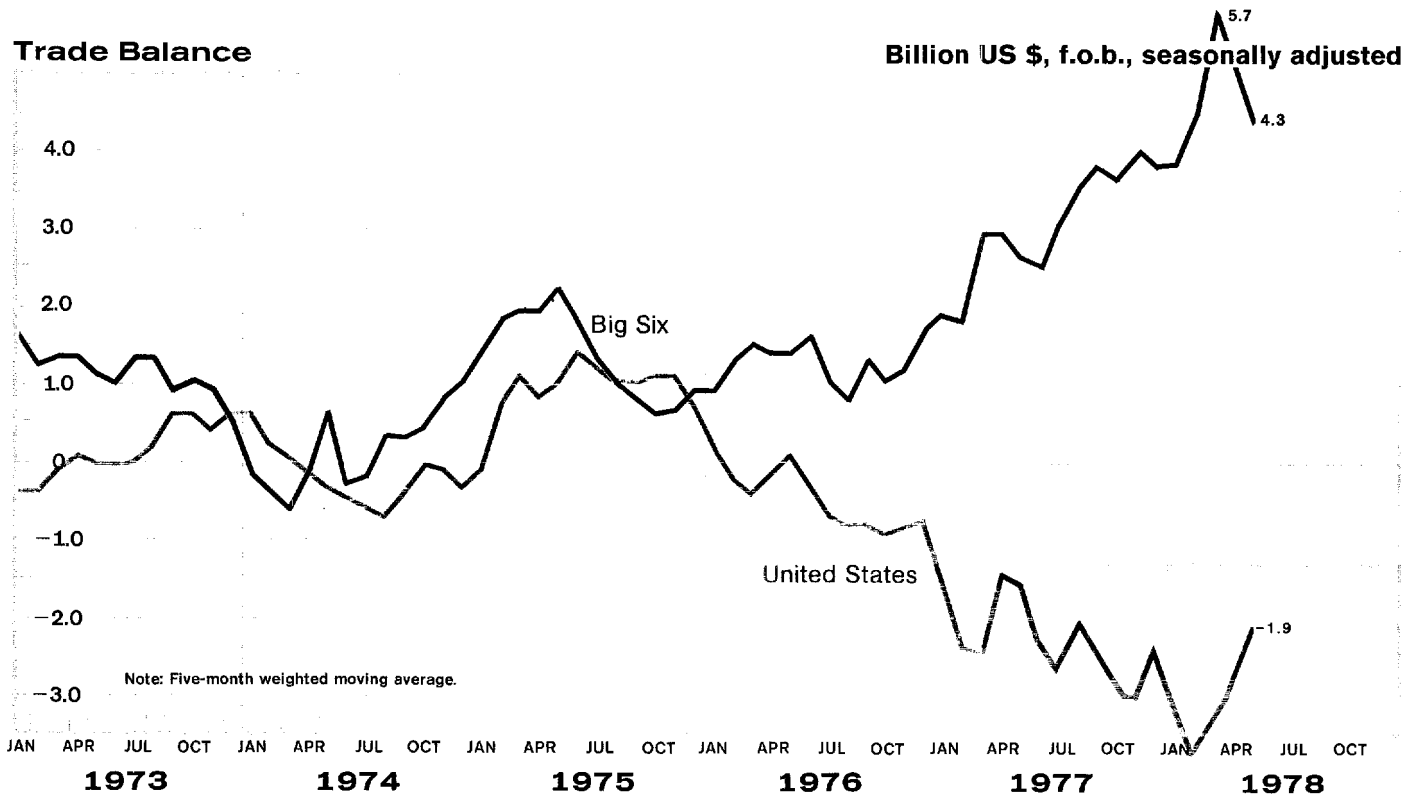
**Consumer Price Inflation**

Percent, seasonally adjusted, annual rate



**Trade Balance**

Billion US \$, f.o.b., seasonally adjusted



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			LATEST MONTH	1 Year Earlier	3 Months Earlier
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>			
<b>Industrial Production</b>								
<b>Big Six</b>	APR 78	0.7	3.0	3.1	4.4			
<b>United States</b>	APR 78	1.5	3.7	5.1	5.2			
<b>Consumer Prices</b>								
<b>Big Six</b>	MAY 78	0.8	9.2	6.3	7.1			
<b>United States</b>	MAY 78	0.8	6.7	7.0	9.9			
<b>Unemployment Rate</b>								
<b>Big Five</b>	MAY 78	4.4		4.2	4.3			
<b>United States</b>	MAY 78	6.1		7.1	6.1			
<b>Trade Balance</b>								
<b>Big Six</b>	MAY 78	3,495	22,505	11,298	11,207			
<b>United States</b>	MAY 78	-2,238	-14,771	-8,280	-6,491			

<sup>2</sup>Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

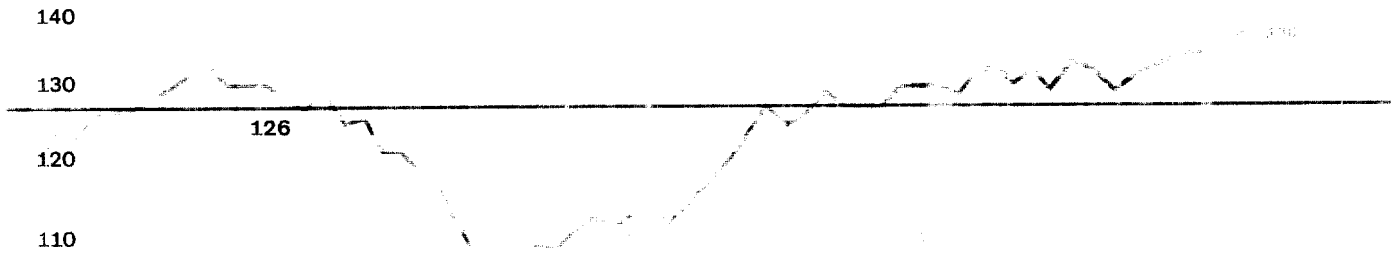
# INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted

## United States

Semilogarithmic Scale



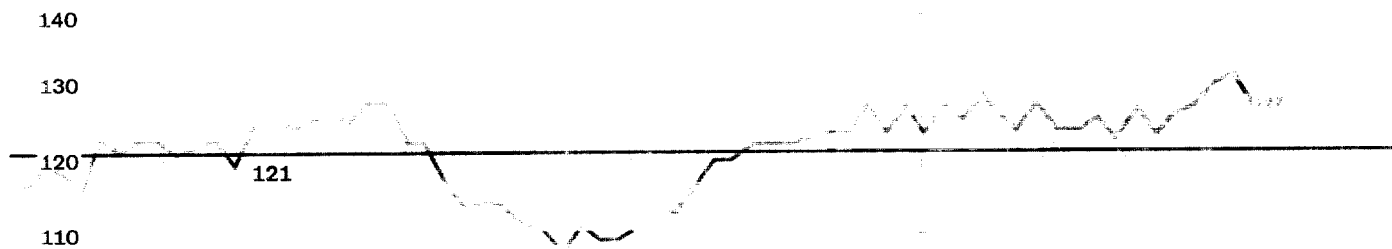
## Japan



## West Germany



## France

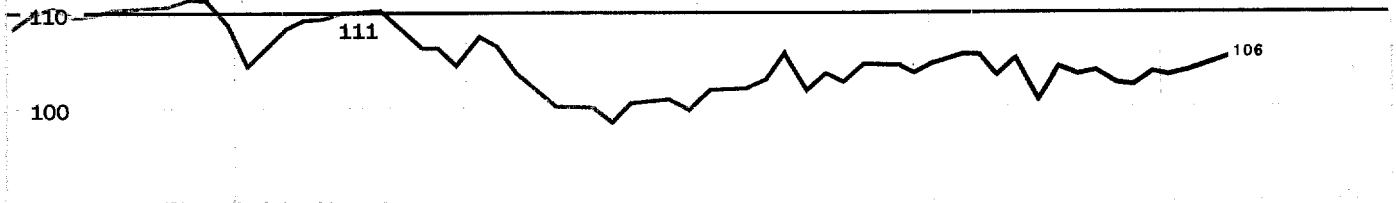


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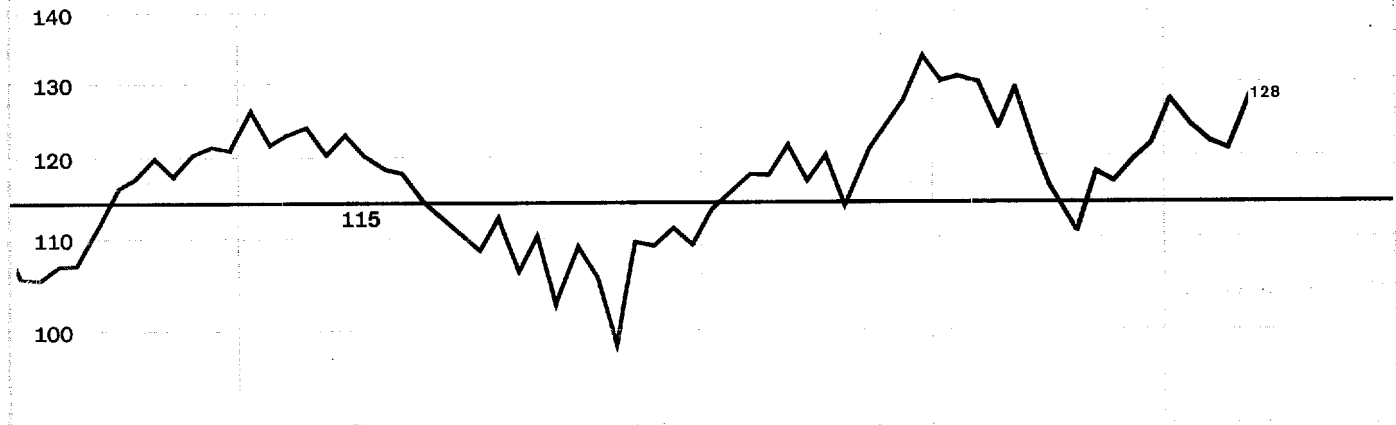


**United Kingdom**

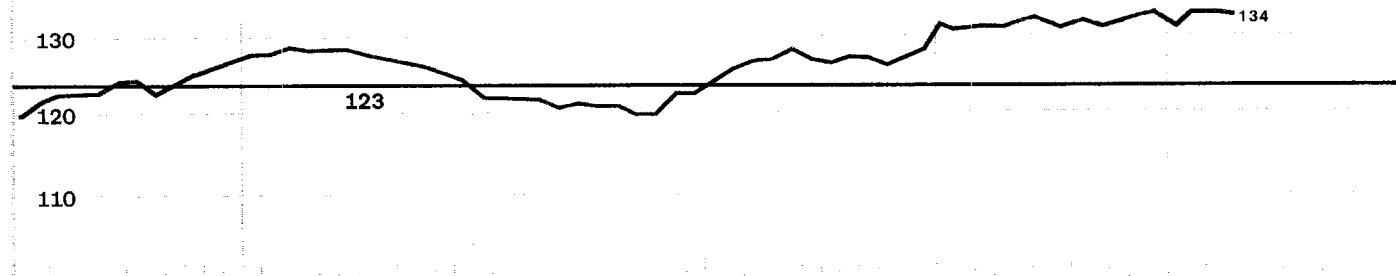
Semilogarithmic Scale



**Italy**



**Canada**



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**1973 1974 1975 1976 1977 1978**

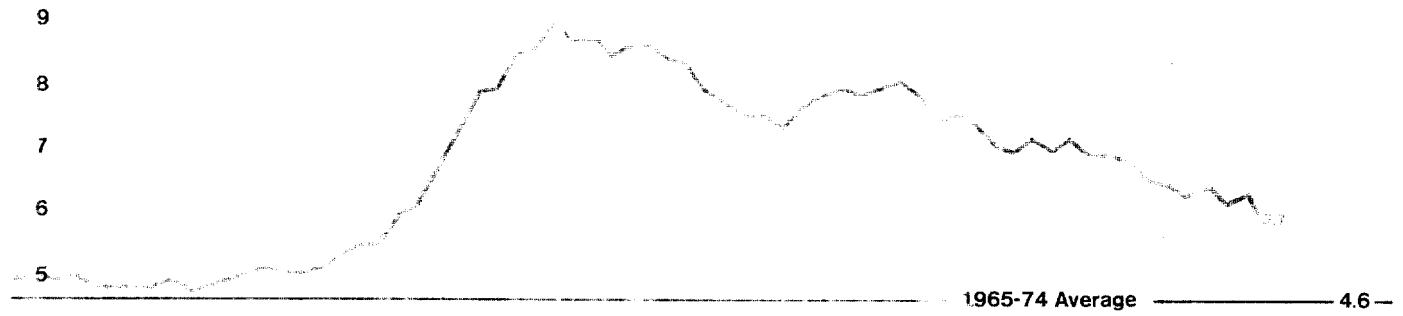
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			
			1970	1 Year Earlier	3 Months Earlier <sup>1</sup>			1970	1 Year Earlier	3 Months Earlier <sup>1</sup>	
United States	JUN 78	0.3	3.7	4.7	12.2	United Kingdom	APR 78	1.0	0.7	1.9	6.1
Japan	JUN 78	-0.6	3.9	4.7	6.5	Italy	MAY 78	5.5	3.2	-1.4	-1.6
West Germany	MAY 78	-1.7	1.9	0.9	-6.6	Canada	APR 78	-0.2	3.8	2.1	3.7
France	MAY 78	-3.1	3.1	3.3	13.4						

<sup>1</sup>Average for latest 3 months compared with average for previous 3 months.

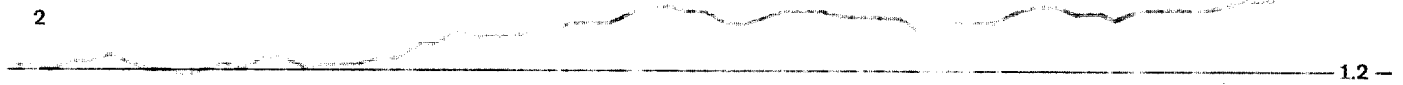
# UNEMPLOYMENT RATE

PERCENT

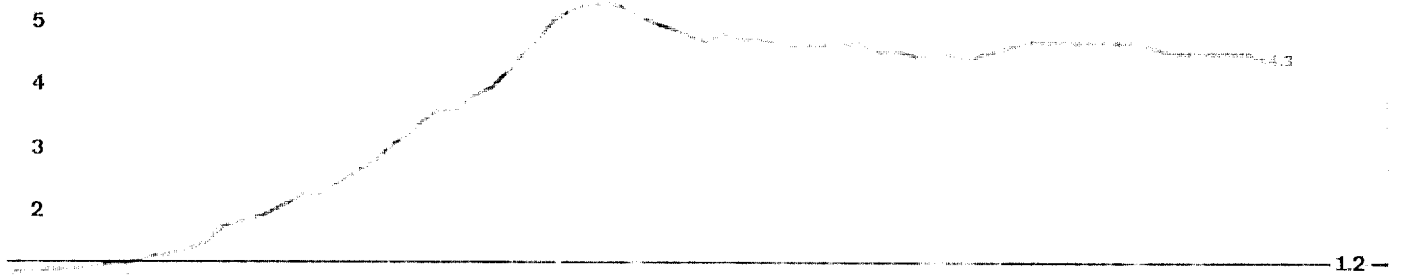
## United States



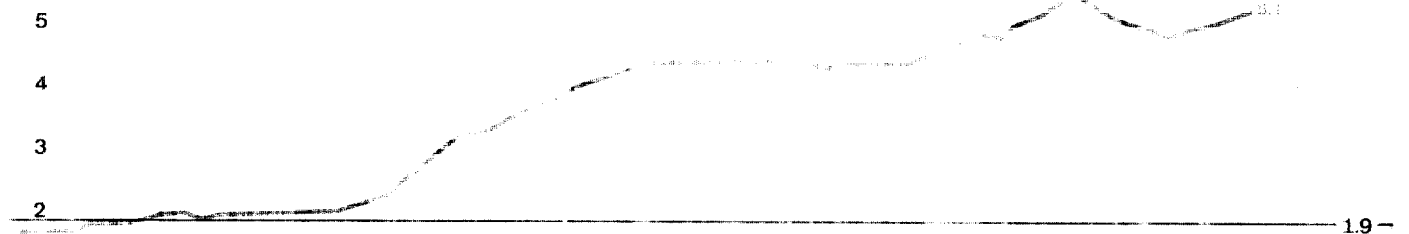
## Japan



## West Germany

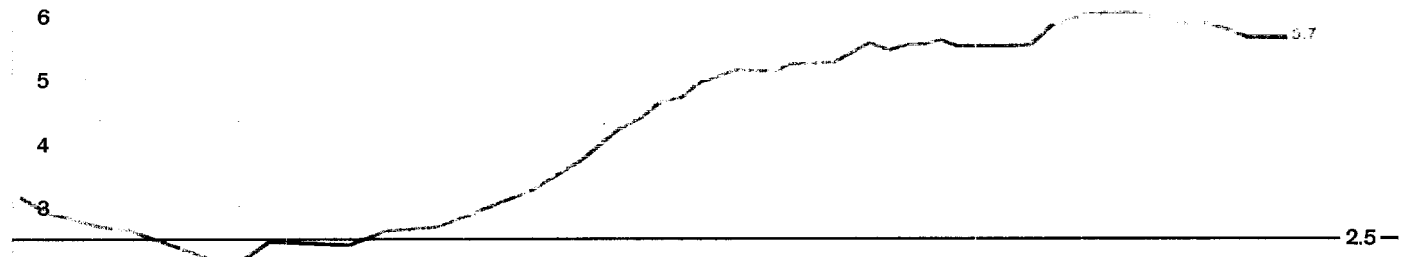


## France

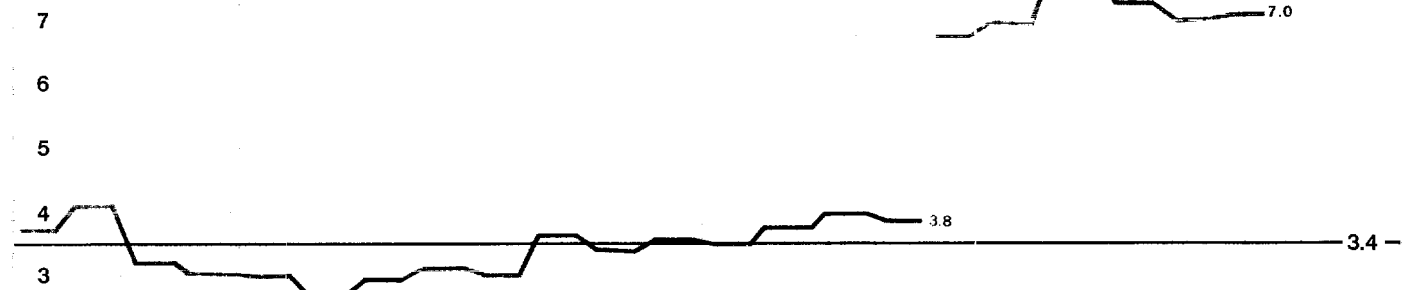


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**United Kingdom**

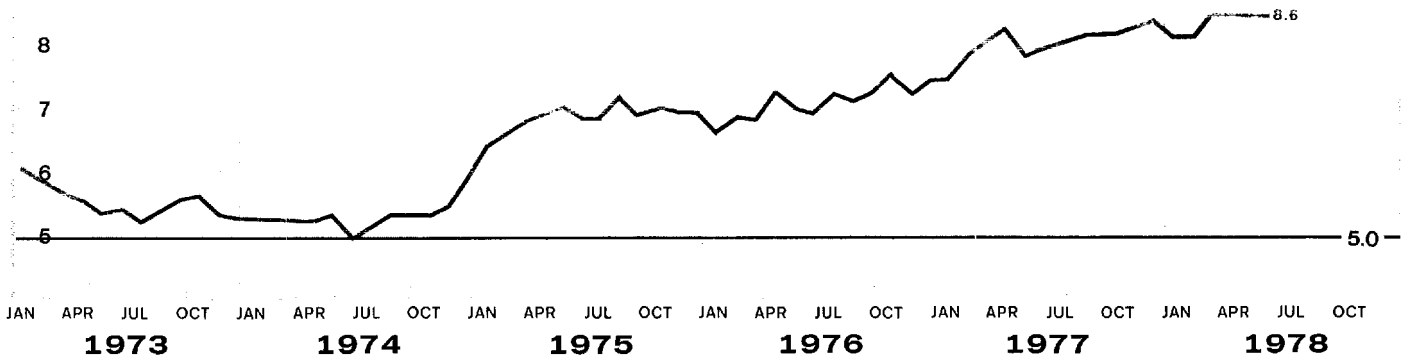


**Italy (quarterly)**



A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

**Canada**



**THOUSANDS OF PERSONS UNEMPLOYED**

	LATEST MONTH	1 Year Earlier	3 Months Earlier		LATEST MONTH	1 Year Earlier	3 Months Earlier		
United States	JUN 78	5,754	6,904	6,148	United Kingdom	JUL 78	1,371	1,402	1,387
Japan	MAY 78	1,270	1,140	1,160	Italy	II 78	1,455	1,432	1,520
West Germany	JUN 78	984	1,044	1,014	Canada	JUN 78	944	848	938
France	MAY 78	1,113	1,066	1,042					

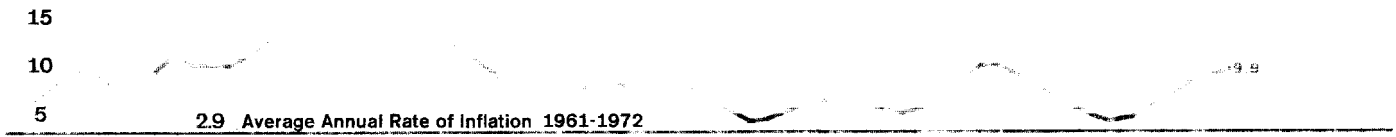
NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

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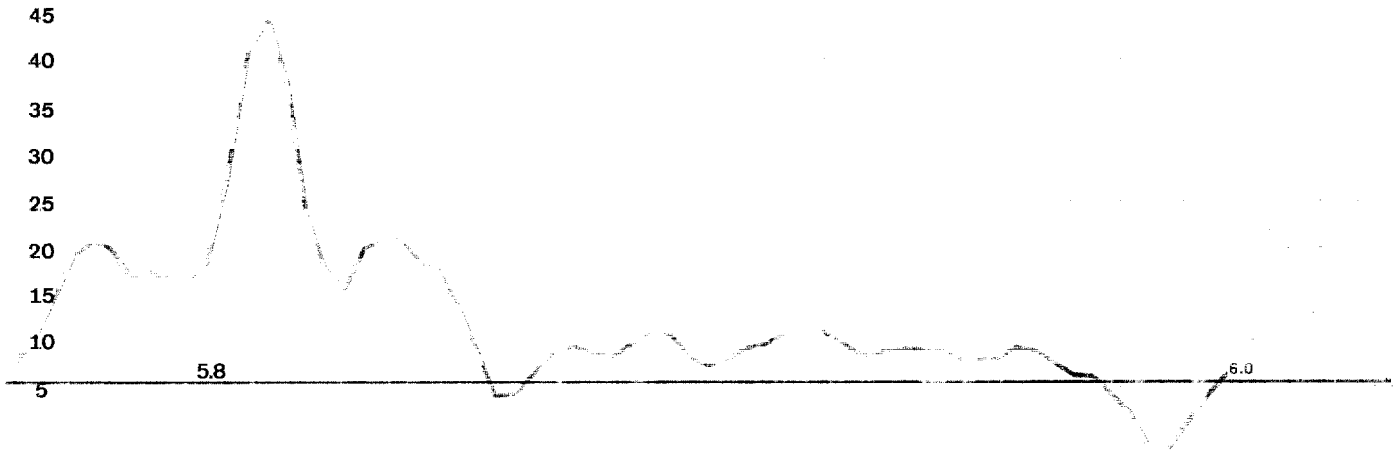
# CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate<sup>1</sup>

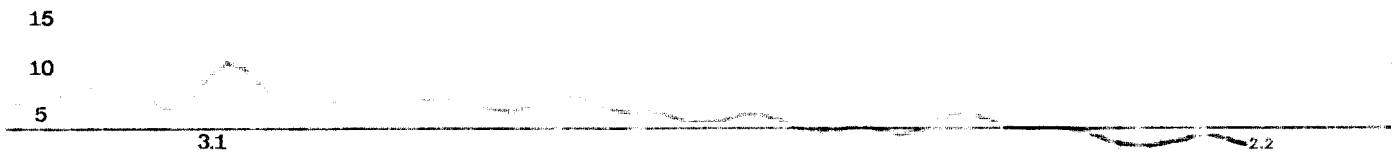
## United States



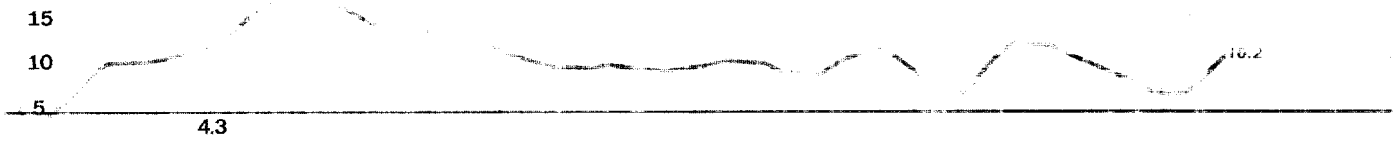
## Japan



## West Germany



## France



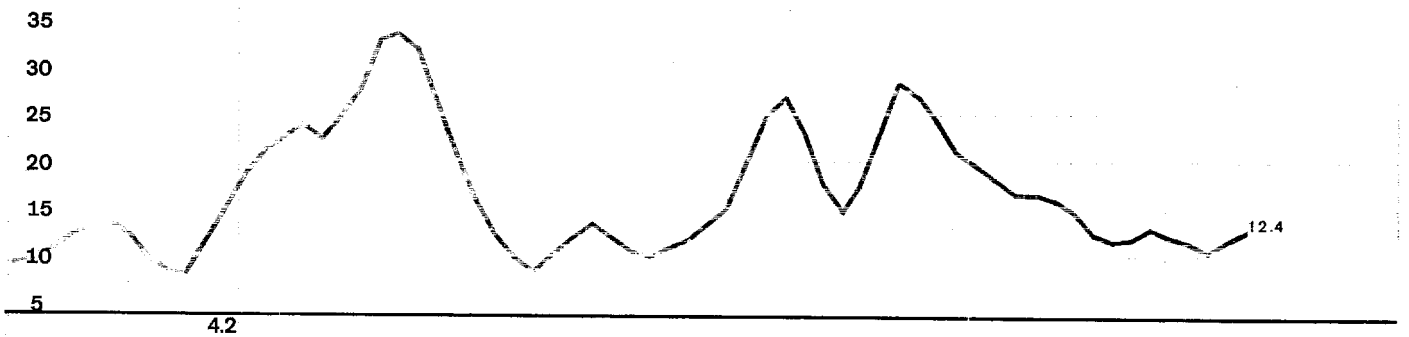
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<sup>1</sup>Three-month average compared with previous three months.

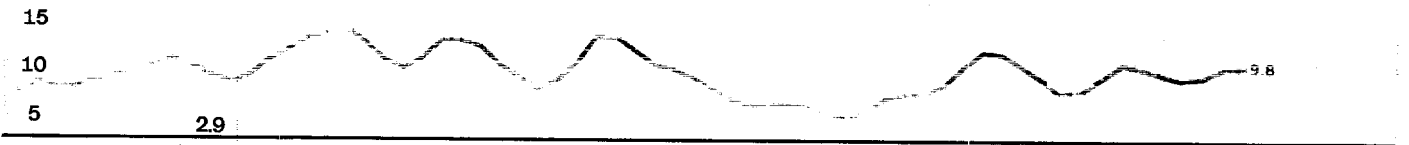
**United Kingdom**



**Italy**



**Canada**



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT  
**1973 1974 1975 1976 1977 1978**

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE			
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>	
United States	MAY 78	0.8	6.7	7.0	9.9	United Kingdom	JUN 78	0.8	13.1	7.4	5.2
Japan	MAY 78	1.0	9.8	3.5	6.0	Italy	JUN 78	1.2	13.1	12.2	12.4
West Germany	JUN 78	0.1	5.2	2.4	2.2	Canada	JUN 78	0.8	7.7	9.2	9.8
France	MAY 78	1.0	9.0	9.1	10.2						

<sup>2</sup>Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

**GNP <sup>1</sup>**

**Constant Market Prices**

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	Previous Quarter
United States	78 II	1.9	3.2	4.1	7.7
Japan	78 I	2.4	5.5	5.7	10.0
West Germany	78 I	0.1	2.4	1.1	0.4
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	77 IV	-0.5	1.6	-1.1	-1.9
Italy	78 I	2.0	1.9	-6.2	8.2
Canada	78 I	0.7	4.7	2.8	2.7

<sup>1</sup> Seasonally adjusted.

**RETAIL SALES <sup>1</sup>**

**Constant Prices**

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>
United States	May 78	-0.9	3.1	1.9	5.5
Japan	Jan 78	2.9	9.2	1.0	-2.8
West Germany	Apr 78	-0.8	2.5	7.0	-7.3
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Jun 78	0.6	1.2	6.5	7.0
Italy	Mar 78	3.6	3.2	5.5	21.1
Canada	May 78	1.0	4.1	3.5	2.2

<sup>1</sup> Seasonally adjusted.

<sup>2</sup> Average for latest 3 months compared with average for previous 3 months.

**FIXED INVESTMENT <sup>1</sup>**

**Nonresidential; constant prices**

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	Previous Quarter
United States	78 I	1.0	2.2	4.7	4.1
Japan	78 I	0.9	1.1	-0.4	3.6
West Germany	78 I	-0.5	0.7	1.6	-2.1
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	77 IV	-1.5	1.3	4.1	-5.9
Italy	78 I	5.3	1.7	-11.4	22.7
Canada	78 I	-3.7	4.8	-12.7	-14.1

<sup>1</sup> Seasonally adjusted.

**WAGES IN MANUFACTURING <sup>1</sup>**

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>
United States	Jun 78	0.5	7.6	7.6	7.2
Japan	Mar 78	-0.2	16.2	7.7	8.3
West Germany	78 I	0.9	8.9	4.3	3.9
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Mar 78	16.2	16.8	21.7	31.4
Italy	May 78	3.5	20.4	15.5	13.6
Canada	Apr 78	-0.1	10.9	7.7	6.8

<sup>1</sup> Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.

<sup>2</sup> Average for latest 3 months compared with that for previous 3 months.

**MONEY MARKET RATES**

Representative rates	Latest Date	Percent Rate of Interest			
		1 Year Earlier	3 Months Earlier	1 Month Earlier	
United States Commercial paper	Aug 2	7.81	5.49	6.96	7.78
Japan Call money	Aug 4	4.38	5.75	4.12	4.25
West Germany Interbank loans (3 months)	Aug 2	3.71	4.06	3.56	3.65
France Call money	Aug 4	7.75	8.63	8.50	7.25
United Kingdom Sterling interbank loans (3 months)	Aug 2	9.91	7.55	8.95	10.11
Canada Finance paper	Aug 2	8.38	7.34	7.98	8.06
Eurodollars Three-month deposits	Aug 2	8.41	6.11	7.73	8.63

**EXPORT PRICES**

US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier
United States	May 78	0.4	9.4	5.0	8.3
Japan	May 78	1.1	12.2	23.6	45.4
West Germany	May 78	-1.8	11.4	10.6	-6.7
France	Apr 78	3.4	12.1	17.9	36.2
United Kingdom	Jun 78	1.2	11.4	16.7	-3.8
Italy	Dec 77	0.9	10.7	8.6	-1.3
Canada	Apr 78	-0.2	8.3	-1.2	-13.6

**EXPORT PRICES**

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier
United States	May 78	0.4	9.4	5.0	8.3
Japan	May 78	3.1	5.8	0.7	14.3
West Germany	May 78	1.2	3.8	-1.2	-0.6
France	Apr 78	0.9	9.4	8.9	21.0
United Kingdom	Jun 78	0.1	15.2	9.2	13.1
Italy	Dec 77	0.6	15.8	9.6	-4.7
Canada	Apr 78	1.2	9.5	7.3	-0.2

**IMPORT PRICES**

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier
United States	May 78	-0.3	12.8	5.4	6.8
Japan	May 78	5.3	7.1	-17.0	-12.3
West Germany	May 78	1.5	3.3	-4.4	0.9
France	Apr 78	-2.2	9.3	0.2	-1.6
United Kingdom	Jun 78	1.1	17.6	3.0	16.3
Italy	Dec 77	-0.7	19.5	9.7	-13.1
Canada	Apr 78	1.5	8.9	10.6	-2.1

**OFFICIAL RESERVES**

	Latest Month		Billion US \$		
	End of	Billion US \$	1 Year Earlier	3 Months Earlier	
	Jun 78	Jun 78	Jun 78	Jun 78	
United States	Jun 78	18.9	14.5	19.2	19.2
Japan	Jun 78	27.3	4.1	17.4	29.2
West Germany	May 78	40.0	8.8	34.8	41.9
France	Apr 78	10.6	4.4	10.0	0.1
United Kingdom	May 78	17.3	2.8	10.0	21.4
Italy	May 78	12.2	4.7	7.9	11.4
Canada	Jun 78	4.7	9.1	5.1	4.0

**CURRENT ACCOUNT BALANCE <sup>1</sup>**

	Latest Period	Cumulative (Million US \$)			
		Million US \$	1978	1977	Change
		1978	1977	Change	
United States <sup>2</sup>	78 I	-6,954	-6,954	-4,158	-2,796
Japan	Jun 78	2,345	8,829	3,076	5,753
West Germany	May 78	323	2,665	1,946	720
France	78 I	0	0	-2	2
United Kingdom	77 IV	682	N.A.	-14	N.A.
Italy	77 III	2,390	N.A.	1,629	N.A.
Canada	78 I	-1,273	-1,273	-1,484	212

<sup>1</sup> Converted to US dollars at the current market rates of exchange.

<sup>2</sup> Seasonally adjusted.

**BASIC BALANCE <sup>1</sup>**

Current Account and Long-Term Capital Transactions

	Latest Period	Cumulative (Million US \$)			
		Million US \$	1978	1977	Change
		1978	1977	Change	
United States		No longer published <sup>2</sup>			
Japan	Jun 78	1,301	5,581	2,145	3,436
West Germany	May 78	-722	2,532	-543	3,075
France	78 I	-1	-1	-2	1
United Kingdom	77 IV	1,389	N.A.	5,353	N.A.
Italy	77 III	2,520	N.A.	2,128	N.A.
Canada	78 I	-668	-668	-584	-84

<sup>1</sup> Converted to US dollars at the current market rates of exchange.

<sup>2</sup> As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

**EXCHANGE RATES**

Spot Rate

As of 4 Aug 78

	US \$ Per Unit	Percent Change from			
		19 Mar 73			
		19 Mar 73	1 Year Earlier	3 Months Earlier	28 Jul 78
Japan (yen)	0.0053	39.36	41.15	19.61	1.81
West Germany (Deutsche mark)	0.4928	39.17	12.90	4.50	0.51
France (franc)	0.2280	3.44	11.09	6.22	-0.10
United Kingdom (pound sterling)	1.9252	-21.77	10.87	5.84	-0.09
Italy (lira)	0.0012	-32.88	4.76	3.48	0.17
Canada (dollar)	0.8791	-11.89	-5.99	-2.19	-0.51

**TRADE-WEIGHTED EXCHANGE RATES <sup>1</sup>**

As of 4 Aug 78

	Percent Change from			
	19 Mar 73			
	19 Mar 73	1 Year Earlier	3 Months Earlier	28 Jul 78
United States	-3.24	-8.41	-4.66	-0.35
Japan	43.79	37.96	18.11	1.74
West Germany	30.37	2.91	0	0.02
France	-7.19	0.50	1.77	-0.68
United Kingdom	-28.38	2.83	1.89	-0.54
Italy	-42.24	-5.33	-1.10	-0.23
Canada	-13.05	-9.14	-3.91	-0.66

<sup>1</sup> Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

Developed Countries: Direction of Trade <sup>1</sup>

Billion US \$

	Exports to (f.o.b.)						Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other	World	Big Seven	Other OECD	OPEC	Com-munist	Other
<b>UNITED STATES</b>												
1975 .....	107.65	46.94	16.25	10.77	3.37	29.82	103.42	49.81	8.83	18.70	0.98	25.08
1976 .....	115.01	51.30	17.68	12.57	3.64	29.44	129.57	60.39	9.75	27.17	1.16	31.09
1977 .....	120.17	53.92	18.53	14.02	2.72	30.98	156.70	70.48	11.08	35.45	1.22	38.47
1978												
1st Qtr .....	30.94	13.65	4.60	3.76	1.00	7.93	43.14	20.39	3.51	8.15	0.47	10.62
<b>JAPAN</b>												
1975 .....	55.73	16.56	6.07	8.42	5.16	15.87	57.85	16.93	6.08	19.40	3.36	12.05
1976 .....	67.32	22.61	8.59	9.27	4.93	17.84	64.89	17.58	7.78	21.88	2.91	14.72
1977 .....	81.11	28.02	9.73	12.03	5.32	26.01	71.33	18.87	7.93	24.33	3.41	16.79
1978												
1st Qtr .....	22.11	7.83	2.39	3.35	1.32	7.22	18.32	5.04	2.06	6.46	0.87	3.89
<b>WEST GERMANY</b>												
1975 .....	91.70	28.33	36.44	6.78	8.81	11.05	76.28	27.09	27.78	8.24	4.87	8.21
1976 .....	103.63	33.44	41.86	8.25	8.72	11.04	89.68	31.28	32.64	9.73	5.93	10.01
1977 .....	119.28	39.01	48.00	10.78	8.59	12.90	102.63	36.38	37.37	10.12	6.14	12.62
1978												
Jan & Feb .....	20.35	7.03	8.12	1.75	1.29	2.16	18.20	6.58	6.92	1.49	0.89	2.32
<b>FRANCE</b>												
1975 .....	52.87	20.00	15.50	4.90	3.13	8.61	53.99	23.04	14.33	9.43	1.94	5.21
1976 .....	57.05	22.49	16.15	5.08	3.23	8.75	64.38	27.81	16.93	11.36	2.24	6.01
1977 .....	65.00	25.90	18.19	5.97	3.00	11.94	70.50	30.28	18.24	11.82	2.46	7.70
1978												
1st Qtr .....	18.49	7.66	5.07	1.57	0.66	3.53	19.76	8.58	5.40	3.05	0.64	2.09
<b>UNITED KINGDOM</b>												
1975 .....	44.03	12.55	16.59	4.55	1.56	8.64	53.35	18.47	18.52	6.91	1.68	7.67
1976 .....	46.12	14.03	17.53	5.13	1.39	7.92	55.56	19.66	18.81	7.29	2.08	7.65
1977 .....	57.44	16.99	22.56	6.78	1.63	9.48	63.29	24.02	21.34	6.31	2.40	9.22
1978												
1st Qtr .....	16.86	5.09	6.27	2.03	0.55	2.92	18.87	7.44	6.68	1.80	0.55	2.40
<b>ITALY</b>												
1975 .....	34.82	15.61	7.86	3.72	2.46	4.67	38.36	17.32	6.75	7.85	2.09	4.34
1976 .....	36.96	17.41	8.69	4.23	2.18	3.96	43.42	19.35	8.04	8.12	2.65	5.24
1977 .....	45.04	20.92	10.20	5.85	2.45	5.62	47.56	20.80	8.67	9.03	2.80	6.26
4th Qtr .....	12.84	6.02	2.78	1.67	0.69	1.68	13.15	5.90	2.49	2.25	0.83	1.68
<b>CANADA</b>												
1975 .....	33.84	26.30	1.73	0.71	1.20	2.00	38.59	29.78	1.70	3.43	0.32	2.02
1976 .....	40.18	32.01	2.03	0.81	1.25	2.09	43.05	33.55	1.82	3.48	0.38	2.56
1977 .....	42.98	34.77	2.13	0.94	1.06	4.08	44.67	35.67	1.77	3.05	0.33	3.85
4th Qtr .....	11.04	9.05	0.52	0.24	0.26	0.97	11.09	8.94	0.44	0.67	0.07	0.97

<sup>1</sup> Source: International Monetary Fund, Direction of Trade.



Developed Countries: Direction of Trade<sup>1</sup>  
(Continued)

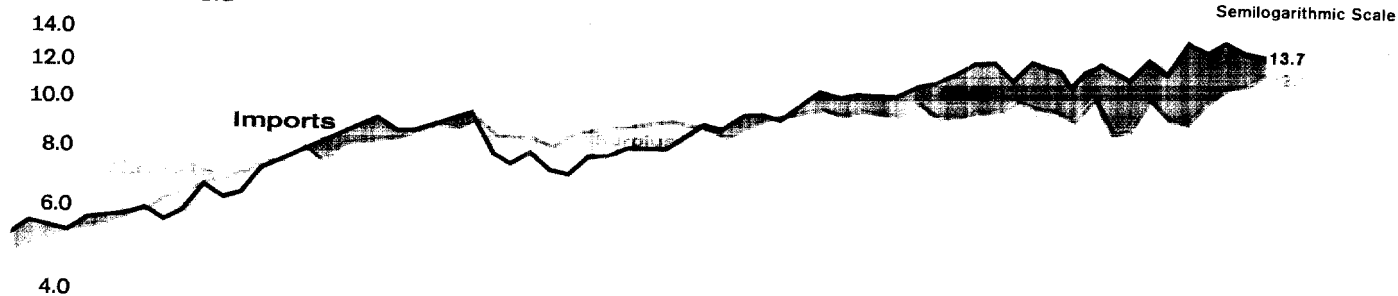
Billion US \$

	Exports to (f.o.b.)						Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other	World	Big Seven	Other OECD	OPEC	Com-munist	Other
CANADA	33.84	26.30	1.73	0.71	1.20	2.00	38.59	29.78	1.70	3.43	0.32	2.02
1975 .....	40.18	32.01	2.03	0.81	1.25	2.09	43.05	33.55	1.82	3.48	0.38	2.56
1976 .....	42.98	34.77	2.13	0.94	1.06	4.08	44.67	35.67	1.77	3.05	0.33	3.85
1977 .....	10.35	8.37	0.53	0.23	0.22	1.00	10.92	8.64	0.43	0.82	0.09	0.94
1st Qtr .....	11.34	9.23	0.54	0.24	0.29	1.04	12.28	9.92	0.47	0.74	0.10	1.05
2d Qtr .....	10.25	8.12	0.54	0.23	0.29	1.07	10.38	8.17	0.43	0.82	0.07	0.89
3d Qtr .....	11.04	9.05	0.52	0.24	0.26	0.97	11.09	8.94	0.44	0.67	0.07	0.97
4th Qtr .....												

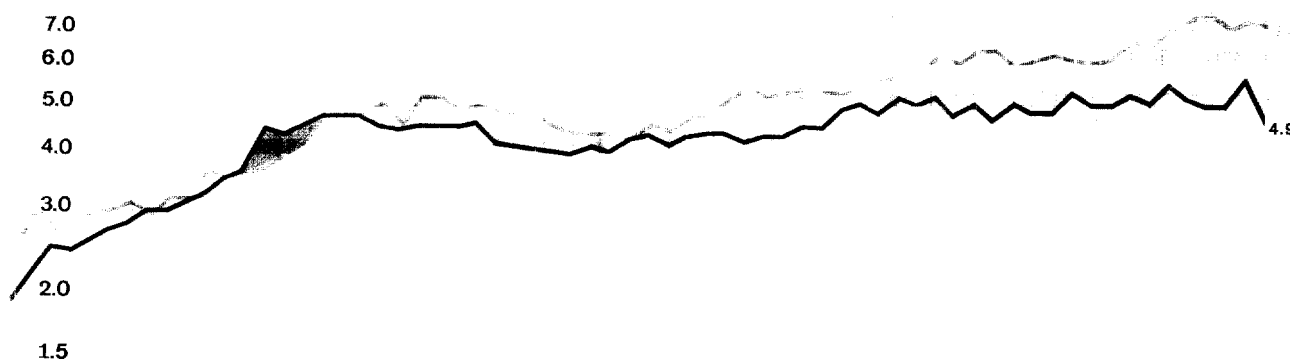
<sup>1</sup> Source: International Monetary Fund, Direction of Trade.

# FOREIGN TRADE BILLION US \$, f.o.b., seasonally adjusted

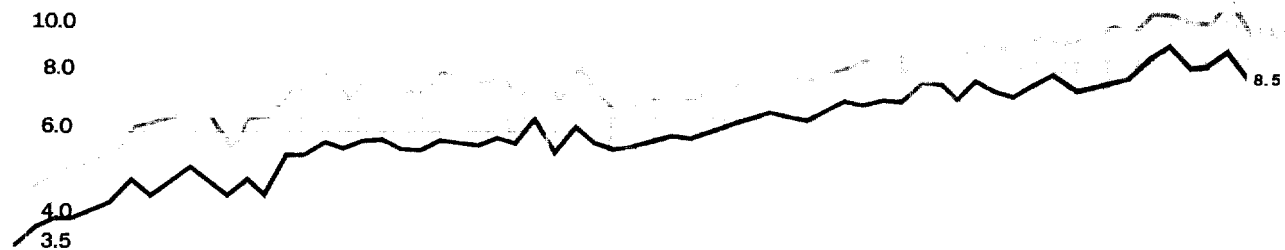
## United States



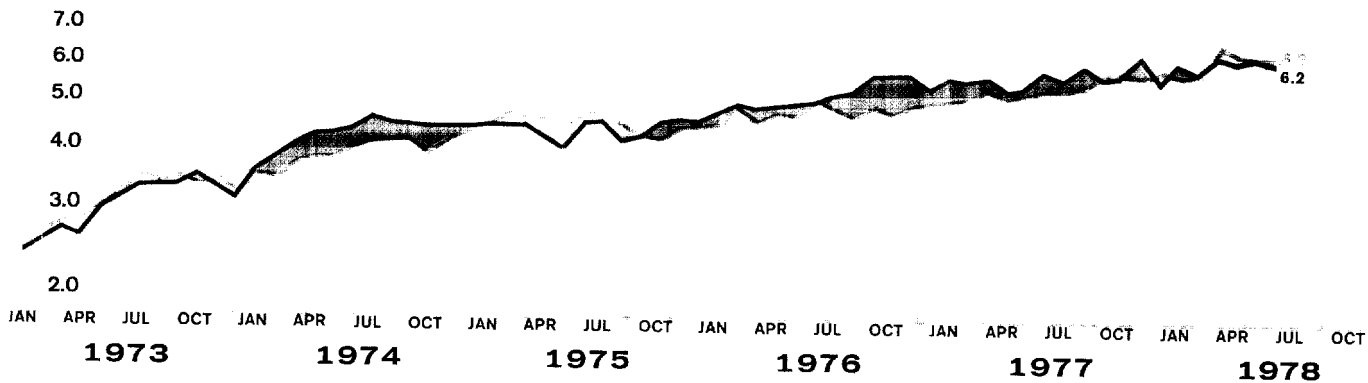
## Japan



## West Germany

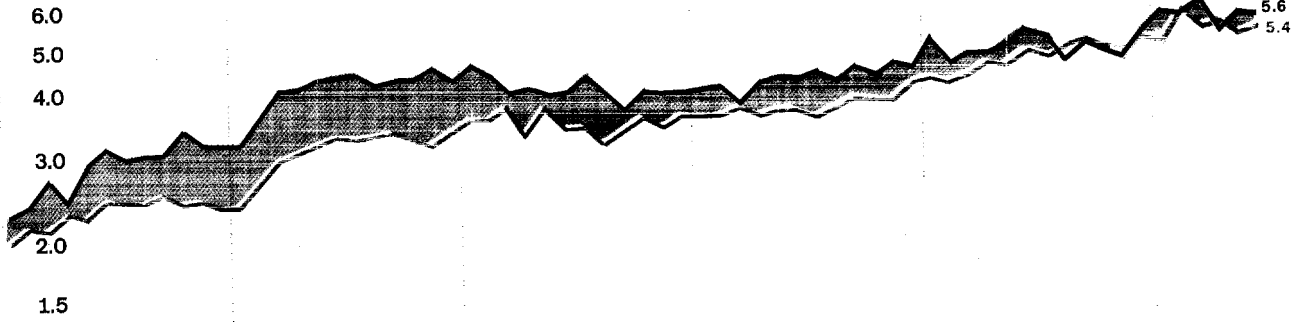


## France

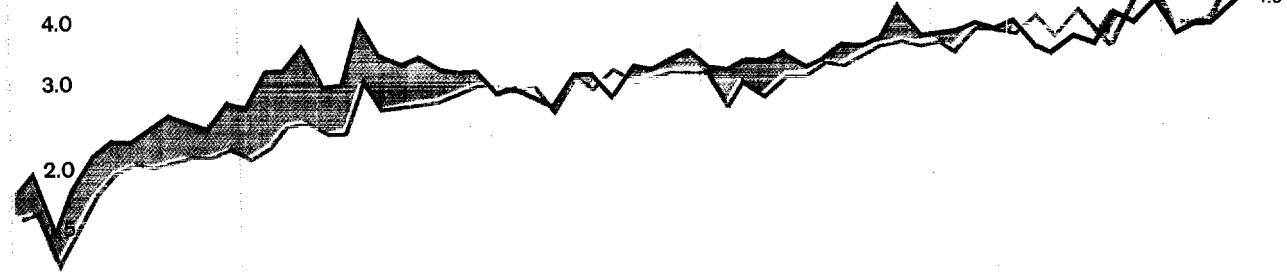


Semilogarithmic Scale

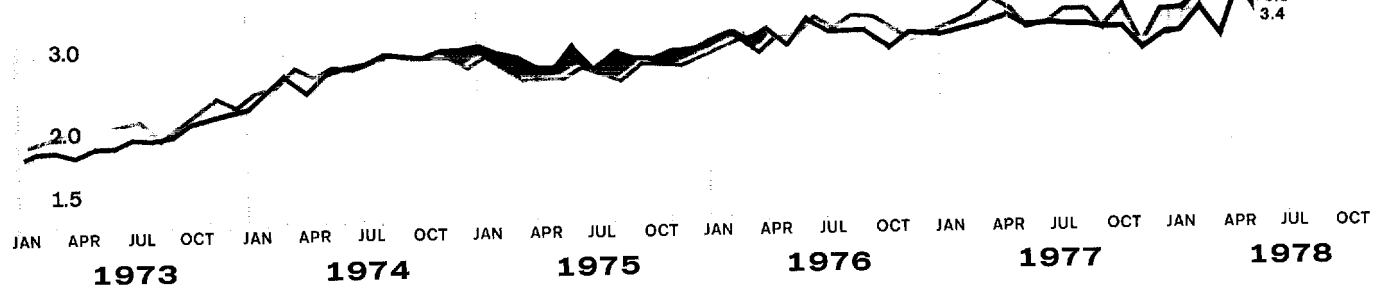
### United Kingdom



### Italy



### Canada



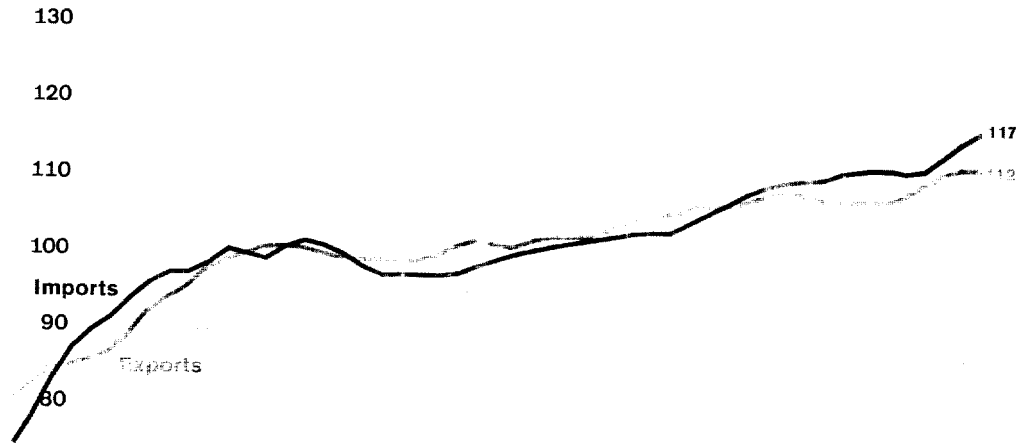
	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)			LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)			
			1978	1977	CHANGE			1978	1977	CHANGE	
United States	JUN 78	12,126 13,723	66,363 82,731	60,257 71,782	10.1% 15.3%	United Kingdom	JUN 78	5,376 5,570	32,428 33,777	26,583 29,467	22.0% 14.6%
	Balance	-1,597	-16,368	-11,524	4,844		Balance	-195	-1,349	-2,884	1,536
Japan	JUN 78	7,794 4,864	47,131 32,365	38,859 30,319	21.3% 6.7%	Italy	MAY 78	4,276 4,358	20,329 19,314	17,623 18,630	15.4% 3.7%
	Balance	2,930	14,767	8,540	6,227		Balance	-82	1,014	-1,008	2,022
West Germany	MAY 78	10,313 8,522	55,032 45,808	46,735 38,606	17.8% 18.7%	Canada	MAY 78	3,621 3,401	18,983 17,447	17,435 16,713	8.9% 4.4%
	Balance	1,791	9,224	8,128	1,096		Balance	219	1,536	722	814
France	JUN 78	6,318 6,217	37,329 37,182	31,159 32,828	19.8% 13.3%						
	Balance	100	147	-1,670	1,817						

576740 7-78

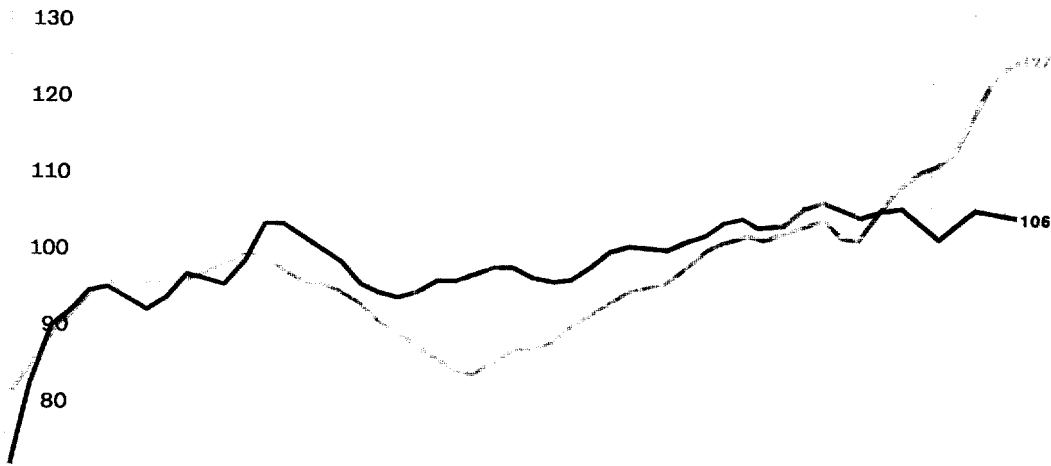
# FOREIGN TRADE PRICES IN US \$<sup>1</sup>

United States

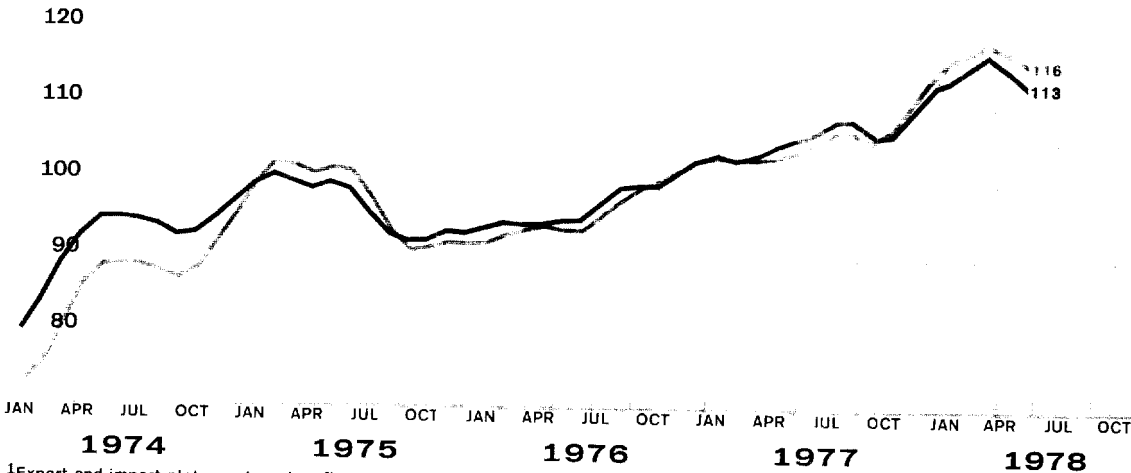
INDEX: JAN 1975 = 100



Japan

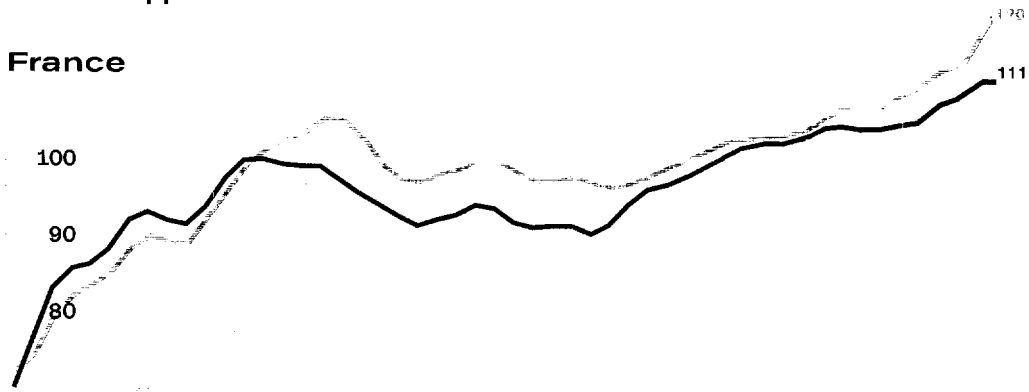


West Germany

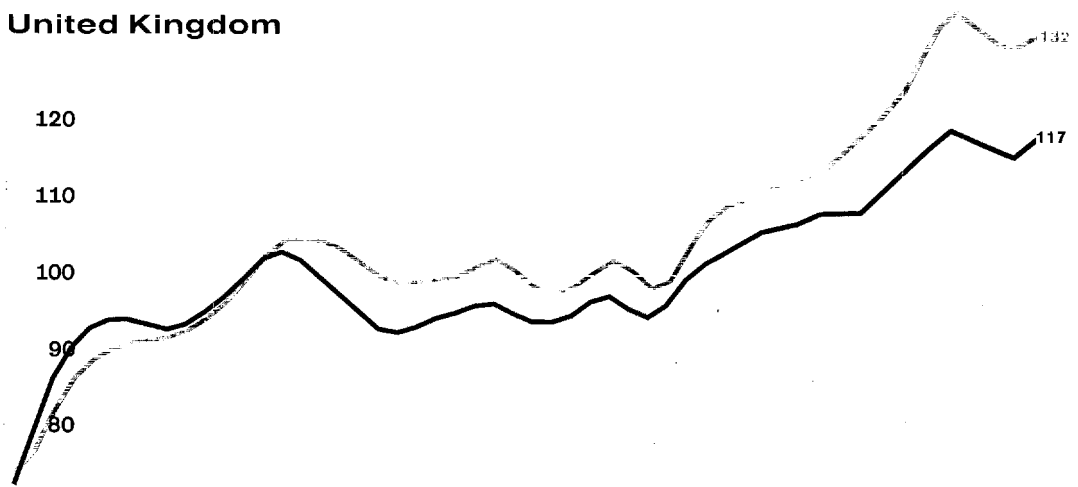


<sup>1</sup>Export and import plots are based on five-month weighted moving averages.

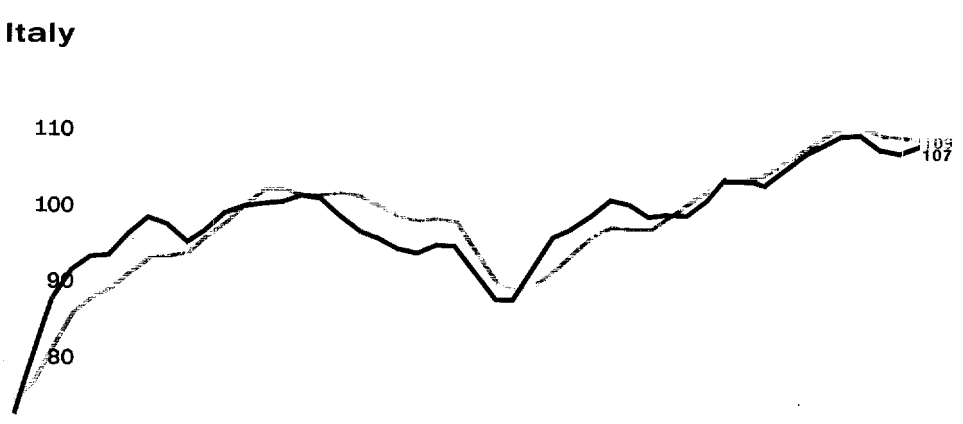
### France



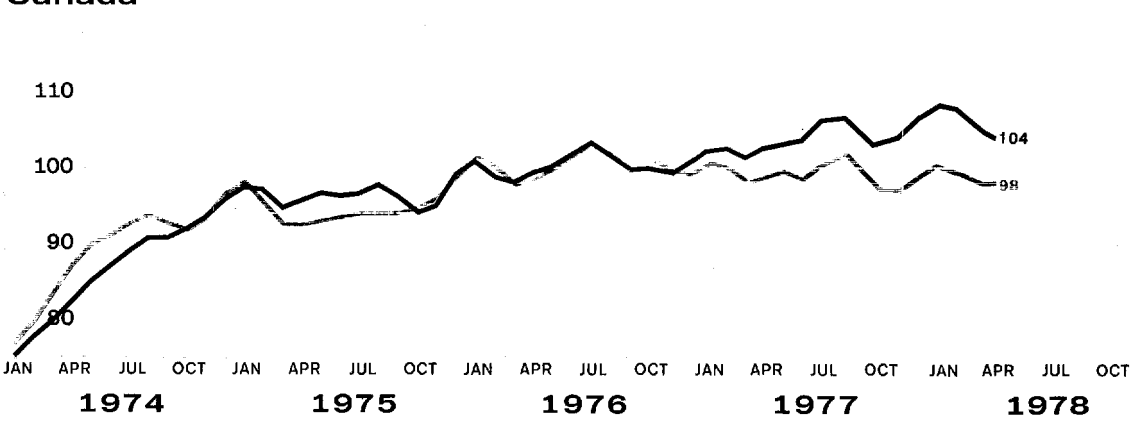
### United Kingdom



### Italy



### Canada



## SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION <sup>1</sup>

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			Percent Change		3 Months Earlier <sup>2</sup>
			1970	1 Year Earlier	
India	Mar 78	1.1	4.9	0.8	17.8
South Korea	May 78	3.8	22.9	27.5	29.6
Mexico	Mar 78	- 5.1	5.1	3.4	- 2.0
Nigeria	78 1	6.8	11.0	0.2	29.9
Taiwan	Apr 78	1.5	15.3	17.4	- 2.0

<sup>1</sup> Seasonally adjusted.<sup>2</sup> Average for latest 3 months compared with average for previous 3 months.MONEY SUPPLY <sup>1</sup>

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		3 Months Earlier <sup>2</sup>
			1970	1 Year Earlier	
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Dec 77	1.0	13.8	13.6	26.1
Iran	Mar 78	9.9	29.3	22.5	51.7
South Korea	Apr 78	0.4	31.4	33.3	34.4
Mexico	Apr 78	1.2	20.4	30.8	28.9
Nigeria	Oct 77	0.6	36.3	46.9	32.6
Taiwan	Mar 78	5.3	25.2	31.0	24.3
Thailand	Nov 77	3.3	13.1	12.3	4.7

<sup>1</sup> Seasonally adjusted.<sup>2</sup> Average for latest 3 months compared with average for previous 3 months.

## CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	Mar 78	0.3	7.5	2.9
Iran	May 78	- 0.4	12.4	12.0
South Korea	Jun 78	2.8	14.6	14.7
Mexico	May 78	1.0	15.0	17.2
Nigeria	Dec 77	3.2	16.6	31.0
Taiwan	Apr 78	1.8	10.1	7.6
Thailand	Apr 78	1.0	8.6	8.8

## WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	- 2.8
Iran	May 78	0.4	11.0	10.9
South Korea	Jun 78	1.3	15.9	11.7
Mexico	May 78	2.5	16.5	16.3
Taiwan	Mar 78	1.1	8.2	1.2
Thailand	Jan 78	- 0.2	9.5	6.4

## EXPORT PRICES

US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Feb 78	0.4	14.1	1.5
India	Mar 77	- 0.9	9.6	17.9
Iran	Jun 78	0	30.8	0
South Korea	78 1	0.7	8.7	7.7
Nigeria	May 76	- 0.1	27.3	12.3
Taiwan	Dec 78	- 0.7	11.2	3.8
Thailand	Mar 76	2.0	13.3	13.1

## OFFICIAL RESERVES

Million US \$

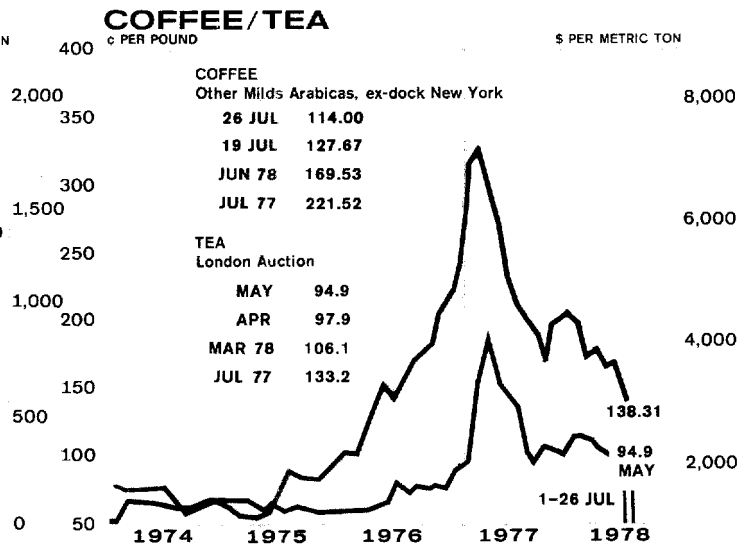
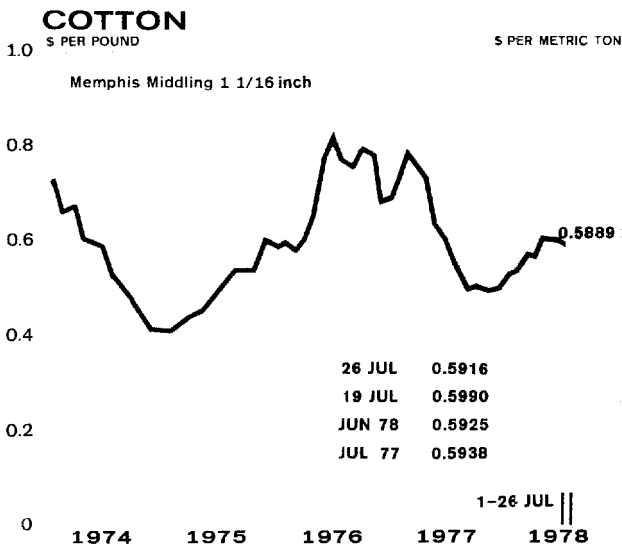
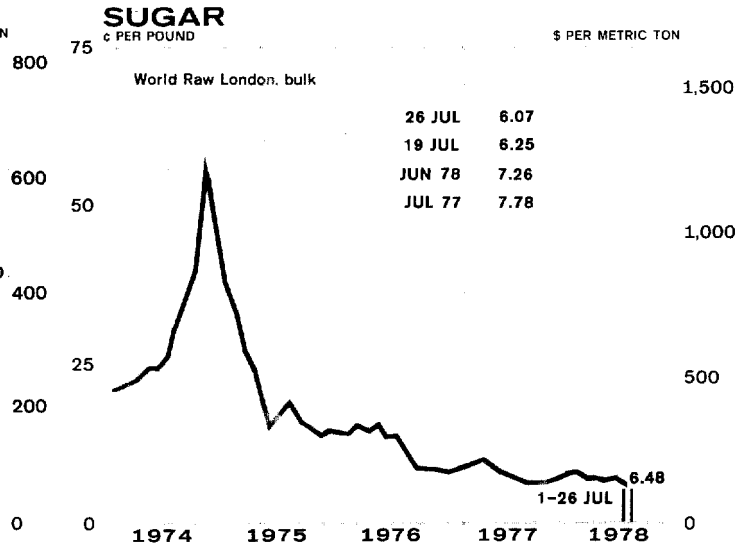
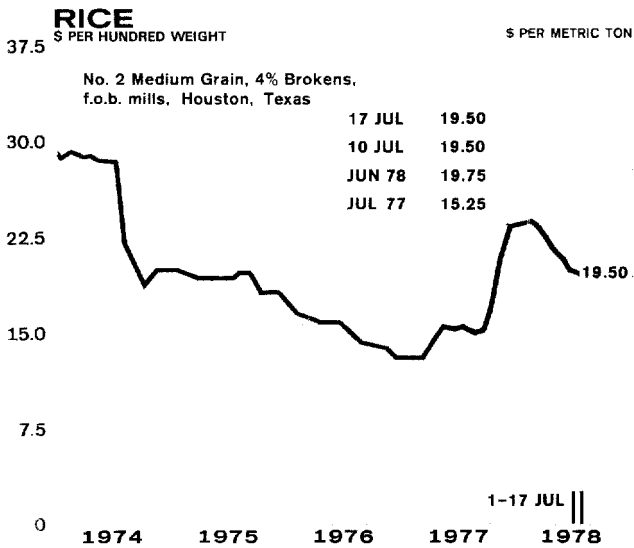
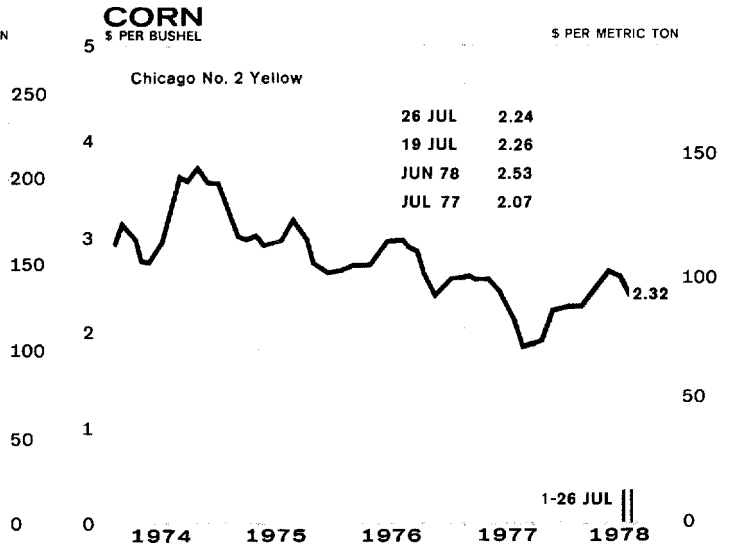
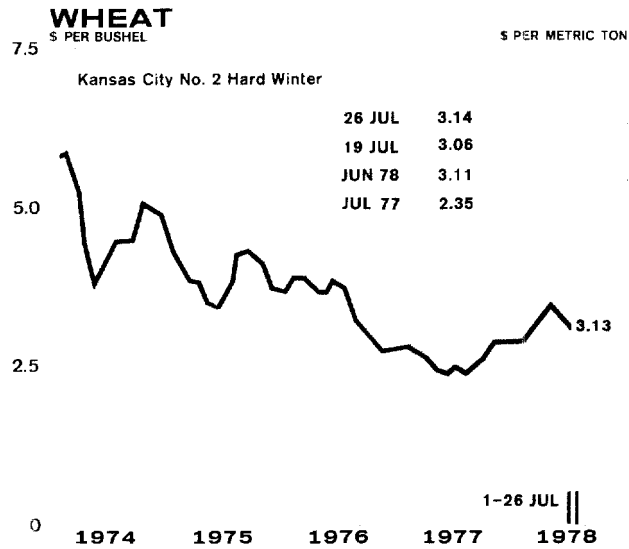
	Latest Month End of	Million US \$	Average Annual Growth Rate Since		
			Percent Change		3 Months Earlier
			Jun 1970	1 Year Earlier	
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	Mar 78	5,823	1,006	3,747	5,184
Iran	Jun 78	12,068	208	11,025	12,483
South Korea	Apr 78	4,138	602	3,247	4,418
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Jun 78	2,387	148	4,663	3,906
Taiwan	Mar 78	1,433	531	1,349	1,447
Thailand	May 78	2,129	978	2,005	2,087

**FOREIGN TRADE, f.o.b.**

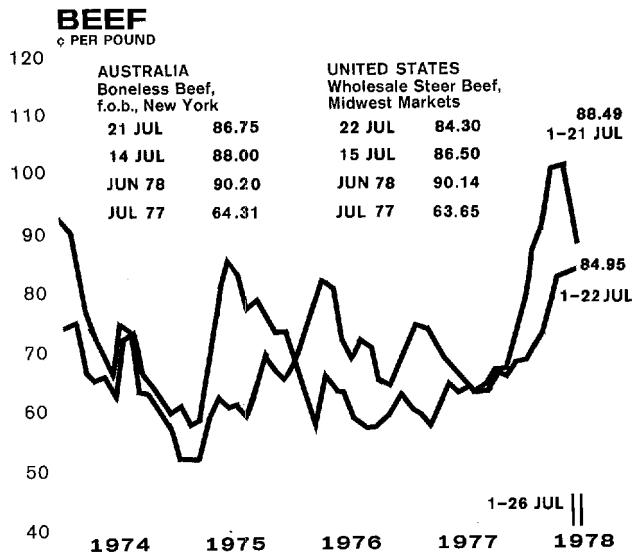
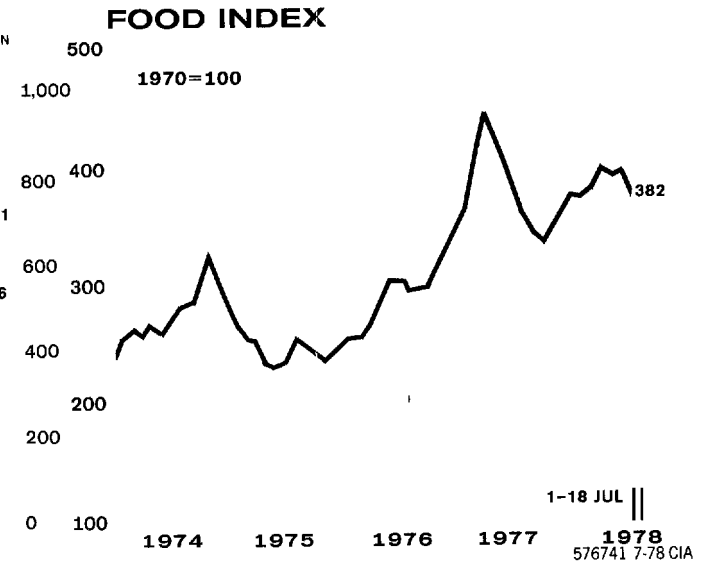
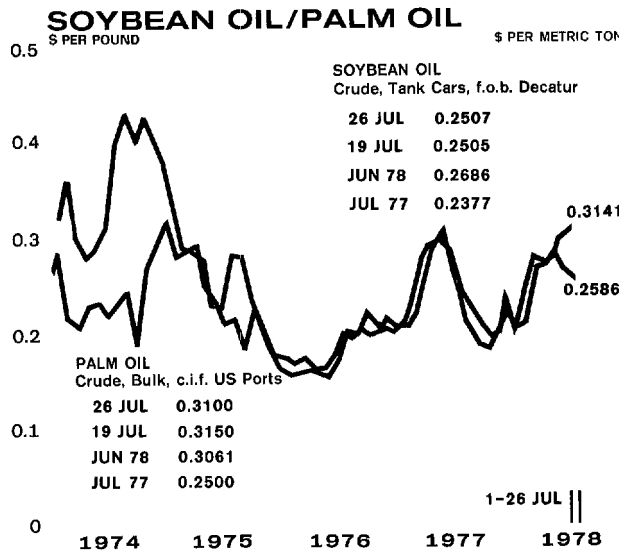
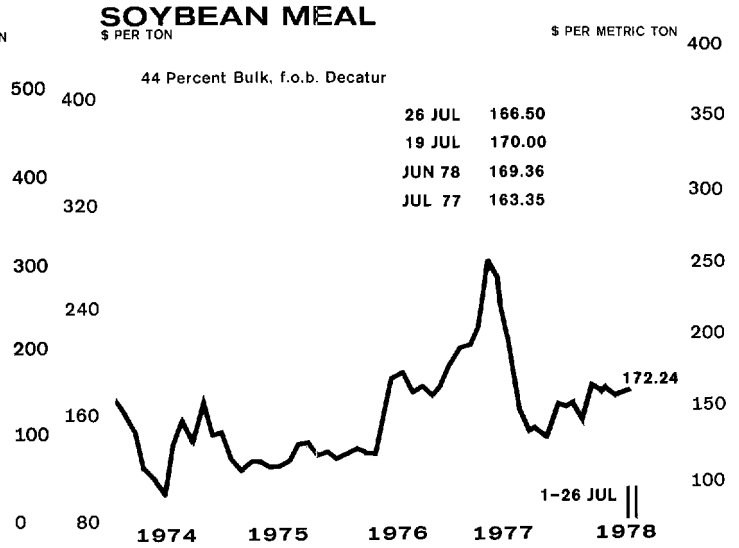
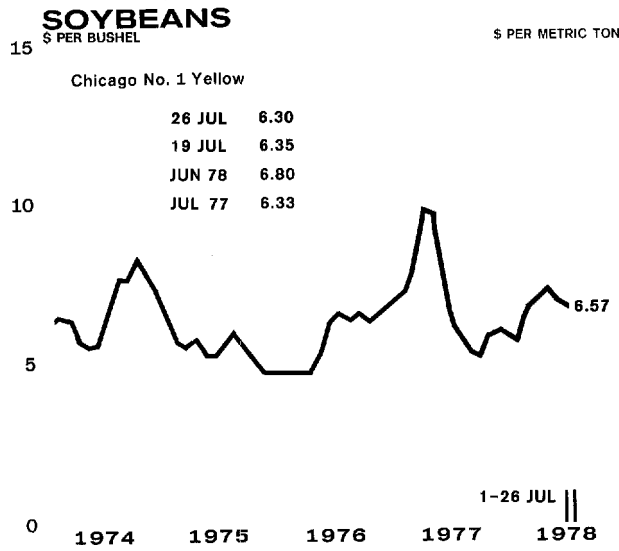
Latest Period			Latest 3 Months		Cumulative (Million US \$)		
			Percent Change from		1978	1977	Change
			3. Months Earlier <sup>1</sup>	1 Year Earlier			
Brazil	May 78	Exports	84.8	-3.7	4,743	4,979	-4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			-367	40	-407
India	Feb 78	Exports	4.0	12.3	912	917	-0.4%
	Feb 78	Imports	-39.6	-0.2	845	916	-7.7%
	Feb 78	Balance			67	1	66
Iran	Apr 78	Exports	-34.0	-8.2	7,615	8,012	-4.9%
	Mar 78	Imports	105.8	14.2	3,694	3,235	14.2%
	Mar 78	Balance			1,995	2,795	-804
South Korea	May 78	Exports	14.2	29.3	4,651	3,630	28.1%
	May 78	Imports	64.3	25.1	4,994	3,905	27.9%
	May 78	Balance			-343	-275	-68
Mexico	Apr 78	Exports	-21.1	-3.1	1,576	1,458	8.1%
	Apr 78	Imports	-47.9	16.2	1,809	1,492	21.2%
	Apr 78	Balance			-233	-34	-199
Nigeria	Apr 78	Exports	-55.4	-29.9	1,143	1,597	-28.4%
	Dec 76	Imports	86.7	8.4	N.A.	N.A.	N.A.
	Dec 76	Balance			N.A.	N.A.	N.A.
Taiwan	Apr 78	Exports	-27.6	32.3	3,365	2,543	32.3%
	Apr 78	Imports	-14.5	20.4	2,869	2,338	22.7%
	Apr 78	Balance			496	205	291
Thailand	Feb 78	Exports	76.0	8.2	635	574	10.6%
	Mar 78	Imports	-8.8	13.7	1,069	940	13.7%
	Feb 77	Balance			-29	-23	-5

<sup>1</sup> At annual rates.

# AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

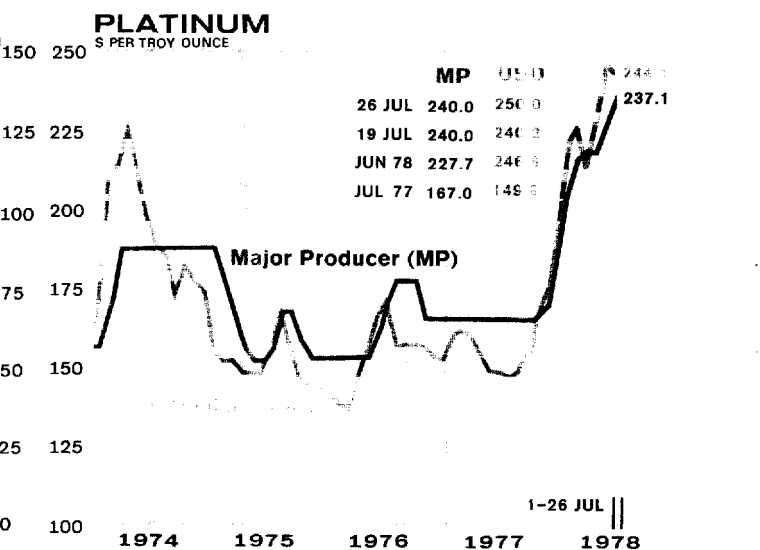
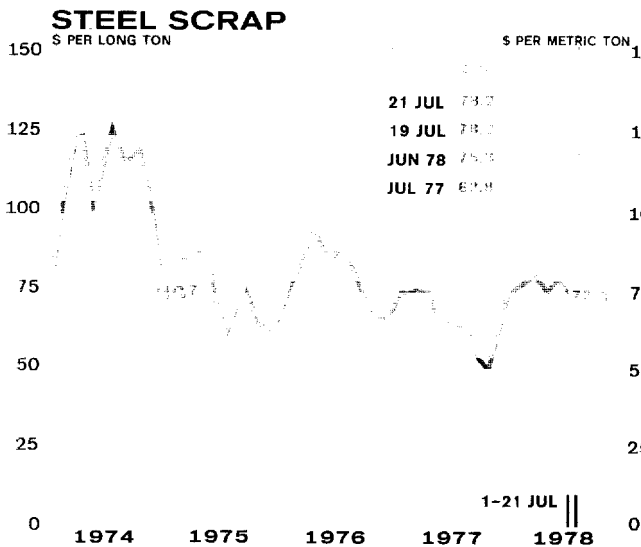
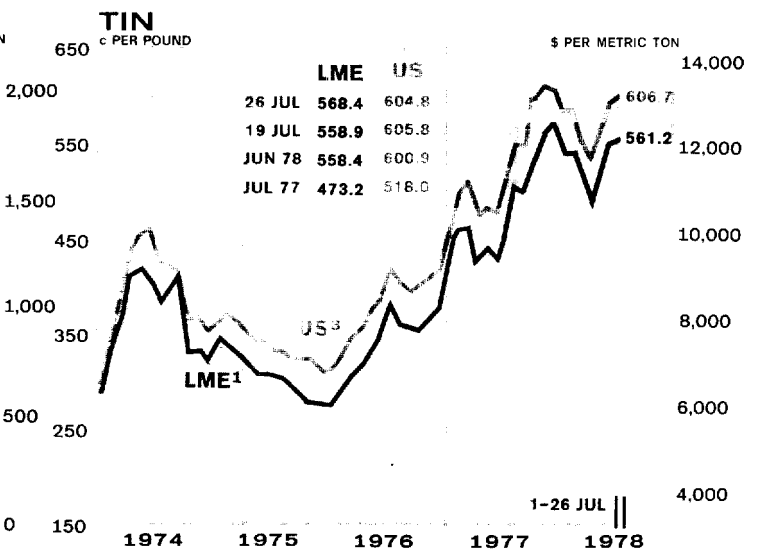
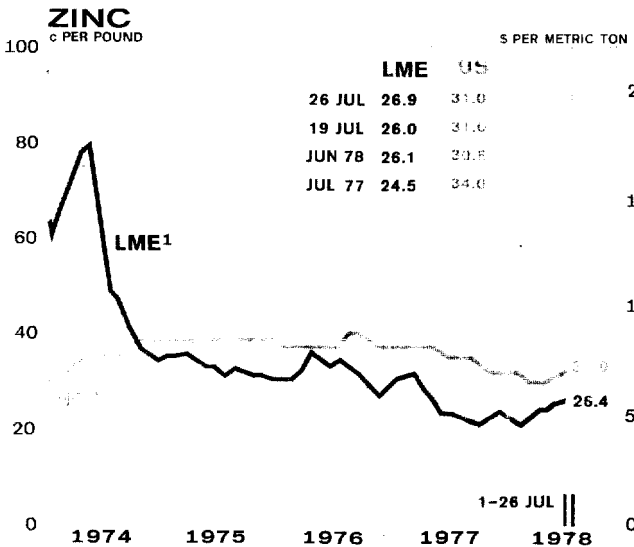
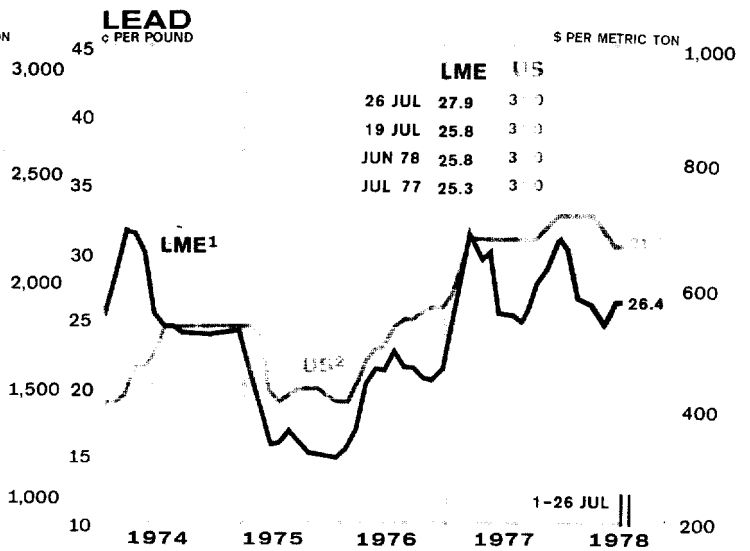
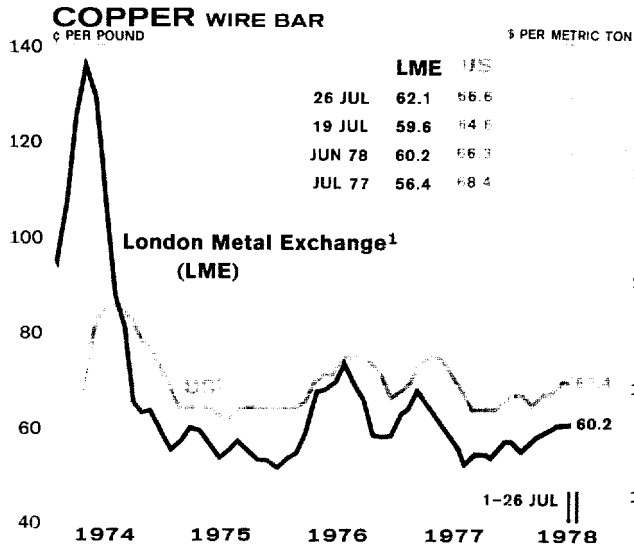






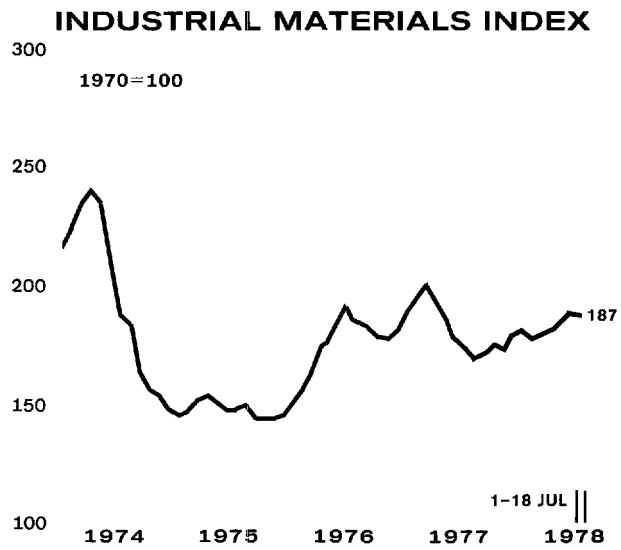
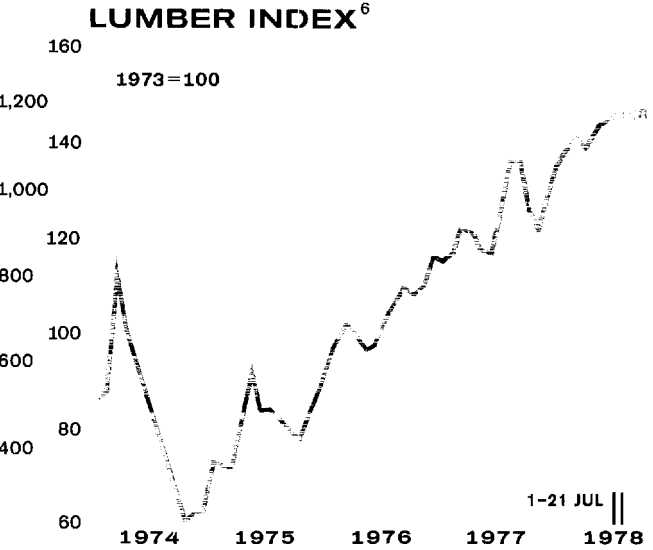
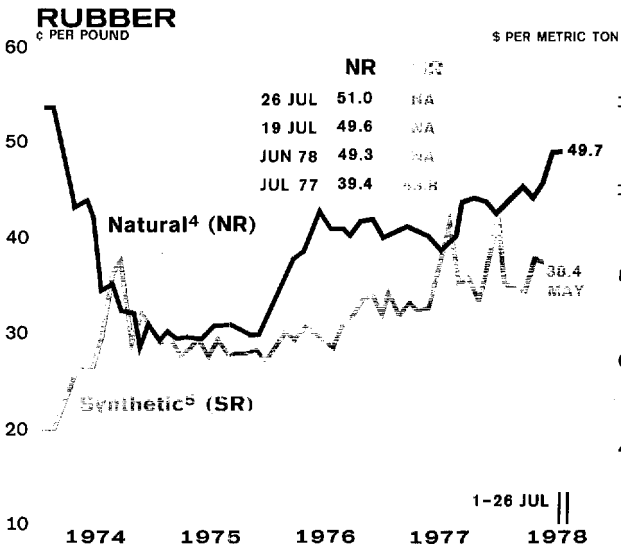
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

# INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE



**SELECTED MATERIALS**

			CURRENT	JAN 78	JUL 77	JUL 76
<b>ALUMINUM</b>	Major US Producer	£ per pound	55.00	53.00	51.00	44.00
<b>US STEEL</b>	Composite	\$ per long ton	395.81	359.36	339.27	316.36
<b>IRON ORE</b>	Non-Bessemer Old Range	\$ per long ton	21.43	21.43	21.43	19.50
<b>CHROME ORE</b>	Russian, Metallurgical Grade	\$ per metric ton	NA	150.00	150.00	150.00
<b>CHROME ORE</b>	S. Africa, Chemical Grade	\$ per long ton	56.00	58.50	58.50	39.00
<b>FERROCHROME</b>	US Producer, 66-70 Percent	£ per pound	42.00	41.00	43.00	45.00
<b>NICKEL</b>	Composite US Producer	\$ per pound	2.07	2.06	2.41	2.20
<b>MANGANESE ORE</b>	48 Percent Mn	\$ per long ton	67.20	72.24	72.00	72.00
<b>TUNGSTEN ORE</b>	Contained Metal	\$ per metric ton	16,772.00	21,549.00	22,821.00	13,954.00
<b>MERCURY</b>	New York	\$ per 76 pound flask	160.00	124.33	126.23	110.00
<b>SILVER</b>	LME Cash	£ per troy ounce	529.57	472.49	446.93	478.82
<b>GOLD</b>	London Afternoon Fixing Price	\$ per troy ounce	187.15	160.45	140.78	125.71



- <sup>1</sup>Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
- <sup>2</sup>Producers' price, covers most primary metals sold in the US.
- <sup>3</sup>As of 1 Dec 75, US tin price quoted is "Tin NY 1b composite."
- <sup>4</sup>Quoted on New York market.
- <sup>5</sup>S-type styrene, US export price.
- <sup>6</sup>This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
- <sup>7</sup>Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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