Economic Intelligence Weekly Review

28 September 1978

Secret

ER EIWR
28 Sep

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

SECRET

25X1

ECONOMIC INTELLIGENCE WEEKLY REVIEW

28 September 1978

25X6

25X1

25X1

25X6

Next 2 Page(s) In Document Exempt

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

25X6

CHINA: STUDYING YUGOSLAV ECONOMIC SYSTEM

Peking is showing considerable interest in the Yugoslav economic system, a system that only two years ago incurred Chinese charges of "revisionism." This surprising interest in Yugoslav economic management is part of a wide-ranging search for ways to speed up modernization, one that reaches to Japan and Western Europe as well as to the socialist economies of Eastern Europe. The search involves radically new departures in thinking about work incentives, factory management, and relations with the international economy.

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

Changes Since Mao's Death

In a series of policy reversals that began two years ago, China's post-Mao leadership has begun to reform its system of economic management. Already a reorganization of industry is under way. At the enterprise level the emphasis has temporarily been placed on restoring control systems—over finances, product quality, and worker discipline—which had fallen apart in the intensely political climate of the past decade. In the future, probably before the end of the Fifth Five-Year Plan period (1976-80), Peking apparently intends to overhaul plant management in ways that will give workers a greater stake in enterprise success and to revamp the foreign trade sector to facilitate large-scale acquisitions of imported plant and equipment—both areas where Yugoslavia's experiences could be valuable.

25X1

25X1

Work Incentives and Productivity

Work incentives and productivity are perhaps the main problems facing Peking. The Hua government inherited, in October 1976, an economic situation that featured widespread dissatisfaction over wages and living conditions on the part of urban workers. A decade of egalitarian wage policies and leftist denunciation of material incentives had led to an erosion of real incomes and a growing schism between government and workers. A measure of the dissatisfaction was the growing incidence of work slowdowns, absenteeism, and strikes during the mid-1970s—phenomena that did not entirely cease after the new government took office.

A wage increase in late 1977—covering three-fifths of the urban work force and averaging approximately 10 percent—and promises of wage reform have improved worker-management relations and induced some gains in productivity. The readoption of production bonuses and piece rates, currently under way, can be expected to have similarly beneficial effects. Nevertheless, a substantial improvement in work incentives and productivity would require further concessions by the government.

Peking clearly plans to rely more heavily on material incentives. A comprehensive wage reform will likely result in higher wages for all workers, not just the lowest-paid; and closer adherence to promotion policies will permit workers to anticipate improvements in living standards. Higher rates of growth for light industrial production during 1978-85 (12 percent annually, some 2 percentage points higher than for overall industry) and the larger imports of consumer goods imply that wage gains are to be translated into real increases in consumption.

The Chinese leadership feels that—despite the past heavy investment in industry—long-term productivity growth has been unsatisfactory. Now, with the demands for modernization urgently felt and the belief that 10 years have been wasted, the need to raise labor productivity is stronger than ever.

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

China's system of enterprise management already contains elements of worker participation. But the participation is largely political-ideological in nature rather than an effective sharing of managerial decisionmaking. Peking's interest in Yugoslav self-management implies that the leadership may now give workers a greater say on wages, bonuses, and investment. The ability of the Yugoslavs to maintain high rates of investment while increasing real incomes and productivity growth doubtless appeals to Peking. Yugoslavia's high rates of inflation and inefficient use of capital, both related to the dynamics of self-management, probably reinforce a natural reluctance to radically alter China's more centralized system.

Revamping the Foreign Trade Sector

We can only speculate about the aspects of Yugoslav foreign trade experience that have attracted Peking's interest. China's modernization demands widespread use of foreign technology. Foreign trade policy is one area where new initiatives are most apparent; Peking has already made the policy decisions and laid the ideological groundwork for large imports of plant and equipment under a greatly expanded variety of payment and credit arrangements. Now the Chinese have begun to face up to the new and difficult planning and management problems that will be created by substantially higher levels of foreign trade.

Under previous circumstances Peking might have been content to continue its highly centralized management of foreign trade, with most decisions taken at the upper echelons of the Party and state bureaucracies. Within the past year, greater responsibility for import planning and administration has been granted to provincial and lower-level authorities. To encourage exports, localities are now allowed to retain a larger share from foreign sales, and certain enterprises now may purchase foreign equipment for export production if barter or product-payback deals can be arranged. Local officials, pursuing these new opportunities, have been traveling abroad to discuss projects and solicit bids from foreign firms.

We can anticipate further reforms in institutions and incentives to stimulate exports. Peking's stress on efficiency and decentralized management may in time lead it to make changes in, for example, its methods of allocating foreign exchange. Yugoslavia's growing integration into the world economy and its experiments with multiple exchange rates and other methods of foreign exchange allocation should prove instructive to Peking as it contemplates a more restricted plunge into the international economy. In particular, Belgrade's experiences in joint ventures with Western firms should give the Chinese realistic ideas about the benefits and difficulties of such arrangements.

Comments by Chinese Economist

A recent interview with the prominent economist Sun Yeh-fang—once denounced as China's Liberman—provides an illuminating postscript to a discussion of Peking's interest in the Yugoslav system. Sun, a former director of the State Statistical Bureau and once head of the Economic Research Institute, was purged during the Cultural Revolution of the late 1960s for advocating the study of profits as a management tool. He spent more than seven years in prison, was released in 1975, and is now an adviser to the Economic Research Institute. In the interview—with a correspondent for the Yugoslav news agency Tanjug—Sun's discussion dealt largely with the prerogatives of enterprise management. He advocates shortening the period of amortization of capital from the current 25 years to something like 10 years and handing the administration of amortization funds over to the enterprise. In response to a question about worker management, Sun responded: "It is true to say that workers' rights in enterprises should be extended. I have done only a little research into self-management in Yugoslavia, but I think that workers' rights should be extended."

Sun doubtlessly has influence among the economic bureaucrats in Peking and may have the ears of some members of the Politburo. He will soon head a team of top economists visiting Yugoslavia to make a detailed appraisal of those aspects of the system most relevant to the PRC.

Borrowed Maybe, But Chinese

Peking learned from its early experience with the Soviets that foreign economic systems, policies, and methods cannot be indiscriminately transplanted to China. Anything borrowed from the Yugoslavs will acquire a definite Chinese stamp. And, while Peking appears primarily interested in Yugoslav methods, it has also shown an interest in the managerial techniques used in Japan and Western Europe. A delegation from the State Economic Commission is scheduled to visit Japan in November for a month's study of various aspects of management, especially quality control. 25X1

25X1

* * * * *

VIETNAM: "NEW ECONOMIC ZONES" FAIL TO TAKE ROOT

Much of Hanoi's postwar effort at socioeconomic reform of Vietnamese society is embodied in the "new economic zones"—outlying areas that the government has set aside for agricultural development. They are Hanoi's attempt to deal with (a) urban

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

unemployment, running into the millions; (b) the highly uneven distribution of population; (c) the lag in food production; and (d) the stubborn reluctance of many southerners to accept the Communist ideology of the north.

After more than two years of the program, the government faces mounting problems making these primitive new areas economically productive. Not the least of the problems is to overcome the growing reluctance of Vietnamese to resettle after hearing horror stories about the poor living conditions in the new areas. Hanoi, although not yet at the point of physically forcing resettlement (as in neighboring Cambodia), is tightening economic pressures to induce an urban exodus.

Population and Food Imbalances

Hanoi's victory in 1975 worsened economic problems in the south. South Vietnam's sizable army and its top-heavy services sector, built up in urban areas to serve wartime needs, suddenly became superfluous. Some 3 million people—located mainly in Saigon—found themselves unemployed. Moreover, during the war substantial numbers of peasants had abandoned farms and fled to Saigon and other cities. The population movement resulted in labor shortages in rural areas and in the idleness of 1 million hectares of arable land. At the war's end, more than one-third of the southern population lived in cities, compared with only 10 percent in the north.

Hanoi also acquired an annual foodgrain deficit in the south of 800,000 to 1 million tons on top of the chronic half-million- to 1-million-ton northern shortfall. Although agricultural development in the south, beginning in the late 1960s, had resulted in encouraging foodgrain increases and near self-sufficiency, the Communist takeover in 1975 crippled the effort. In the postwar era, farmers have had to make do without technicians and critically needed production inputs previously provided through US aid programs. Traditional supply and marketing arrangements were broken, and farmers faced an inevitable takeover of their profitable private plots. Little incentive has remained to boost output beyond the requirements of family subsistence and state taxes. Thus, rice production in the south has remained far below potential and still below the peak of 7.1 million tons reached in 1974.

Nationwide, total staple food production in 1977—13 million tons—barely matched the combined 1974 level for North and South Vietnam. Production disincentives and poor weather for the second year in a row combined to reduce national rice output by 6 percent. Food production in 1978 promises little improvement. The northern crops are reportedly good, but flooding has seriously damaged some Mekong Delta fields, and high-yielding seeds have proved particularly susceptible to insect damage.

The New Economic Zones

Hanoi sees the new economic zones as a way to restructure Vietnamese society while boosting agricultural output, relieving population pressures in both the Red River and Mekong River Deltas, and providing employment for people displaced by the war. Hanoi hopes to resettle 4 million people between 1975 and 1980, including 1.5 million people from Ho Chi Minh City (formerly Saigon). Long-range plans call for the relocation of 10 million people by 1990, or roughly one-fifth of the current population.

The settlements are located on farmlands abandoned during the war or on large tracts of previously uncultivated land. A zone typically contains 4,000 to 5,000 hectares, enough land for more than 1,000 families. The south has the greater number of units in being, with some 80 to 90 established as of mid-1978.

The zones are organized differently depending on their location and the objectives of Vietnamese officials. Some, for example, are little more than villages run by Communist-trained and appointed committees; others serve as reeducation camps for former South Vietnamese army officers. Southern urbanites are sent to zones only in the south while zones throughout the country serve as resettlement sites for the surplus population from the central and northern provinces. Northern cadre are inserted into many southern relocation sites to proselytize and shepherd the ideologically apathetic southern populace. Large zones in the south are operated either as collective or state farms from the start and form the nucleus for the full socialization of the southern agricultural sector. In the north, many of the zones have been formed by consolidating small collectives or expanding state farms. As in other Communist countries, state farms are distinguised from collective farms by larger acreage, greater mechanization, and payment through wages rather than shares.

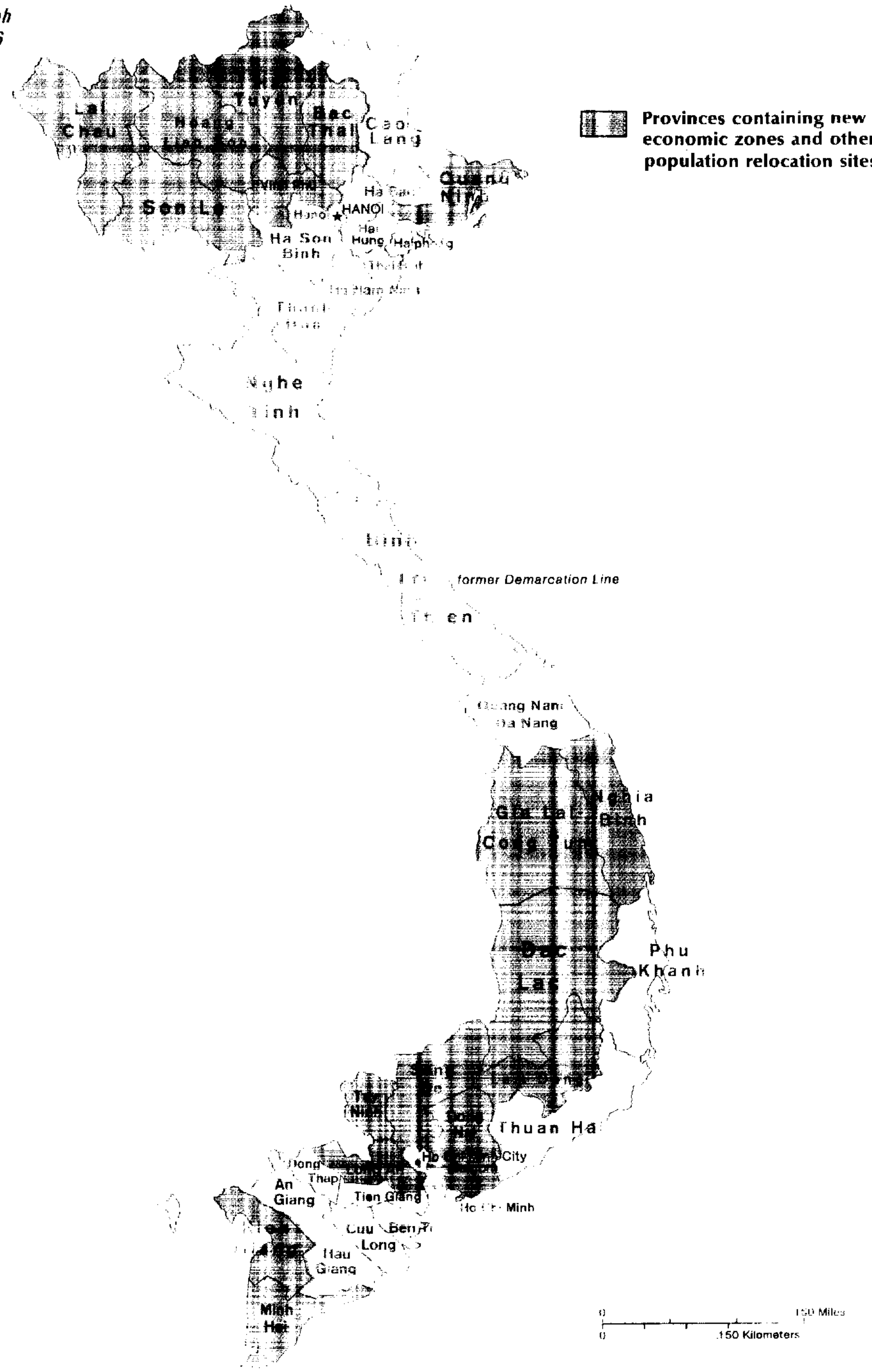
Population Relocation

Reports of the number of people who have relocated to date vary from 1 million to 1.5 million. A Hanoi news report earlier this year stated that 1.5 million South Vietnamese, including 660,000 urban dwellers, had returned to their native villages or had moved to the zones since 1975. The chairman of the State Planning Commission has said that 1 million people were resettled in 1976-77. A recent press report from Ho Chi Minh City stated that 750,000 residents of the city had moved to the countryside since the end of the war.

Living conditions in the new economic zones are notoriously harsh. A foreign journalist who visited some zones called assignment to them "the Vietnamese equivalent of being sent to Siberia." Refugee reports depict them as death camps

Vietnam Provinces*

**Based on map "Hanh Chinh Viet Nam," Hanoi, 1976*



577465 9-78

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

guarded by armed cadres where the work is arduous, provisions few, housing frequently nonexistent and chances of starvation high.

Officials in Ho Chi Minh City acknowledge that sites are often improperly prepared in rush to relocate people. Army units, normally engaged in land clearing and irrigation improvement in the zones, have been diverted from these tasks by hostilities along the Cambodian border. The fighting has destroyed a number of zones in Tay Ninh, Dong Thap, An Giang, and Kien Giang Provinces, forcing the government to slow programs for resettling the thinly populated border area.

Results Thus Far

The new economic zones have so far disappointed Hanoi; government officials rate only a third of the new areas as successful. Much to Hanoi's chagrin, very few of the areas have generated an agricultural surplus, thus failing to alleviate the government's problem of feeding the cities. Indeed, the too-rapid development of many zones has added to the problem of erosion and the backlog of unmet irrigation needs.

The Next Stage

Hanoi is now tightening the economic screws in an effort to make the new program work. A March 1978 decree nationalizing all private commerce deprived merchants of their livelihood and made them instant candidates for movement to the zones. Moreover, even greater pressure is being put on the unemployed, former soldiers and government officials, and workers with designated skills to move to the agricultural frontier. To force resettlement, Hanoi is denying rations and identification cards to those scheduled to move to the zones, leaving them no alternative but to go.

25X1 [redacted]

* * * * *

NIGERIA: SMALL RETURN ON OIL WEALTH *

Despite the tremendous growth in oil revenues since 1973/74, Nigeria is far from establishing a multiproduct economy before the mid-1980s, when oil output is expected to decline. From the economic development angle, the past four years have been marked by incredible waste of foreign exchange. Agriculture, the livelihood of most of the population has been neglected, while small-scale entrepreneurial skills

[redacted] 25X1

have not been nurtured to satisfy a booming local market. At the same time, performance in the oil sector has failed to meet expectations because of the international economic slump and official pricing policies, which have made Nigerian crude among the most expensive in OPEC. Lagos now faces a financial crunch that limits its ability to channel investment into areas of greatest need.

The Record to Date

The 1976-80 development plan aims to beef up the manufacturing sector and diversify production. While more than $30 billion (including $6 billion in private investment) has been spent, less than one-fourth of the plan has been carried out, and many of the completed projects will only marginally help future development. Project delays have been caused by political factors surrounding General Gowon's overthrow in July 1975, inadequate skilled manpower, and inefficient bureaucracies. The time lost has proven expensive given an average Nigerian inflation rate of 34 percent in 1975-77 and a 10-percent average annual rise in prices of Western machinery.

The greatest achievements so far have come in development of the public service sector. Port facilities have been expanded, major road networks improved, and domestic air service, telecommunications, and the electric power system upgraded. Improvements in essential social services such as education, health care, housing, and public sanitation have been less spectacular. A universal primary education scheme—probably the most ambitious single project in the development drive—started on schedule but quickly bogged down because of shortages of teachers and classroom facilities.

Heavy industrial projects, which were supposed to absorb almost one-fifth of planned investments in 1976-80, have encountered cost overruns, difficulty in obtaining raw materials, and bureaucratic bickering. Cement plants, pulp and paper projects, two oil refiners, an LNG plant, and an iron and steel complex are behind schedule, some seriously. Two other petroleum refineries, a petrochemical complex, a nitrogenous fertilizer plant, and three direct reduction steel plants have been canceled or postponed indefinitely.

Light industry, financed mostly by private domestic investors or local subsidiaries of multinational corporations, has fared better; production of beer, textiles, canned food, and other light industrial goods rose 15 percent a year in 1976-77.

Reflecting governmental neglect, agriculture has performed poorly as (a) many farmers have left the land in search of higher paying city jobs; and (b) clogged roads have prevented the efficient delivery of foodstuffs to city markets and ports. Nigeria has lost its self-sufficiency in food production, and exports of peanuts, cocoa, palm oil, and rubber have fallen off. Formerly the world's leading peanut exporter, Nigeria now imports peanut oil.

The Revenue Crunch

The development drive has cut deeply into Nigeria's once healthy foreign exchange reserves, which last month stood at $1.9 billion, the lowest level in four years. As imports of goods and services have soared, oil revenues have lagged because of stiff competition from North Sea and Alaskan oil as well as rigid government oil pricing policies. The current account balance slipped from a $5 billion surplus in 1974 to a near-$1 billion deficit in 1977. This year Lagos faces a $3.5 billion to $4.0 billion deficit. Capital inflows have fallen off in response to government steps to increase Nigerian participation in the economy, forcing Lagos to borrow $1.75 billion in the Eurodollar market so far this year.

The government of Lt. Gen. Olusegun Obasanjo has cut prices twice this year in an effort to boost oil sales. While output has improved from a March low of 1.5 million b/d, oil production for the year should average only 1.8 million b/d, down from last year's 2.1 million b/d. Oil revenues for 1978 calendar year are estimated at $8.5 billion, a 13-percent drop from last year. Output by 1980 is not expected to be above 2.3 million to 2.4 million b/d, and crude exports almost certainly will slip back to the 1976 rate of 2.0 million b/d as production is diverted to meet the 25-percent annual rise expected in domestic fuel demand. Finally, prospects for maintaining petroleum output throughout the 1980s have been dimmed by the government's future to offer sufficient investment incentives to the operating companies.

Given these constraints, Lagos will be lucky if it can come up with $30 billion in total budget revenues over the next two years, which would complete less than one-

Nigeria: Government Budget Revenues [1]

Billion US $

	FY 1976	Estimated FY 1977	Projected FY 1978	Projected FY 1979	Projected FY 1980
Revenue	**9.6**	**11.5**	**12.5**	**13.5**	**15.4**
Federal	9.1	10.8	11.5	12.1	13.5
Oil [2]	7.1	9.2	9.1	9.5	10.3
Government	4.0	5.2	5.2	5.5	5.8
Company	3.1	4.0	3.9	4.0	4.4
Nonoil	2.0	1.6	2.4	2.7	3.3
State [3]	0.6	0.8	1.1	1.4	1.9

[1] Fiscal year begins 1 April of stated year.
[2] Excludes federal grants and loans.
[3] At current oil prices; assumes a 5-percent oil price rise in 1979 and a 6-percent rise in 1980.

half of the investment program. Growing balance-of-payments problems will almost certainly result in further project postponements and/or cancellations. GNP growth probably will not exceed the 6-percent annual average of preoil boom years and will be concentrated in services, light industry, and construction. Over the longer haul, the government's ability to cover development costs will depend on trimming nonessential foreign exchange expenditures and stimulating foreign investment.

Political Problems Ahead

Preoccupation with the transition to civilian rule (scheduled for October 1979) will interfere with Lagos' ability to carry out critical economic policy decisions. Political campaigning could exacerbate Nigeria's regional and ethnic tensions and lead to sporadic civil disorders. Development priorities are likely to be reshuffled by the new government, causing further setbacks to the plan. Most observers believe that the civilian regime will be dominated by northern Hausa-Fulani elements in coalition with eastern Ibos. The new leadership may well decide to boost the share of investment funds going to these regions; most contract awards thus far have involved projects in southern urban areas. [redacted] 25X1

* * * * *

ZAIRE: CONTINUING ECONOMIC MALAISE

Economic troubles in Zaire are hindering President Mobutu's efforts to boost his sagging political fortunes, aggravated by the rebel incursion into Shaba Region in May. Foreign exchange remains tight, foodstuffs and other essential imports are scarce, and inflation remains unchecked. The President's economic reform program, accepted only after considerable pressure from leading Western creditors, is not likely to generate much popular sympathy.

Good News From Mines

On the plus side is the near-normal operation of the Kolwezi mining complex despite the absence of 450 foreign technicians since the Katangan incursion into Shaba. Mining output will probably be difficult to sustain, however, unless some expatriate technicians return soon.

The mining industry in Shaba has rebounded from the fighting more quickly than many observers expected. According to Zairian data [redacted] 25X1
25X1 [redacted] copper production during August totaled 34,000 tons, 85 percent of last year's monthly rate. Cobalt production for the month reached 1,300 tons, substantially above the monthly rate in 1977. Mining officials have

improved the cobalt recovery rate from processed copper to take advantage of favorable market conditions. Cobalt prices have jumped from $6.85 a pound to $12.50 a pound since the invasion of Shaba.

The Zairians now estimate maximum output for the year at 380,000 tons of copper and 12,000 tons of cobalt, compared with last year's totals of 480,000 tons and 10,000 tons.

Zairian personnel are operating the Kolwezi facilities with no major difficulties. A few senior expatriates fly in from Lubumbashi for daily inspection visits. Some white technicians are now apparently living in Kolwezi, and some others are reported ready to return in the next few weeks.

Bad News From Elsewhere

The upbeat reports from the mines have no counterparts from elsewhere in the economy. The Shaba disruptions have had negligible impact on the world price of copper—Zaire's major export—and Kinshasa's foreign exchange position remains precarious. Zaire needs some $500 million this year just to keep the economy afloat and to cover an estimated $500 million in debt-service payments. Western donors pledged a substantial amount in emergency aid in June, and Kinshasa is also trying to renegotiate terms of a proposed $250 million loan from a consortium of 60 Western banks.

The payments squeeze has prompted new government import restrictions that would cut back sharply on purchases of a wide range of consumer goods. The moves come at a time when stocks of many staples are already low, and prices in Kinshasa have risen more than 30 percent above those of a year ago.

The country's main flour mill will shut down soon unless the government settles some overdue accounts for shipments of imported wheat. Construction timetables for major development projects may also be affected. 25X1

25X1

The government seems unable to harness its proclivity for excessive spending. Expenditures for the first half of this year outpaced revenues by almost $200 million, with no letup in sight. Even this deficit is understated because of some financial juggling. Most of the overspending went for salaries—all civil servants were given a 25-percent wage increase—and the President's private slush fund. Mobutu uses the fund to pay off political and military supporters as well as to advance his personal wealth through real estate and other dealings.

The overall picture of continuing economic decline and pressure from Western creditors has pushed Mobutu to accept an economic reform program, the fourth since 1967. The reform measures include foreign management of the Central Bank, the Finance Ministry, and the Department of Customs. The group of experts attached to the Central Bank has already arrived in Kinshasa, and the budget team is slated to come this month. The program also requires a shift in investment spending to agriculture and basic infrastructure, both ignored in Mobutu's rush to industrialize.

Outlook: Rough Road Ahead

Zaire's economic outlook during the next year or so will depend in large part on the situation at the Shaba mines. [redacted] believe the August production rates for copper and cobalt are not sustainable and that production during the next several months will suffer because of inadequate preventive maintenance. The government's inability to guarantee the timely delivery of spare parts will become a growing problem with the exhaustion of existing stocks. 25X1

A rash of equipment failures in the mines will almost certainly put pressure on Mobutu to bring in additional European technicians even though he would prefer to increase Zaire's self-sufficiency. Most of the 450 foreign technicians who fled Kolwezi would like to resume their former positions. Few have been able to locate other jobs because of the current economic slump in Belgium and other industrialized countries.

25X1 [redacted] unimpressed with security in Shaba as provided by the Inter-African Force, although they believe the force is superior to anything the Zairians have to offer.

Mobutu will also have to toe the line on the reform program if he is to have continued access to Western capital markets. The foreign exchange guidelines promise long-term benefits by shifting funds to agricultural and transport projects, but their immediate impact will be more cuts in consumer imports. Popular dissatisfaction with the government is almost certain to rise as goods become increasingly scarce and prices continue to soar.

Foreign supervision of the federal budget will probably limit Mobutu's ability to draw on public funds for his personal use, including buying off potential opponents. The President has backed off from similar reform programs in the past when the political situation became tense, and he may well be tempted to do it again. Another such move, however, would mean that Zaire would lose overseas credits and that the President would jeopardize the future of Zaire's modern economy and greatly enhance the possibility of his overthrow. [redacted]

25X1

DENMARK: CONTINUED FOCUS ON PAYMENTS PROBLEM

For the second year in a row, Denmark is reducing its current account deficit, but once again at a sobering cost in output and jobs. Real GNP growth this year will not greatly exceed last year's sluggish 1 percent, while unemployment threatens to reach 8 percent of the labor force, a postwar record. On the brighter side, inflation is abating, and the increase in average wages is not expected to exceed last year's 10 percent. Further progress on the balance of payments will depend on how much further Denmark's newly formed coalition government of Social Democrats and Liberals is willing to tighten belts.

Current Account Problem

Denmark's normal current account deficit got out of hand after the account 1973/74 hike in oil prices and the onset of global recession. The 1976 deficit reached a record $1.9 billion—equal to about 5 percent of GNP—largely because of government efforts to prop up demand. While a reduction in the value-added tax (VAT) on both imports and domestic goods caused consumption to skyrocket in 1976, the rise in

Denmark: Selected Economic Indicators

	1970-73 Average Annual	1974	1975	1976	1977	1978 [1]
Real GNP growth (percent)	3.6	0.9	−1.8	5.0	1.0	1.2
Consumer price inflation (percent)	6.9	15.2	9.6	9.0	11.1	9.0
Current account deficit (million US $)	374	981	488	1,909	1,647	1,300

[1] Projected.

export volume was only 4 percent because of the reduced international competitiveness of Danish goods and economic stagnation in major foreign markets. Despite substantial improvement in labor productivity from 1973 to 1977, Danish unit labor costs increased more than 35 percent, with average hourly earnings rising 16 percent per year during the period.

Denmark took steps in August 1976 to boost exports by holding wage increases to 6 percent a year and to restrain imports by raising taxes on a number of consumer goods. In August 197[illegible], demand management was further tightened when parliament raised the VAT rate to 18 percent.

In 1977 the current account deficit declined by $260 million, to $1.65 billion. Import volume dropped 2.5 percent, while export volume rose 3.8 percent; price movements held down the improvement in value terms. A small gain was made on invisibles, particularly shipping. The trade account showed further improvement in first half 1978, with export volume up 6.8 percent from a year earlier and import volume down 1.5 percent. The surplus on services and transfers continued to rise slightly. Should first half trends continue, the 1978 current account deficit will not be too far off Copenhagen's target of $1.3 billion—equal to 3 percent of GNP.

Stagflation

Real disposable income fell in 1977 under the impact of higher taxes and inflation. While pay guidelines were breached by a 10-percent increase in wages, consumer prices rose 11 percent over 1976. Real private consumption declined 2 percent. In 1978, household income and consumption should be flat, with both wages and prices rising about 9 percent. Business investment has been declining; in contrast, investment in agriculture has been picking up in response to favorable marketing and price developments.

Expansion of the labor force, rising productivity, and weak demand have left many people out of work. Unemployment shot up as high as 8.4 percent (not seasonally adjusted) in the early months of 1978 and is likely to average around 8 percent for the year. Joblessness on this scale is staggering to a nation long accustomed to less than 2-percent unemployment.

With unemployment benefits equal to 75 percent of wage rates, government expenditures have swelled in recent years. Even though indirect taxes have been boosted, revenues have barely kept pace with inflation because of slack economic activity. The government defict for the fiscal year beginning 1 April 1978 is estimated at $5.6 billion, equal to 32 percent of budgeted expenditures or 14 percent of GNP.

For the past several years the government has borrowed heavily abroad, simultaneously covering much of the budget deficit and offsetting the deficit on current account. Although Denmark traditionally had financed current account deficits through private capital inflows, these flows fell off during the global recession and have not fully recovered. Despite the succession of large current account deficits, borrowing has brought foreign exchange reserves to a record high of $3.3 billion as of August 1978, enabling the krone to hold its position in the European joint float without much intervention. Servicing the foreign public debt, which is expected to surge from $3.6 billion in 1977 to an estimated $5.3 billion this year, may soon become a serious problem.

New Coalition at the Helm

In order to broaden parliamentary support for a new economic program, Prime Minister Anker Jorgensen invited the Moderate Liberal Party to enter the government with his minority Social Democrats late last month. The coalition government has come up with an economic program that focuses on further slowing inflation and cutting the current account deficit. It calls for trimming spending, raising taxes, and controlling prices and wages.

The new government intends to reduce the 1979 deficit budgeted by its predecessor by $700 million; even so, the borrowing requirement still would come to $6.6 billion. (Copenhagen is in the process of shifting the start of its fiscal year from 1 April to 1 January.) Spending cuts reportedly will hit investment hardest, with such costly projects as the Great Belt Bridge being curtailed or postponed. The VAT has been raised, from 18 percent to 20.25 percent as of 1 October, and an easing of income taxes previously set for 1979 has been modified.

Copenhagen has imposed a price-and-profits freeze to last from 28 August until 1 March, when the current two-year national wage agreement is due to expire. A ceiling on the automatic wage escalator system is being continued.

The new program envisions a continuation of employment measures introduced in 1977, including expanded credit facilities for exporting companies, tax offsets for investment, youth employment programs, and increased public sector employment. The government nevertheless acknowledges that the fiscal tightening is likely to raise unemployment.

Labor fears that the new program also could lead to another decline in real wages. Moreover, the unions are disturbed by the shelving of Social Democratic proposals for income tax reform, housing subsidies, and worker co-ownership. The success of the entire economic program depends on restraint in wage settlements. Failure to give the unions some concessions outside the pay field could bring trouble as early as November, when negotiations are to begin on a new national labor contract.

25X1

25X1

Next 1 Page(s) In Document Exempt

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

RECENT PATTERNS OF INTERNATIONAL TRADE RESTRICTIONS *

International trade restrictions have expanded rapidly since the 1973/74 OPEC oil price hike, despite reductions in tariffs under the General Agreement on Tariffs and Trade (GATT). Countries have imposed restrictions within the GATT framework, which permits nontariff trade restrictions in special circumstances.

Weak global economic performance since 1973 has supplied the major impetus for the new import restrictions. Restrictions in developed countries have been directed largely at industrial products to counter depressed industrial employment; most countries have long maintained protection against agricultural imports.

Underlying the immediate cyclical causes of the trade restrictions are fundamental changes in world production and consumption patterns. Because of shifting cost advantages, Japan has strengthened its position as a major exporter of higher technology industrial products. Developing countries such as Hong Kong, Taiwan, and South Korea have become important suppliers of lower technology manufactures to industrial countries and are moving into higher technology areas with a widening range of exports. Industrial countries affected by these developments recognize the need for long-run structural adjustment of production and employment, but the adjustment is being delayed by the economic pressures attending slow growth and by the political pressures of business and labor interests.

The Extent of Restrictions

The nontariff barriers that have dominated recent trade restrictions include import quotas, "voluntary" export agreements or orderly marketing arrangements imposed on exporting countries, minimum price regulations on imports, import licensing requirements, and antidumping regulations against goods imported at "unfair" prices. The restraints have been directed mainly at textiles, iron and steel, footwear, and selected consumer electronics, such as television receivers. These categories represent about 10 percent of world trade, but the value of items within the trade categories affected by the new restrictions is estimated to be less than 5 percent.

The Most Common Nontariff Restrictions

Quantitative restrictions specify maximum quantities of imports of particular items over a given period.

Discriminatory bilateral agreements are trade agreements with individual exporting countries that result in different degrees of trade restraint on exporters of the same product.

Export restraints restrict exports at the urging of importing countries which would otherwise unilaterally apply import curbs.

Minimum price regulations specify the minimum prices at which selected goods may be imported and are directed at foreign exporters who are deemed to charge artifically low prices.

Licensing requirements allow the discretionary administrative curbing of imports.

Antidumping and similar regulations are countervailing actions, usually in the form of nontariff charges, against goods regarded as being imported at unfair prices.

European Community: Import Restrictions [1]

						Number imposed
	1971	1972	1973	1974	1975	1976	1977
Total	**5**	**9**	**6**	**4**	**23**	**13**	**41**
Chemicals and fertilizers	5	3	0	0	2	2	4
Electronics	0	1	2	0	0	0	1
Food	0	0	0	2	2	0	2
Footwear	0	1	0	0	1	0	0
Machinery	0	0	0	0	0	4	2
Rubber and products	0	0	0	0	0	0	2
Steel and other metals	0	3	0	0	0	1	6
Textiles [2]	0	1	3	2	17	5	22
Wood	0	0	1	0	0	1	0
Other	0	0	0	0	1	0	2

[1] Action taken under the safeguard, surveillances, and antidumping provisions. Many of the actions did not apply to all EC members or to all exporting countries.
[2] Excluding restrictions under the General Agreement on Tariffs and Trade Multifiber Arrangement.

Restrictions on textiles have been the most intensive, being based on the GATT Multifiber Arrangement between countries that together account for more than 80 percent of the $60 billion world trade in textiles. At the present time, the restrictions are concentrated on imports valued at about $7 billion a year. The value of steel imports subject to recent minimum price regulations in the European Community (EC) and the United States exceeds $18 billion a year. The trade in footwear and consumer electronics subject to recent restrictions is each worth less than $2 billion annually.

The United States, the EC, the European Free Trade Association, Canada, and Australia have imposed textiles restrictions that have mainly affected Hong Kong, South Korea, and Taiwan, the largest LDC exporters. US, Canadian, and Australian import restrictions on footwear have been largely directed at South Korea and Taiwan. Japanese television receivers have been restricted by the United States and the United Kingdom. The United Kingdom has also restricted television receivers from Singapore, South Korea, and Taiwan.

Reactions to Restrictions

Countries have reacted both politically and economically to recent import restrictions. Political reactions often take the form of representations to the GATT or to the governments of restricting countries. Affected exporting countries have tried to cushion the shock by developing new markets abroad and by discouraging investment in the sectors suffering from excess capacity. Direct retaliatory action on import restraints has been isolated and minor.

Japan, a focal point of import restrictions, has defended its market position in various ways. Among other actions Japan:

- Refused to voluntarily restrain shaped steel exports to the United Kingdom in mid-1977; the British countered with antidumping action.

- Formally protested to the GATT the 1977 request by the United States for restrictions on color television exports.

- Questioned the 1977 dumping allegations by the United States and the EC regarding certain steel products.

- Turned down a November 1977 EC request for additional restraints on shipbuilding prices and production capacity.

Elsewhere in the non-Communist world, the EC has sought more favorable treatment for its exports under the Canadian global import quota on footwear. Australia has threatened action against imports from the Community if EC restraints on Australian primary commodities continue. To counter the repercussions of import restrictions imposed by other countries, the EC informed Taiwanese business interests and Hong Kong and South Korean officials of its reservations about any diversion of surplus footwear to the Community. Canada is monitoring steel imports and accelerating antidumping procedures to head off steel diverted from restricted US and EC markets.

Among the LDCs the three largest textile exporters (Hong Kong, South Korea, and Taiwan) are making various adjustments to new restrictions. Hong Kong, with 47 percent of its employment in manufacturing and 48 percent of its exports based on textiles and clothing, is seeking to expand sales of traditional product lines in Africa and the Middle East and is placing more emphasis on higher fashion output for industrial country markets. South Korea has restricted the installation of additional capacity in the textile industry, which provides 24 percent of manufacturing employment and 32 percent of exports and is encouraging a shift to higher quality textile exports not yet regarded as sensitive by industrial countries. South Korea is also intensifying its long-established export diversification program with emphasis on machinery and heavy industry. Taiwan, less dependent on textiles for employment and exports than Hong Kong or South Korea, expects light and heavy industry to take up the slack in textile exports.

Reactions become more complicated when the indirect impact of trade restraints affects third countries. For example, Taiwan has been monitoring the sharp increase in imports of color television components from Japan for assembly by Taiwanese firms that followed the 1977 US restraint on Japanese color television receivers. In another case, the US footwear orderly marketing arrangements with South Korea and Taiwan were reportedly being circumvented by the assembly of South Korean and Taiwanese footwear in the Philippines and Hong Kong for export to the United States.

25X1 [redacted]

* * * * *

Notes

France Announces Takeover of Steel Industry

The steel industry rescue plan announced by France on 20 September is tantamount to a nationalization scheme. The plan calls for sweeping reorganization under new management named by Paris; major government financial assistance; and, most importantly, conversion of a large share of the industry's debt into government-controlled capital stock. If approved by the National Assembly next month, the plan will result in the government, state-run banks, and autonomous state-owned banks holding 85 percent of the outstanding capital stock of the key steel producers.

The French steel industry has been operating at about two-thirds of capacity for the past few years. While prices and sales are down, the industry has been forced by unions and the government to limit layoffs. As a result the industry is practically bankrupt. Yearly operating losses total nearly $1.5 billion and servicing costs of the $10 billion debt are approaching 20 percent of annual sales.

Earlier restructuring plans, discussed between the industry and government, ran afoul of union opposition to labor force cuts and of industry resistance to the terms of financial overhaul. A limited restructuring plan, involving supplementary investment by the government and the elimination of 16,000 jobs over a two-year period, was agreed on in mid-1977.

The latest program is much more drastic. It calls for creation of three holding companies to take over steel operations accounting for about 80 percent of French steel production. The holding companies will have equity capitalization of $460 million. Paris will directly take ownership shares amounting to 15 percent of this amount in place of debt owed the government. Two state-run banks will convert debt equivalent to 40 percent of capitalization into shares, and the three autonomous state-owned commercial banks will convert $137 million of their outstanding loans into stock, giving them 30-percent ownership. The remaining 15 percent stays in private hands.

The takeover plan seems compatible with the evolving Davignon Plan to aid and restructure the steel industry of the European Community. On the other hand, it is strikingly inconsistent with current Giscard/Barre efforts to curb government intervention in the economy. The plan bears an ironic resemblance to measures advocated by the leftist parties defeated in the March 1978 legislative elections.

The steel industry has given the plan reluctant approval, stressing the possibility that Paris and the banks may sell their shares to the private sector once the industry's financial health is restored. Labor reaction is mixed. While welcoming greater government control, union representatives have warned that labor will not tolerate massive dismissals. The government, while conceding that reductions are inevitable, has denied reports in the financial press that 10,000-20,000 additional jobs will be eliminated. Job reductions nonetheless will be the key to any successful restructuring, and moves in this direction are bound to cause labor trouble. 25X1

South Korea Further Liberalizes Imports

South Korea has removed import restrictions on 299 commodity sub-items and will lower average tariff rates from 36 percent to 25 percent effective 1 January. The latest measures, which follow the removal of barriers on 136 commodities in May and 47 in July, continue the cautious loosening of South Korean trade and payments controls. The Pak government hopes the freer flow of imports will reduce inflation, now running at a 15 percent annual rate, and gain Korea credit in GATT/MTN discussions. According to optomistic government estimates, the new measures will generate an additional $200 million in imports this year and $300 million in first quarter 1979. 25X1

25X1

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

National
Foreign
Assessment
Center

Economic Indicators Weekly Review

28 September 1978

ER EI 78-039
28 September 1978

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

Non-U.S. Government users may obtain this along with similar CIA publications on a subscription basis by addressing inquiries to:

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

Non-U.S. Government users not interested in the DOCEX Project subscription service may purchase reproductions of specific publications on an individual basis from:

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

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

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.

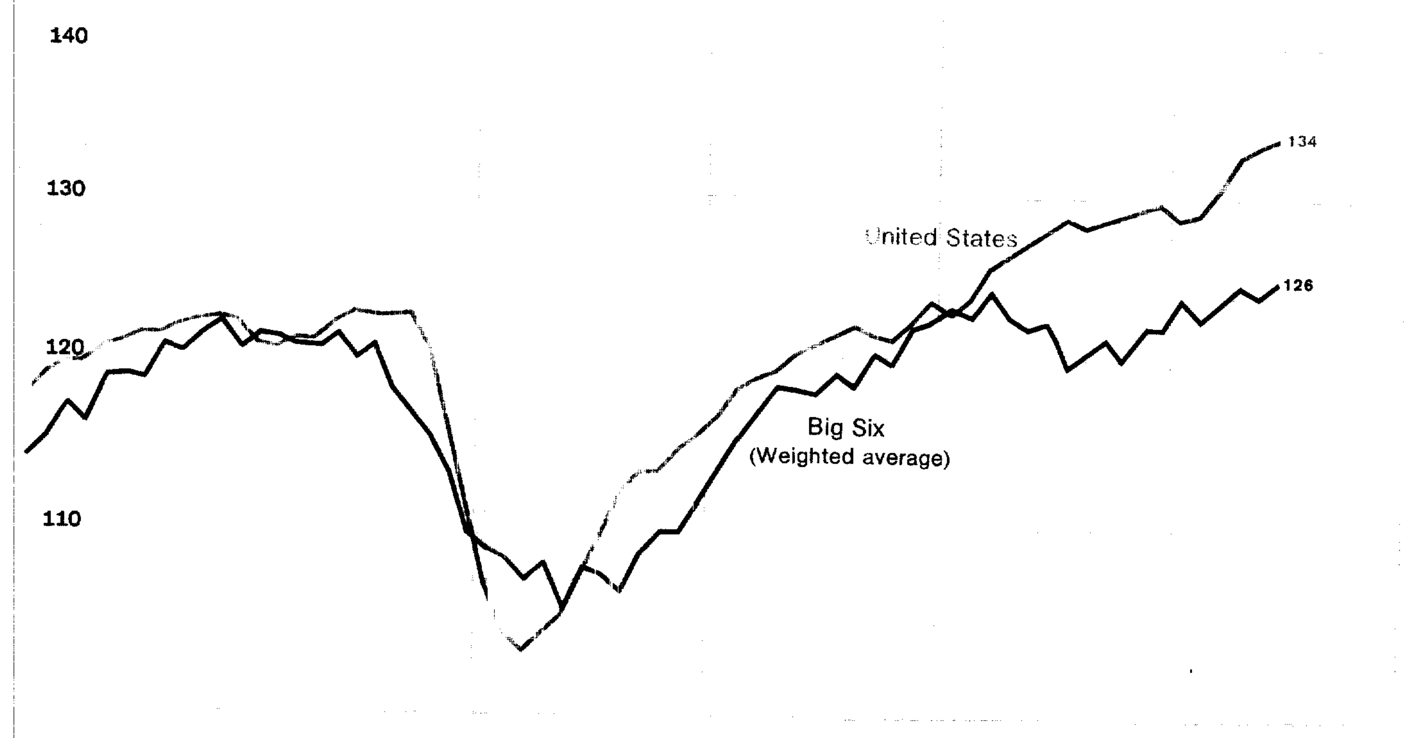
2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

Industrial Production

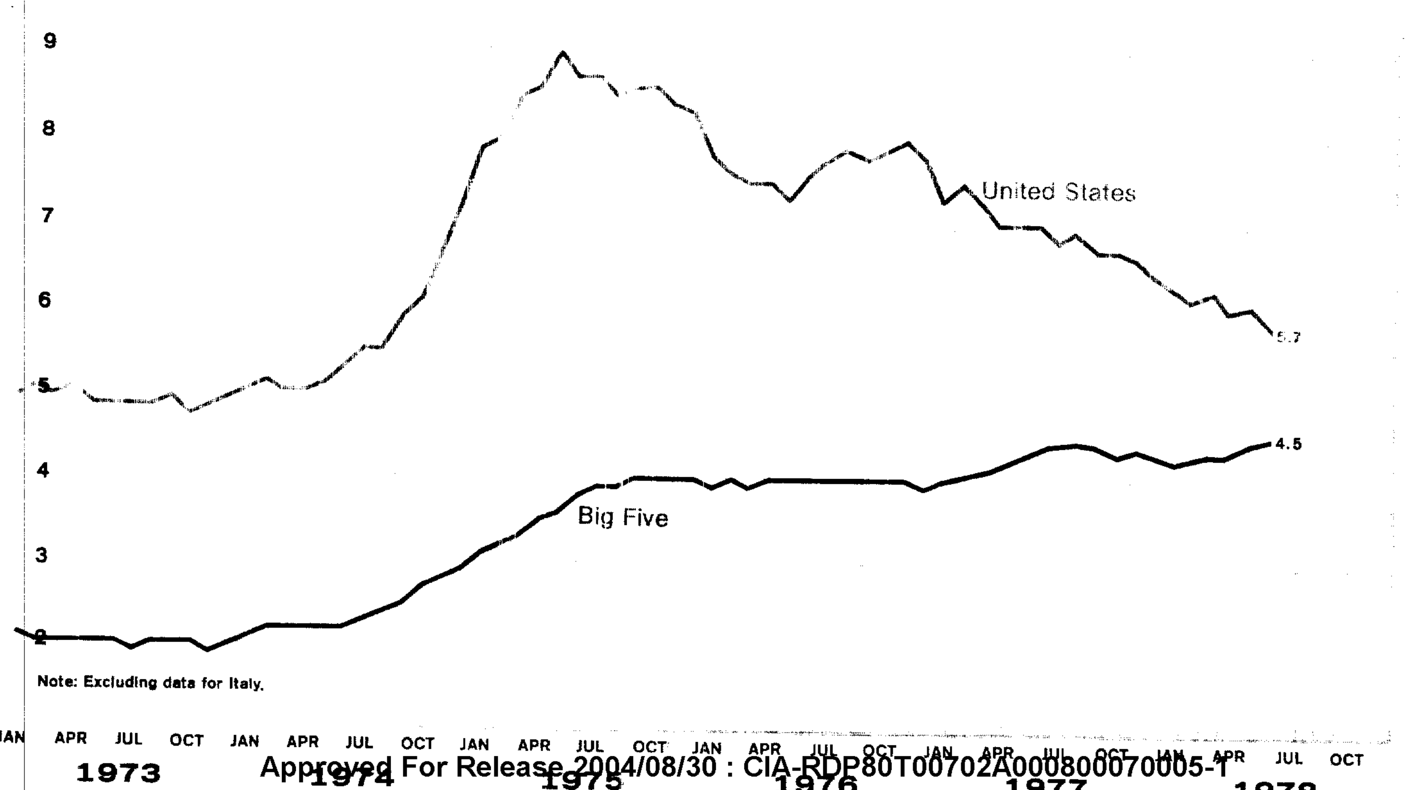
INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale



Unemployment Rate

Percent



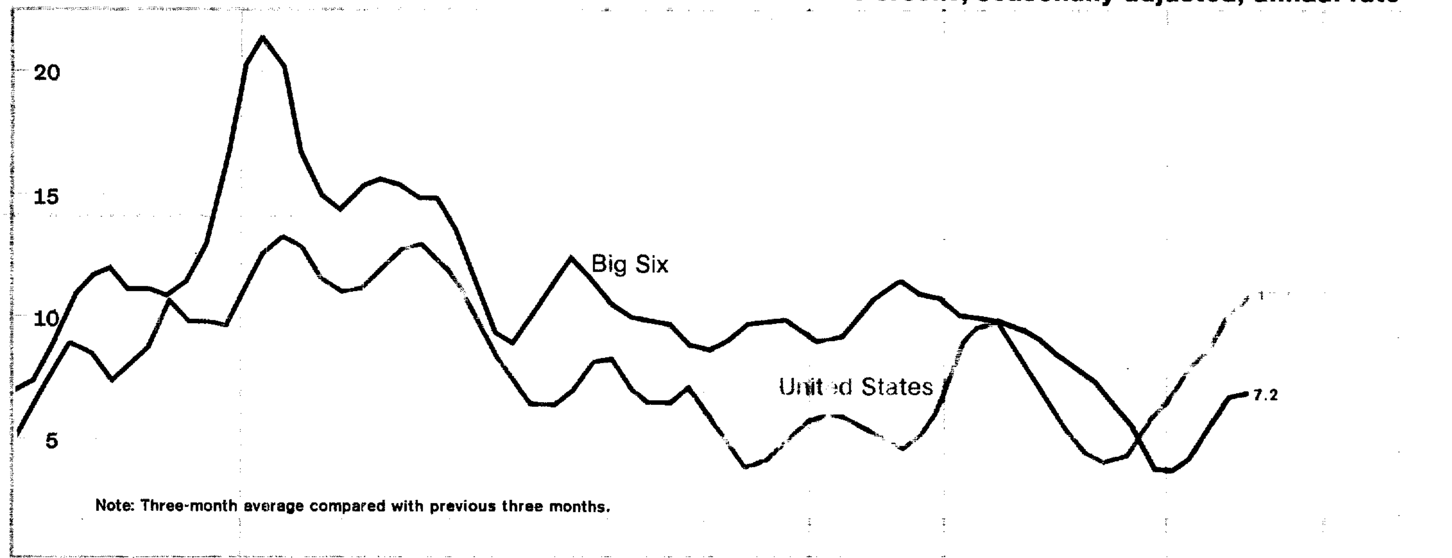
Note: Excluding data for Italy.

[1]Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

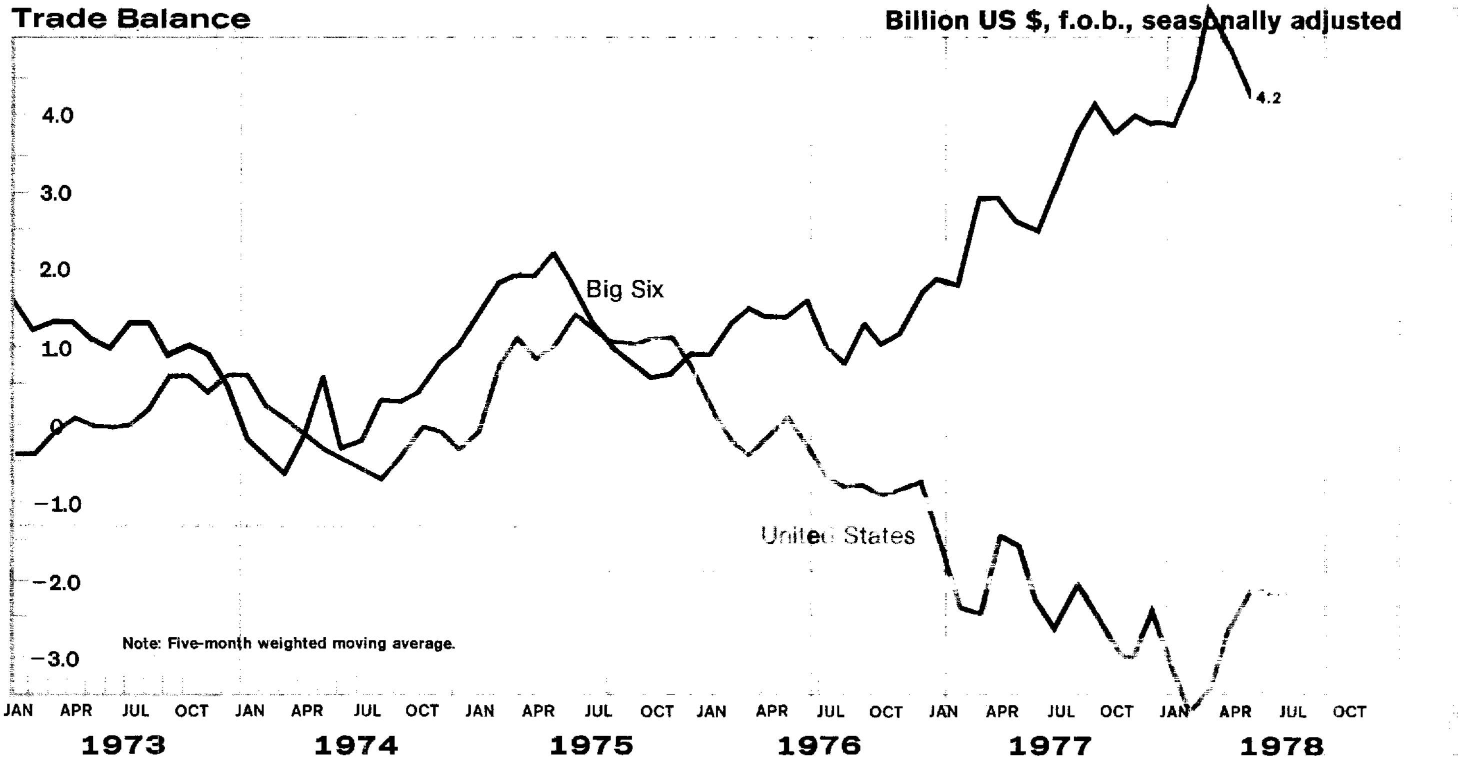
Consumer Price Inflation

Percent, seasonally adjusted, annual rate



Trade Balance

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



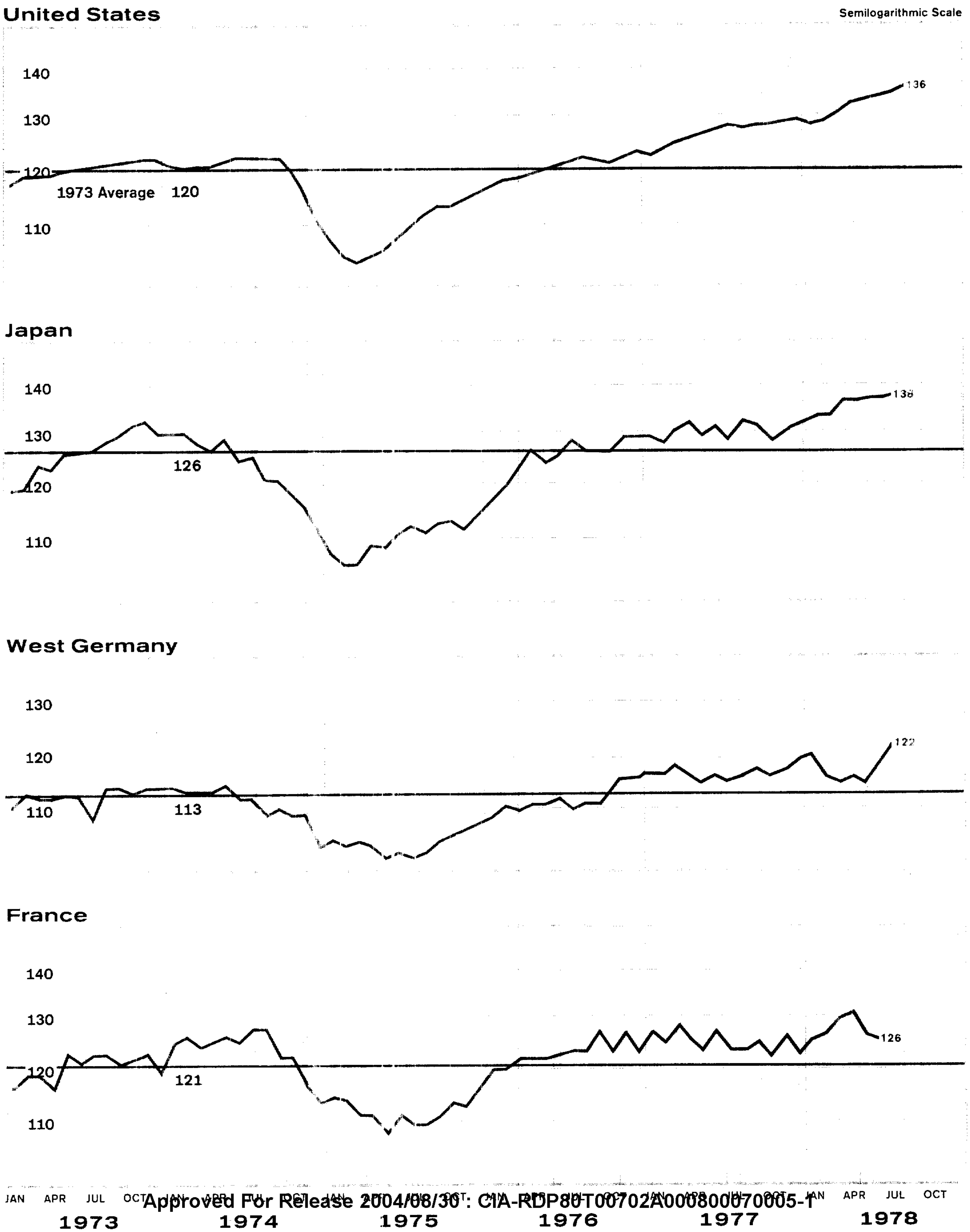
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
Industrial Production					
Big Six	JUN 78	0.5	2.9	2.8	3.7
United States	JUN 78	0.5	3.8	4.9	12.8
Consumer Prices					
Big Six	JUN 78	0.6	9.2	6.2	7.2
United States	JUN 78	0.9	6.7	7.4	10.7

	LATEST MONTH		1 Year Earlier	3 Months Earlier
Unemployment Rate				
Big Five	JUN 78	4.5	4.3	4 3
United States	JUN 78	5.7	7 1	6 2

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	Change
Trade Balance					
Big Six	MAY 78	3,634	21,894	10,873	11,021
United States	MAY 78	−2,238	−14,771	−8,280	−6 491

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

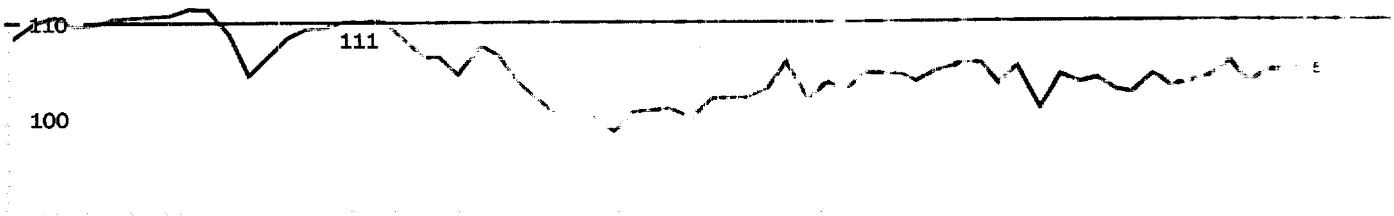
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted



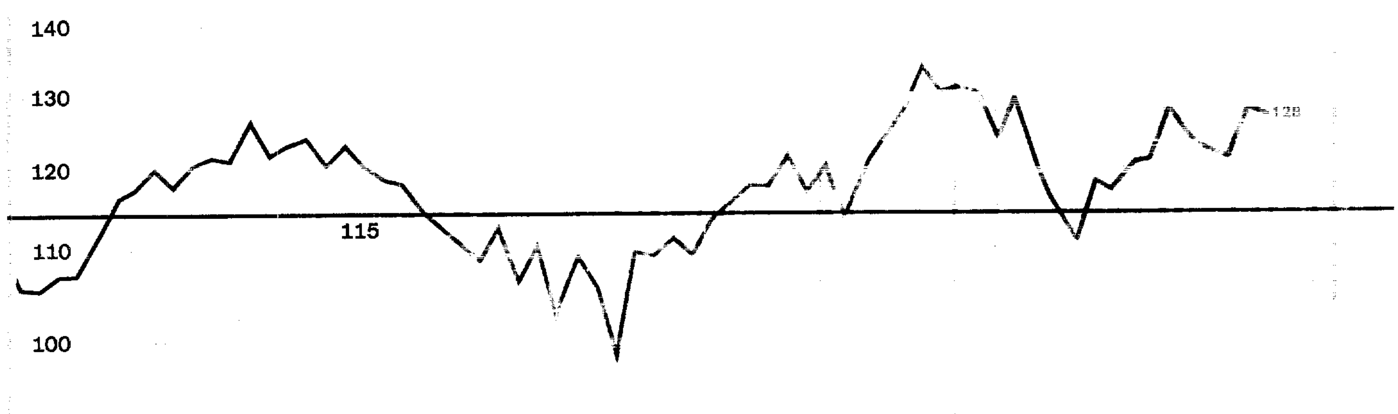
Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

United Kingdom

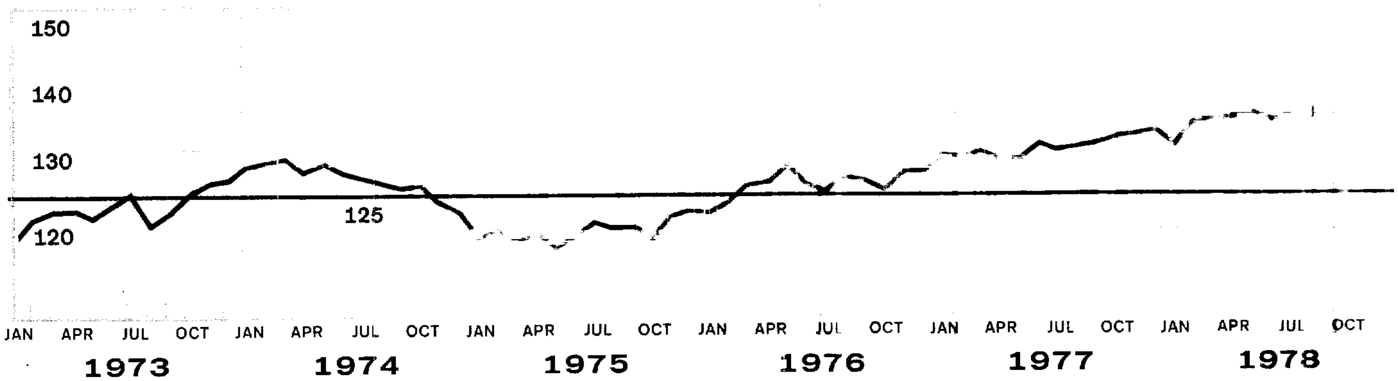
Semilogarithmic Scale



Italy



Canada



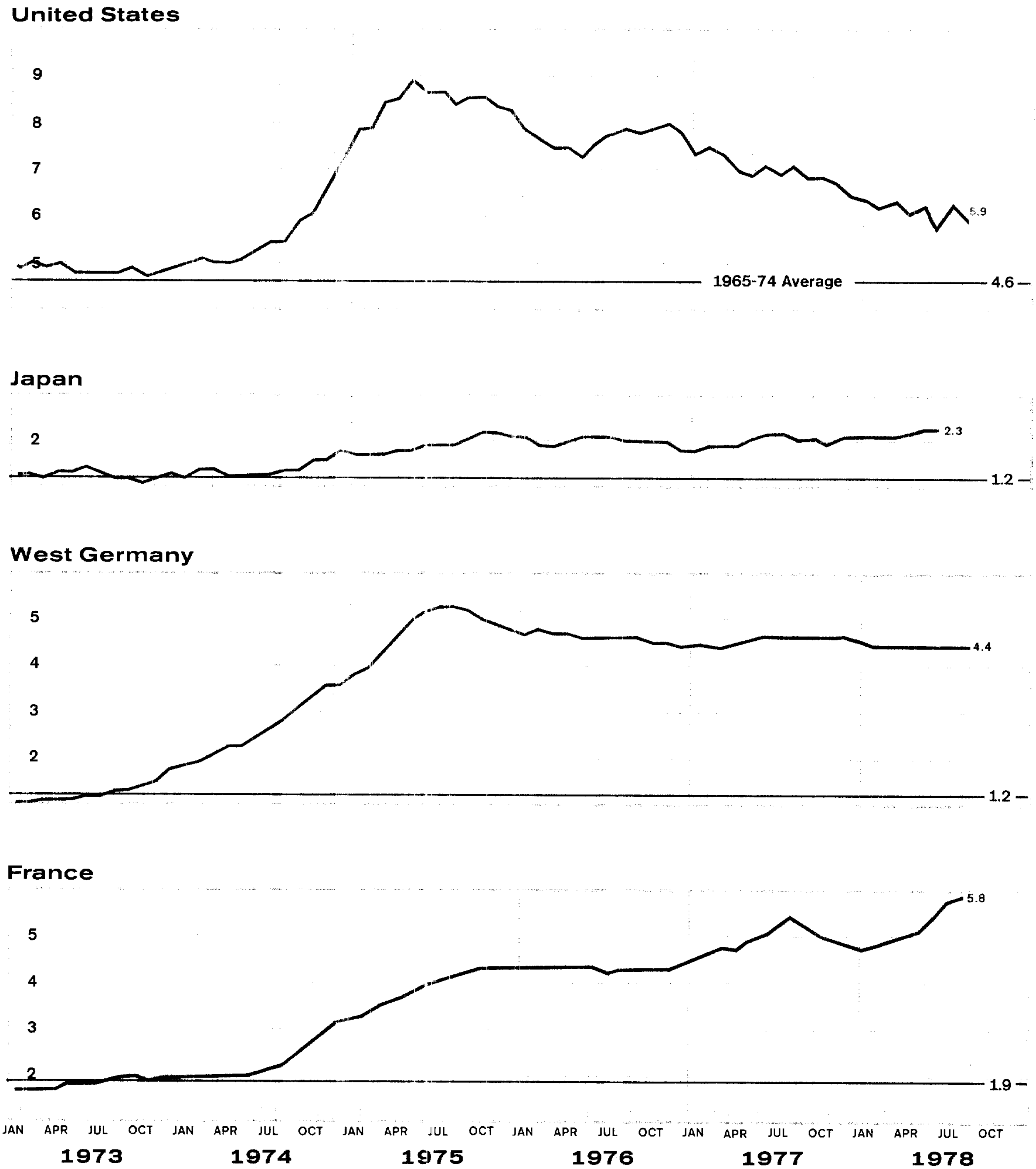
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	AUG 78	0.5	3.9	6.2	9.1
Japan	JUL 78	0.7	4.0	8.7	5.5
West Germany	JUL 78	3.4	2.5	6.1	9.5
France	JUN 78	−0.8	2.9	−1.6	5.4

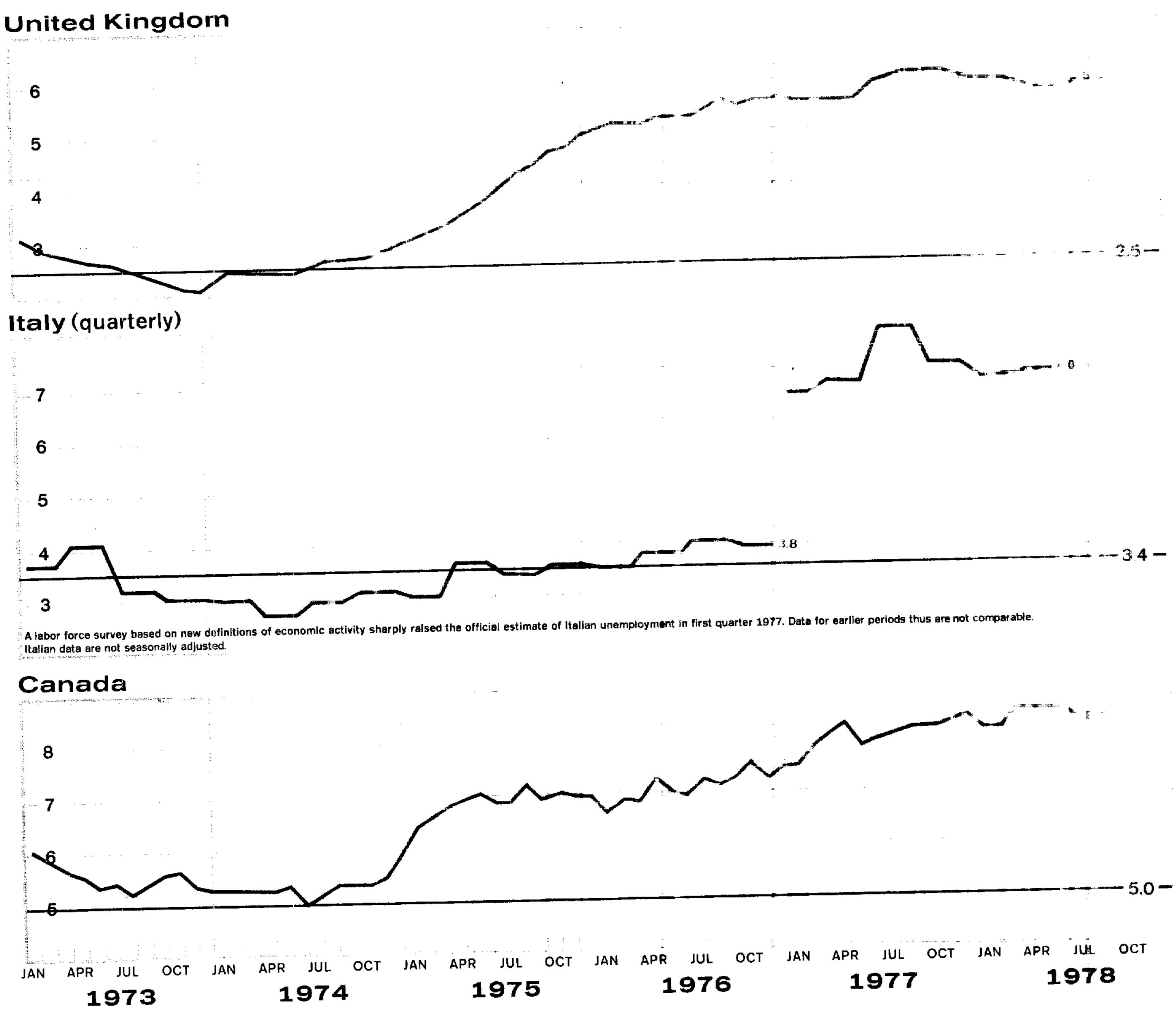
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	JUL 78	0.1	0.6	0.5	0.3
Italy	JUN 78	−0.6	3.1	4.8	2.5
Canada	JUL 78	0.5	4.0	3.7	1.2

[1]Average for latest 3 months compared with average for previous 3 months.

UNEMPLOYMENT RATE

PERCENT





THOUSANDS OF PERSONS UNEMPLOYED

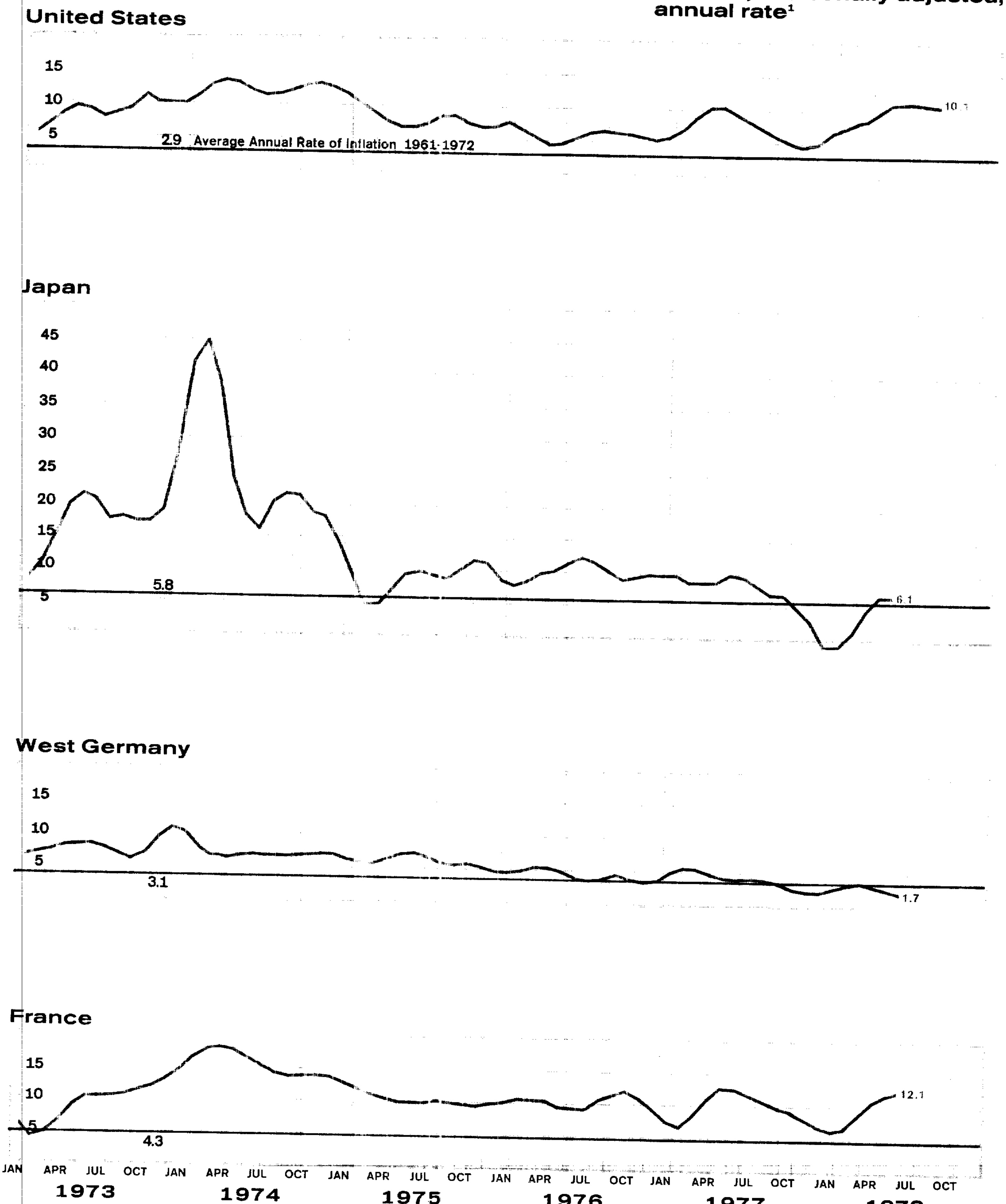
	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	AUG 78	5,968	6,821	6,149
Japan	JUN 78	1,310	1,190	1,180
West Germany	AUG 78	997	1,044	997
France	AUG 78	1,277	1,174	1,113
United Kingdom	AUG 78	1,392	1,414	1,366
Italy	II 78	1,455	1,432	1,320
Canada	JUL 78	927	866	333

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.

577441 9-78

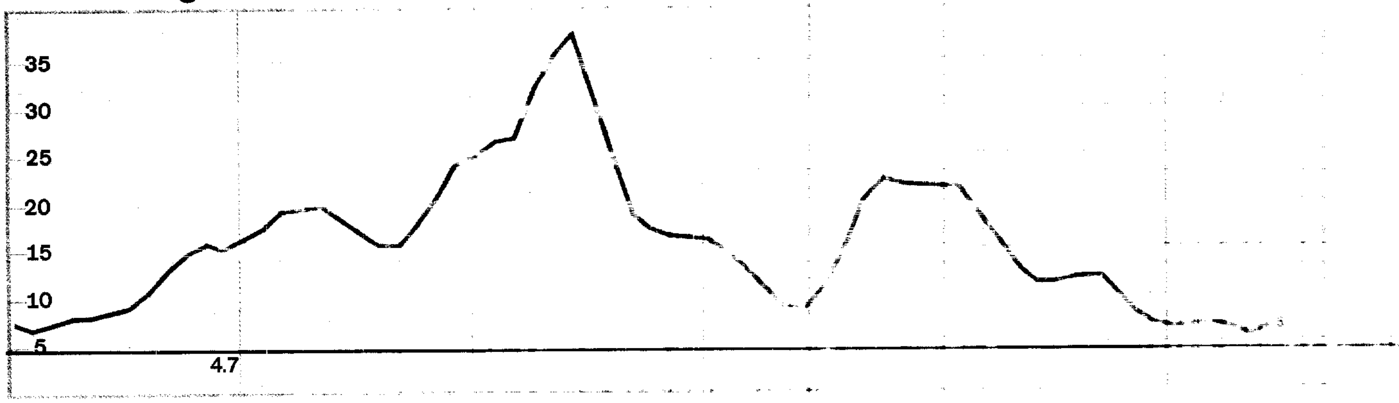
CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate[1]

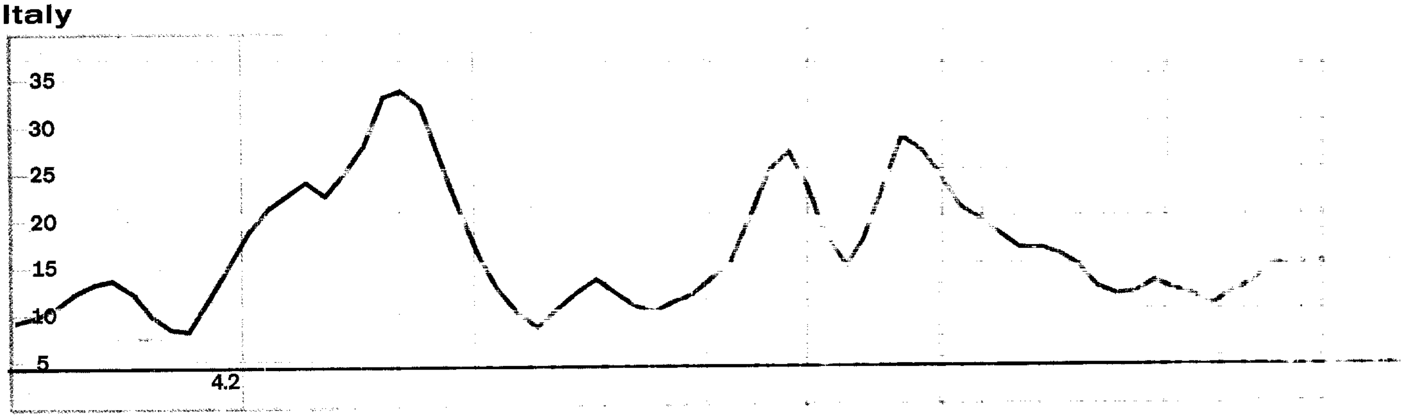


[1] Three-month average compared with previous three months.

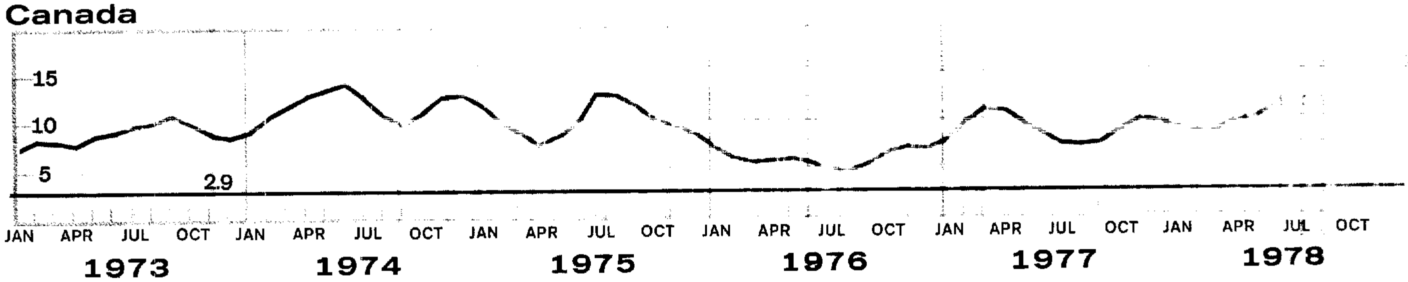
United Kingdom



Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United States	AUG 78	0.5	6.7	7.9	10.1
Japan	JUN 78	0.3	9.8	3.5	6.1
West Germany	JUL 78	0.1	5.2	2.3	1.7
France	JUL 78	1.2	9.1	9.3	12.1
United Kingdom	JUL 78	1.1	13.1	7.8	[illegible]
Italy	AUG 78	0.6	13.1	11.9	4.2
Canada	JUL 78	1.2	7.8	8.8	[illegible]

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

GNP [1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 II	1.8	3.2	4.0	7.4
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	2.8	−0.8	8.2
Canada	78 II	1.2	4.7	3.7	4.7

[1] Seasonally adjusted.

RETAIL SALES [1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 78	−0.3	3.1	3.5	1.9
Japan	Apr 78	4.0	9.9	4.3	24.8
West Germany	Jun 78	1.6	2.6	3.3	−3.2
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Aug 78	0.1	1.5	6.5	12.3
Italy	May 78	12.1	3.5	3.5	12.1
Canada	Jun 78	1.4	4.1	4.5	2.2

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT [1]

Nonresidential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 II	3.6	3.0	7.4	15.1
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	78 I	1.3	1.6	9.7	5.2
Italy	78 I	2.3	1.1	−19.6	9.4
Canada	78 II	10.6	6.5	6.1	49.9

[1] Seasonally adjusted.

WAGES IN MANUFACTURING [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 78	1.2	7.6	7.6	6.8
Japan	Apr 78	0.3	16.1	8.2	10.3
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	May 78	0.5	16.4	20.6	54.9
Italy	Jun 78	0	20.1	15.5	13.8
Canada	May 78	0.9	10.9	7.1	5.7

[1] 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.
[2] 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	Sep 13	8.30	6.01	7.66	7.76
Japan	Call money	Sep 15	4.13	4.88	4.13	4.25
West Germany	Interbank loans (3 months)	Sep 13	3.63	4.07	3.62	3.59
France	Call money	Sep 15	7.38	8.50	7.38	7.38
United Kingdom	Sterling interbank loans (3 months)	Sep 13	9.24	6.09	10.16	9.33
Canada	Finance paper	Sep 13	8.96	7.50	8.14	8.74
Eurodollars	Three-month deposits	Sep 13	8.85	6.49	8.48	8.33

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	May 78	0.4	9.4	5.0	8.3
Japan	Jul 78	1.2	11.7	27.0	39.1
West Germany	Jun 78	1.7	11.5	12.9	−4.0
France	Jun 78	2.2	11.5	13.6	7.8
United Kingdom	Aug 78	3.5	12.2	20.9	38.7
Italy	Apr 78	−0.6	10.9	9.6	6.7
Canada	May 78	1.8	8.4	0.3	3.8

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	May 78	0.4	9.4	5.0	8.3
Japan	Jul 78	−5.8	3.8	−4.3	−8.8
West Germany	Jun 78	0.7	3.9	−0.1	4.9
France	Jun 78	0.6	8.8	5.3	−2.8
United Kingdom	Aug 78	1.0	15.1	8.4	6.9
Italy	Apr 78	−0.6	15.4	5.7	−1.6
Canada	May 78	−0.2	9.3	7.0	6.0

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	May 78	−0.3	12.8	5.4	6.8
Japan	Jul 78	−6.6	5.8	−20.9	−22.7
West Germany	Jun 78	−1.6	3.0	−5.9	−12.5
France	Jun 78	−0.6	9.1	0.2	−9.1
United Kingdom	Aug 78	−0.1	17.2	3.0	5.0
Italy	Apr 78	−0.7	18.9	4.7	−8.3
Canada	May 78	1.7	9.7	13.1	1.9

OFFICIAL RESERVES

	Latest Month End of	Billion US $	Billion US $ Jun 1970	1 Year Earlier	3 Months Earlier
United States	Jun 78	18.9	14.5	19.2	19.2
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Jul 78	41.1	8.8	35.1	41.3
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Jul 78	17.6	2.8	13.6	17.7
Italy	Jun 78	13.2	4.7	9.7	10.6
Canada	Jul 78	4.6	9.1	5.0	4.6

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States [2]	78 I	−6,954	−6,954	−4,158	−2,796
Japan	Jul 78	2,050	10,879	4,630	6,249
West Germany	Jul 78	−868	2,831	1,406	1,425
France	78 I	−84	−84	−1,628	1,543
United Kingdom	78 I	−803	−803	−896	94
Italy	78 I	288	288	−1,025	1313
Canada	78 I	−1,273	−1,273	−1,484	212

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]
Current Account and Long-Term Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States		No longer published [2]			
Japan	Jul 78	650	6,231	3,513	2,718
West Germany	Jul 78	−881	1,915	−2,363	4,278
France	78 I	−863	−863	−1,889	1,025
United Kingdom	78 I	−326	−326	543	−869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 I	−668	−668	−584	−84

[1] Converted to US dollars at the current market rates of exchange.
[2] 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 22 Sep 78

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	15 Sep 78
Japan (yen)	0.0053	39.56	42.24	9.00	1.46
West Germany (Deutsche mark)	0.5119	44.00	19.06	6.09	1.15
France (franc)	0.2288	3.11	12.89	3.14	0.11
United Kingdom (pound sterling)	1.9698	−20.32	13.03	5.93	0.45
Italy (lira)	0.0012	−31.26	6.89	3.41	0.66
Canada (dollar)	0.8515	−15.13	−8.50	−4.39	−0.95

TRADE-WEIGHTED EXCHANGE RATES [1]
As of 22 Sep 78

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	15 Sep 78
United States	−3.09	−9.19	−2.28	−0.32
Japan	43.00	37.58	7.82	1.24
West Germany	31.73	4.71	1.21	0.29
France	−10.27	−2.06	−2.31	−0.90
United Kingdom	−28.44	1.17	1.96	−0.25
Italy	−42.15	−6.85	−1.39	−0.16
Canada	−16.60	−12.15	−5.63	−1.16

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to [illegible] the major currencies.

Developed Countries: Direction of Trade [1]

Billion US $

	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	107.65	46.94	16.25	10.77	3.37	29.82
1976	115.01	51.30	17.68	12.57	3.64	29.44
1977	120.17	53.92	18.53	14.02	2.72	30.98
1978						
1st Qtr	30.94	13.65	4.60	3.76	1.00	7.93
Apr	12.06	5.40	1.68	1.38	0.42	3.17
JAPAN						
1975	55.73	16.56	6.07	8.42	5.16	15.87
1976	67.32	22.61	8.59	9.27	4.93	17.84
1977	81.11	28.02	9.73	12.03	5.32	26.01
1978						
1st Qtr	22.11	7.83	2.39	3.35	1.32	7.22
Apr	7.89	2.80	0.80	1.19	0.57	2.53
WEST GERMANY						
1975	91.70	28.33	36.44	6.78	8.81	11.05
1976	103.63	33.44	41.86	8.25	8.72	11.04
1977	119.28	39.01	48.00	10.78	8.59	12.90
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.50
FRANCE						
1975	52.87	20.00	15.50	4.90	3.13	8.61
1976	57.05	22.49	16.15	5.08	3.23	8.75
1977	65.00	25.90	18.19	5.97	3.00	11.94
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
Apr	6.74	2.82	1.90	0.56	0.28	1.18
UNITED KINGDOM						
1975	44.03	12.55	16.59	4.55	1.56	8.64
1976	46.12	14.03	17.53	5.13	1.39	7.92
1977	57.44	16.99	22.56	6.78	1.63	9.48
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
Apr	5.75	1.73	2.19	0.74	0.18	0.91
ITALY						
1975	34.82	15.61	7.86	3.72	2.46	4.67
1976	36.96	17.41	8.69	4.23	2.18	3.96
1977	45.04	20.92	10.20	5.85	2.45	5.62
1978						
1st Qtr	10.80	5.25	2.37	1.37	0.48	1.33
CANADA						
1975	33.84	26.30	1.73	0.71	1.20	2.00
1976	40.18	32.01	2.03	0.81	1.25	2.09
1977	42.98	34.77	2.13	0.94	1.06	4.08
1978						
1st Qtr	10.75	8.78	0.55	0.23	0.22	0.97
Apr	4.20	3.44	0.16	0.08	0.07	0.45

[1] Source: International Monetary Fund, Direction of Trade.

Approved For Release 2004/08/30 : CIA-RDP80T00702A000800070005-1

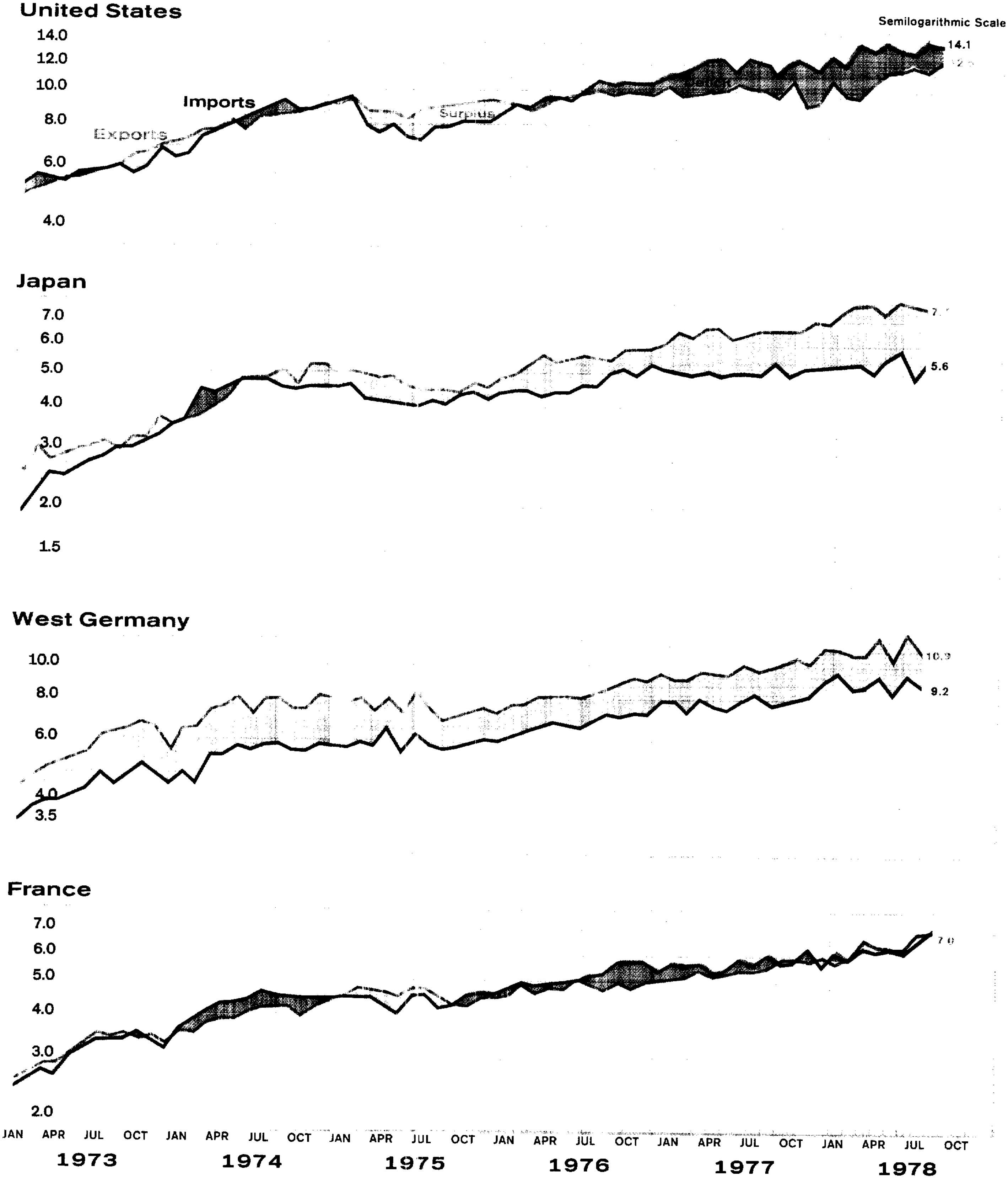
Developed Countries: Direction of Trade [1]

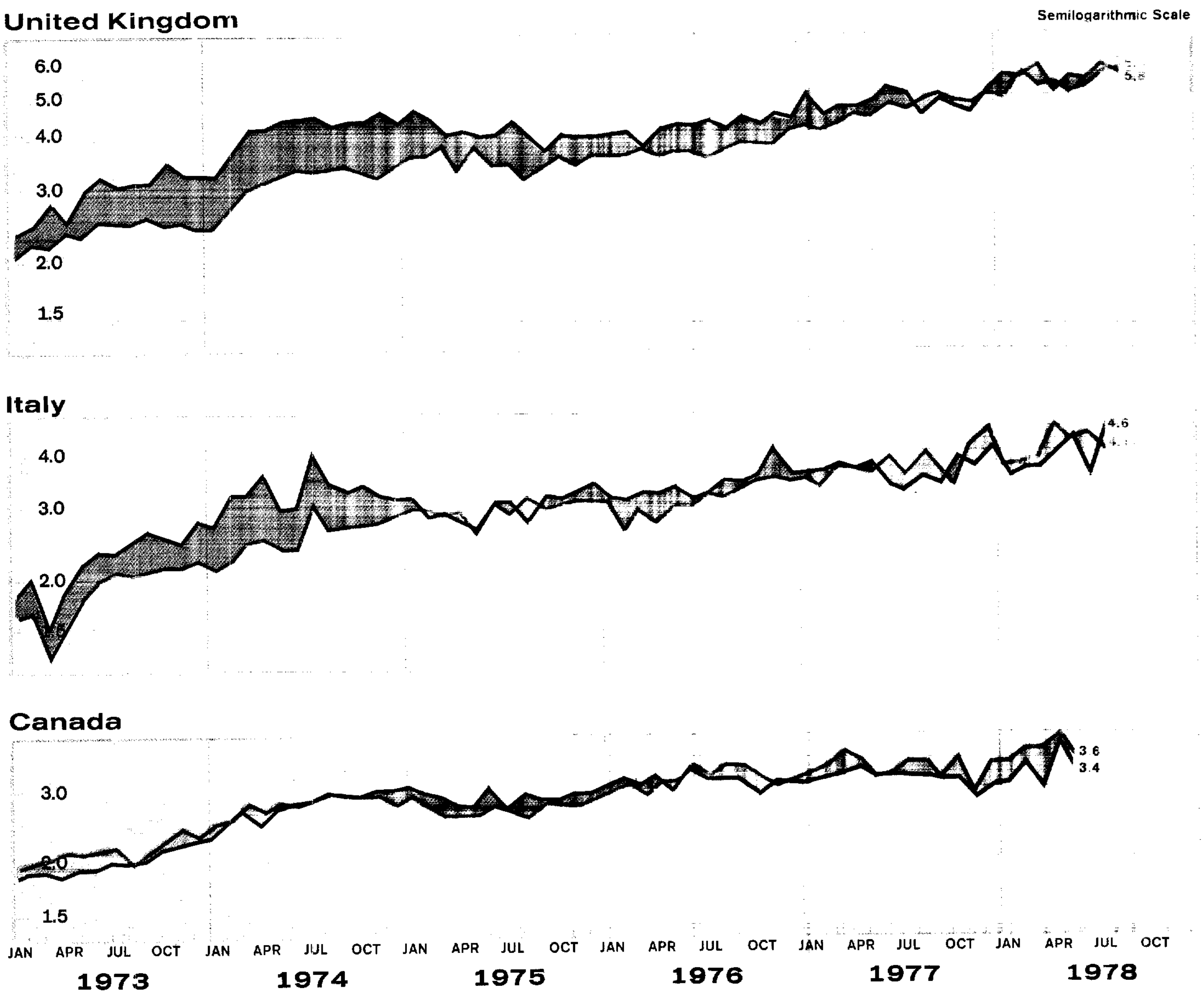
Billion US $

	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.08
1976	129.57	60.39	9.75	27.17	1.16	31.09
1977	156.70	70.48	11.08	35.45	1.22	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
Apr	15.42	7.54	1.27	2.73	0.18	3.70
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.05
1976	64.89	17.58	7.78	21.88	2.91	14.72
1977	71.33	18.87	7.93	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.87	3.89
Apr	6.28	1.64	0.74	2.01	0.36	1.53
WEST GERMANY						
1975	76.28	27.09	27.78	8.24	4.87	8.21
1976	89.68	31.28	32.64	9.73	5.93	10.01
1977	102.63	36.38	37.37	10.12	6.14	12.62
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.54
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.21
1976	64.38	27.81	16.93	11.36	2.24	6.01
1977	70.50	30.28	18.24	11.82	2.46	7.70
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
Apr	6.79	3.02	1.84	1.00	0.23	0.70
UNITED KINGDOM						
1975	53.35	18.47	18.52	6.91	1.68	7.67
1976	55.56	19.66	18.81	7.29	2.08	7.65
1977	63.29	24.02	21.34	6.31	2.40	9.22
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
Apr	5.67	2.27	2.04	0.39	0.16	0.81
ITALY						
1975	38.36	17.32	6.75	7.85	2.09	4.34
1976	43.42	19.35	8.04	8.12	2.65	5.24
1977	47.56	20.80	8.67	9.03	2.80	6.26
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
CANADA						
1975	38.59	29.78	1.70	3.43	0.32	2.02
1976	43.05	33.55	1.82	3.48	0.38	2.56
1977	44.67	35.67	1.77	3.05	0.33	3.85
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
Apr	4.61	3.84	0.18	0.03	0.19	0.37

[1] Source: International Monetary Fund, Direction of Trade.

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





	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United States	AUG 78	12,469 14,090	90,625 111,601	80,316 96,366	12.8% 15.8%
	Balance	−1,621	−20,976	−16,050	−4,926
Japan	JUL 78	7,700 5,556	54,344 37,967	45,157 35,555	20.3% 6.8%
	Balance	2,144	16,377	9,602	6,775
West Germany	JUL 78	10,890 9,203	78,259 64,604	66,376 55,039	17.9% 17.4%
	Balance	1,687	13,655	11,337	2,318
France	AUG 78	6,995 7,254	51,252 51,160	42,008 44,220	22.0% 15.7%
	Balance	−259	92	−2,212	2,305

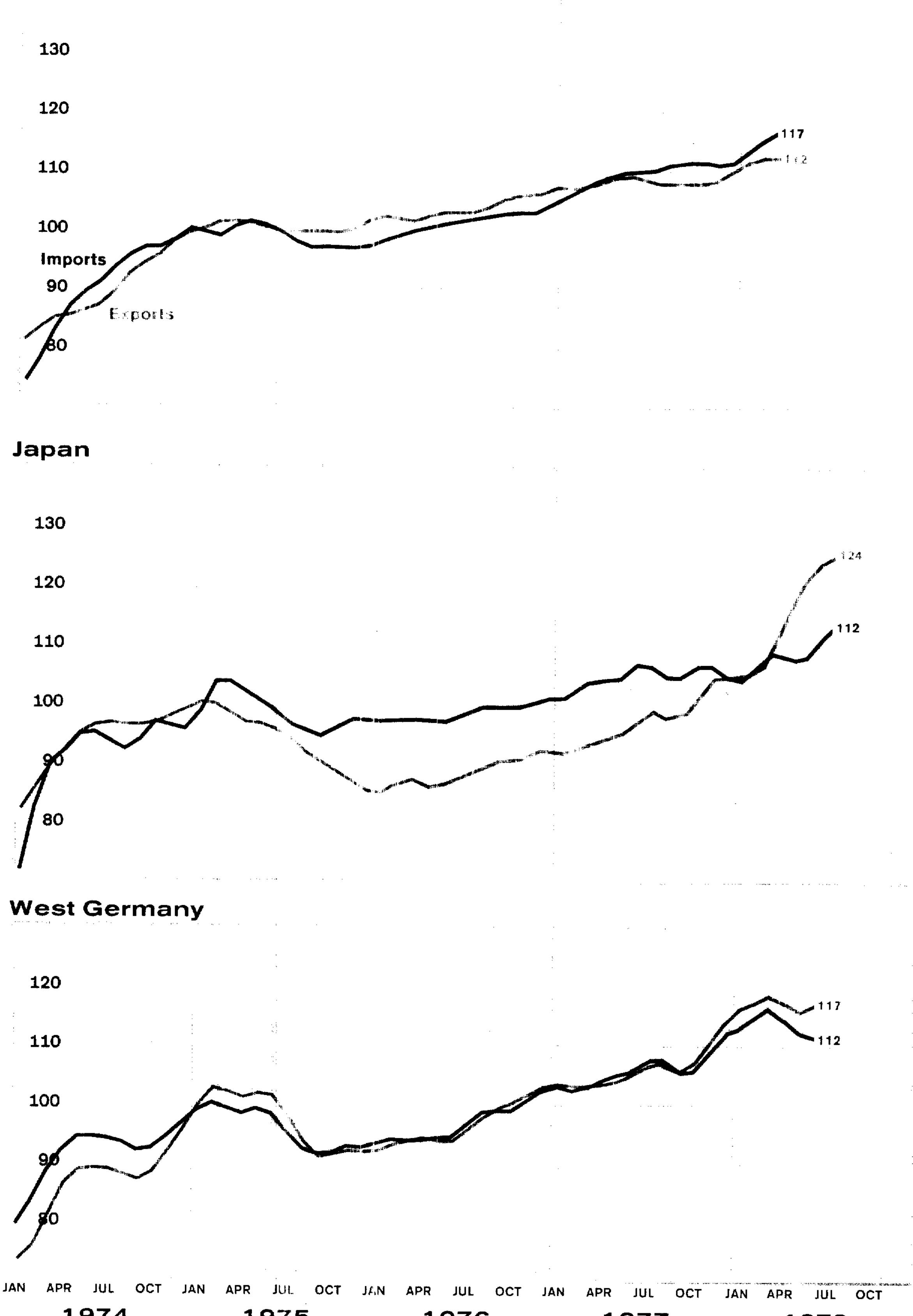
	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United Kingdom	AUG 78	5,865 5,752	43,965 45,474	36,250 39,281	21.3% 15.8%
	Balance	113	−1,509	−3,031	1,522
Italy	JUL 78	4,096 4,626	28,846 27,458	25,115 25,501	14.9% 7.7%
	Balance	−529	1,388	−386	1,775
Canada	MAY 78	3,621 3,401	18,983 17,447	17,435 16,713	8.9% 4.4%
	Balance	219	1,536	722	814

577444 9-78

FOREIGN TRADE PRICES IN US $[1]

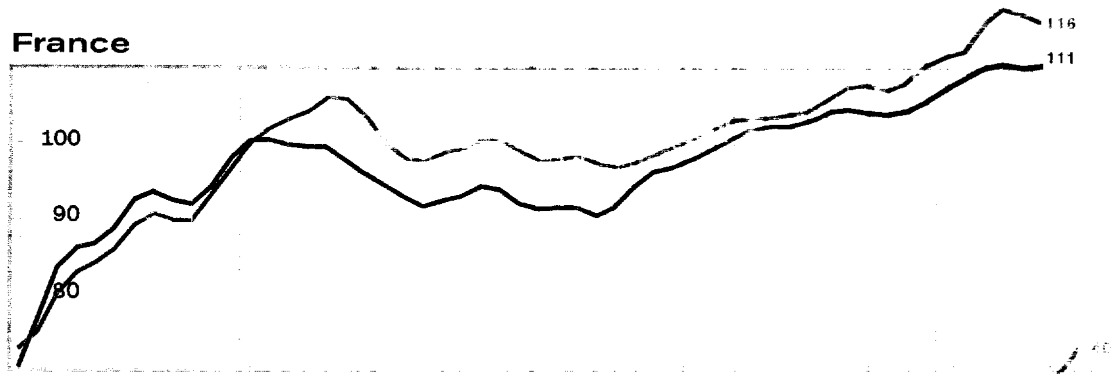
United States

INDEX: JAN 1975 = 100

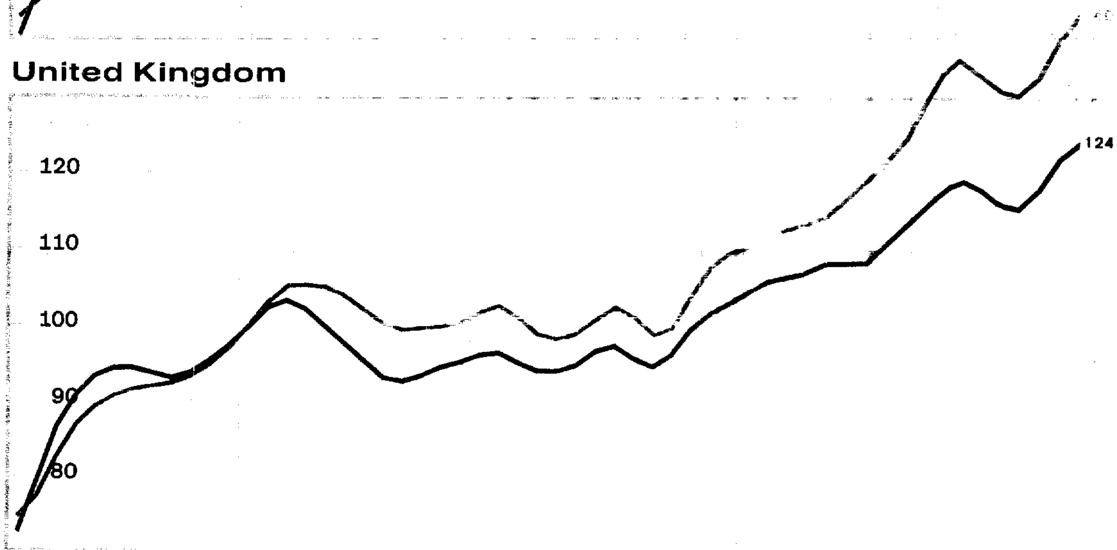


[1]Export and import plots are based on five-month weighted moving averages.

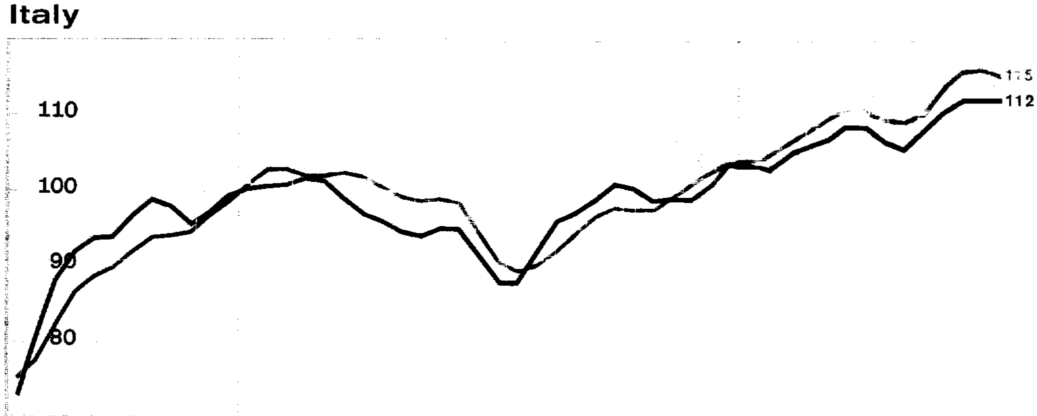
France



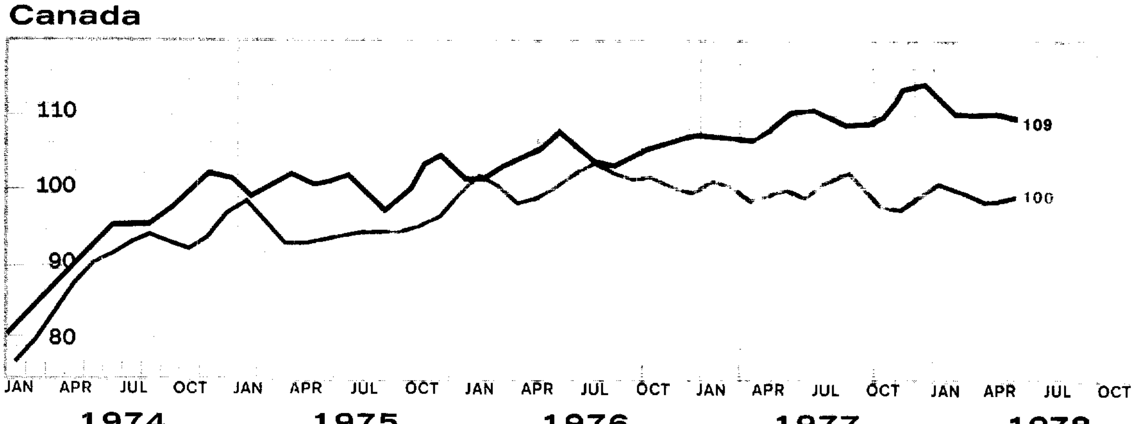
United Kingdom



Italy



Canada



SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
India	May 78	1.3	5.6	9.1	20.6
South Korea	Jun 78	−1.2	22.5	20.1	26.5
Mexico	Apr 78	13.1	6.7	14.1	8.6
Nigeria	78 I	6.8	11.0	0.2	29.9
Taiwan	Apr 78	1.5	15.3	17.4	−2.0

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Mar 78	2.0	13.8	15.7	15.3
Iran	May 78	0.4	29.0	21.4	66.2
South Korea	Jun 78	4.3	31.6	30.4	20.9
Mexico	May 78	3.9	20.8	33.0	24.9
Nigeria	Mar 78	5.6	35.3	18.9	3.3
Taiwan	Mar 78	5.3	25.2	31.0	24.3
Thailand	Jan 78	2.7	13.2	13.7	21.5

[1] Seasonally adjusted.
[2] 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 1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	May 78	0.3	7.4	1.6
Iran	Jun 78	−0.1	12.2	10.2
South Korea	Aug 78	0.3	14.5	13.5
Mexico	Jun 78	1.4	15.0	17.3
Nigeria	Dec 77	2.9	16.5	30.6
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 1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	−2.8
Iran	Jun 78	−1.3	10.7	9.3
South Korea	Aug 78	0.1	15.7	10.9
Mexico	Jun 78	1.3	16.6	16.8
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 1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Mar 77	−0.9	9.6	17.9
Iran	Jun 78	0	30.8	0
South Korea	78 I	0.7	8.7	7.7
Nigeria	May 76	−0.1	27.3	12.3
Taiwan	Mar 78	−0.7	11.2	3.8
Thailand	Dec 76	2.0	13.3	13.1

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	May 78	6,123	1,006	4,431	5,563
Iran	Jul 78	11,982	208	11,592	12,584
South Korea	Jun 78	4,199	602	3,502	4,269
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Jul 78	1,250	148	4,495	3,768
Taiwan	Mar 78	1,433	531	1,349	1,447
Thailand	Jun 78	2,161	978	2,017	2,161

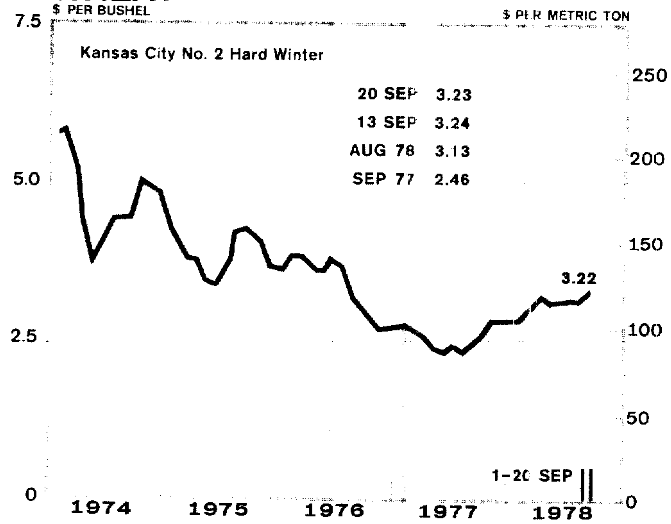
FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from: 3 Months Earlier[1]	1 Year Earlier	Cumulative (Million US $): 1978	1977	Change
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	−19.6	−8.9	1,476	1,620	−8.9%
	Feb 78	Imports	−24.0	−9.9	1,444	1,315	9.9%
	Mar 78	Balance			32	306	−273
Iran	Jun 78	Exports	29.9	3.4	11,756	11,902	−1.2%
	May 78	Imports	−1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	−783
South Korea	Jun 78	Exports	83.3	24.5	5,704	4,517	26.3%
	Jun 78	Imports	95.5	20.8	6,138	4,923	24.7%
	Jun 78	Balance			−434	−406	−28
Mexico	May 78	Exports	−2.2	6.5	2,037	1,773	14.9%
	May 78	Imports	11.6	25.7	2,340	1,868	25.3%
	May 78	Balance			−304	−95	−209
Nigeria	Jun 78	Exports	90.8	−21.8	1,810	2,451	−26.1%
	Aug 77	Imports	56.1	80.1	2,535	1,640	54.6%
	Aug 77	Balance			716	979	−263
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	Apr 78	Exports	27.0	3.2	1,277	1,221	4.6%
	Apr 78	Imports	−6.5	14.3	1,449	1,251	15.8%
	Apr 78	Balance			−172	−30	−141

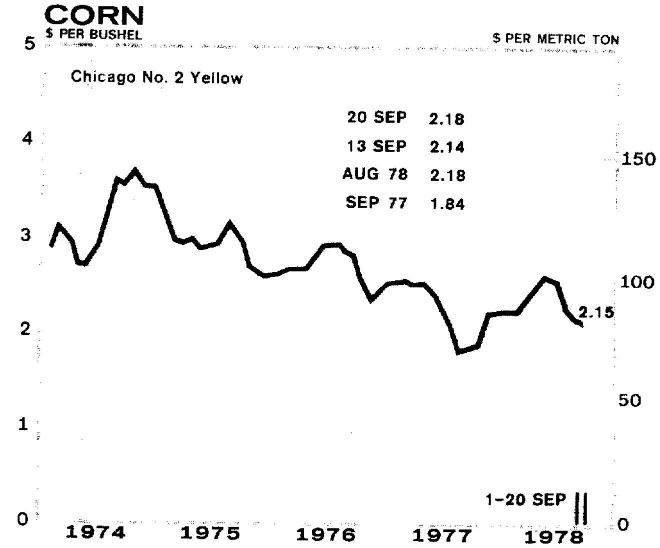
[1] At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

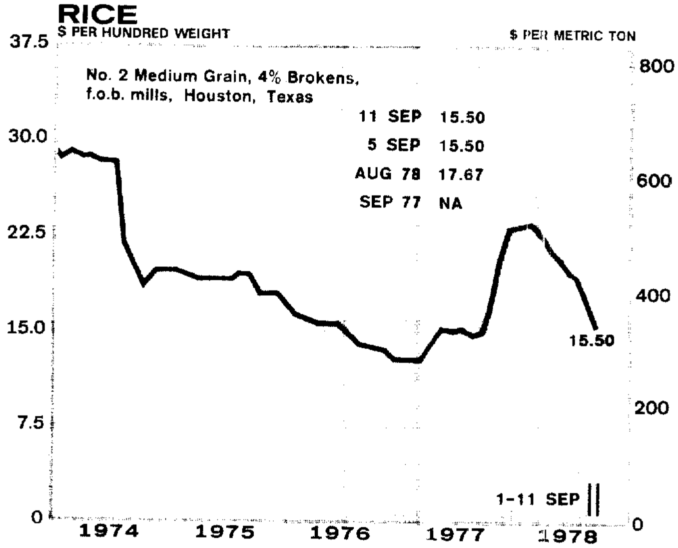
WHEAT



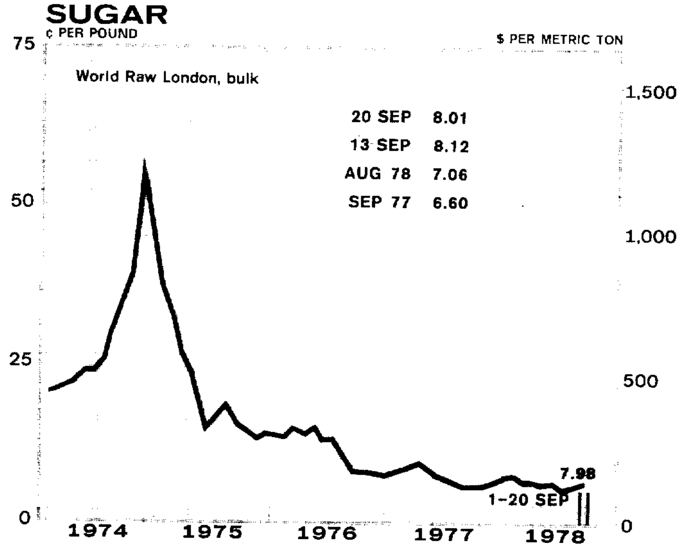
CORN



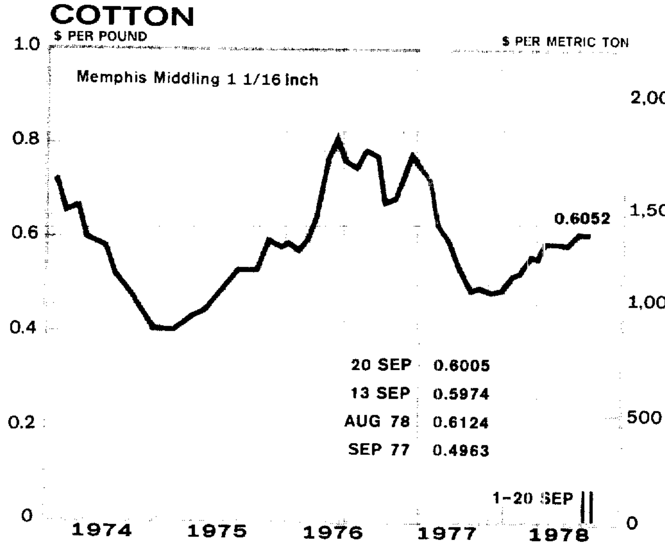
RICE



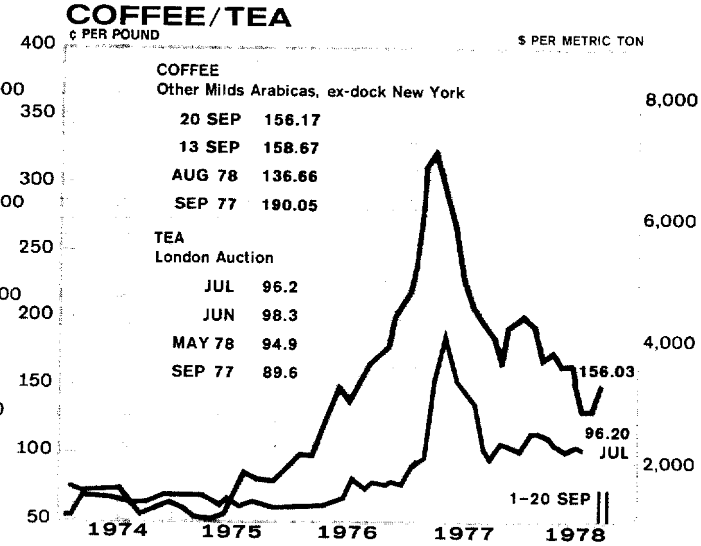
SUGAR



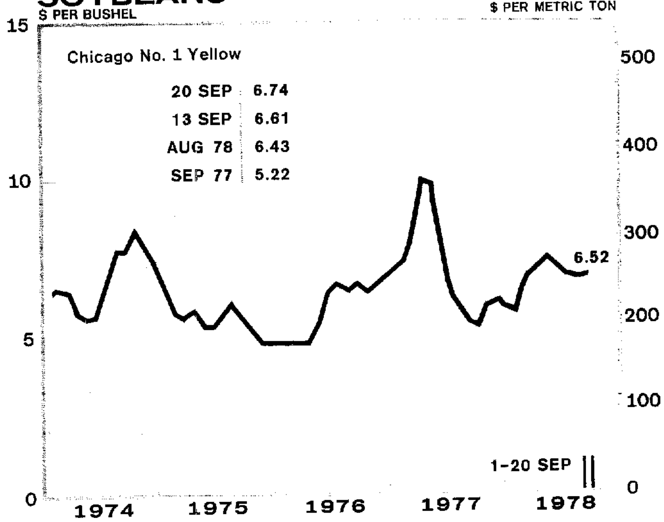
COTTON



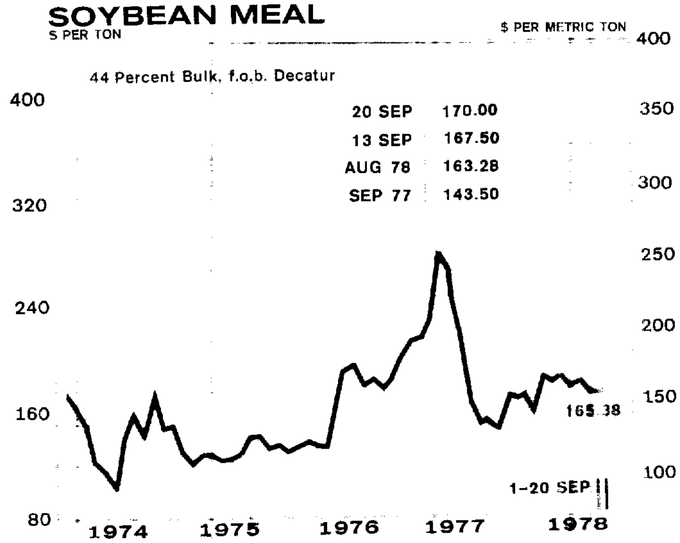
COFFEE/TEA



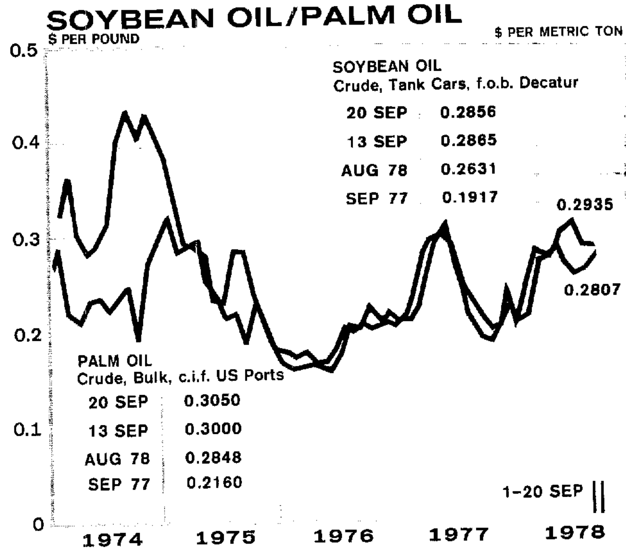
SOYBEANS



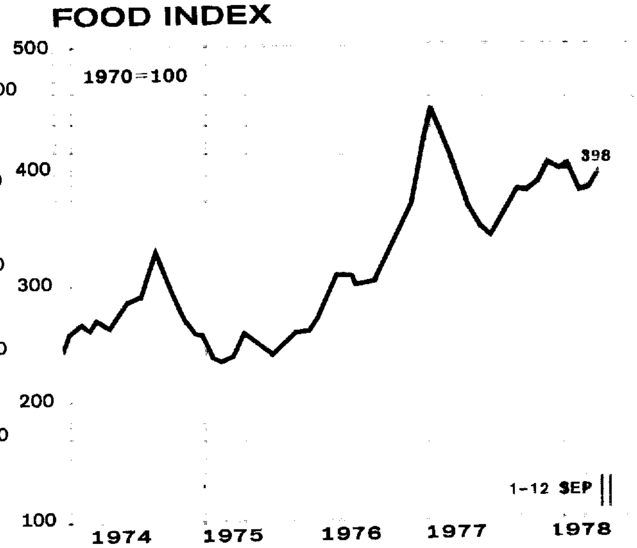
SOYBEAN MEAL



SOYBEAN OIL/PALM OIL



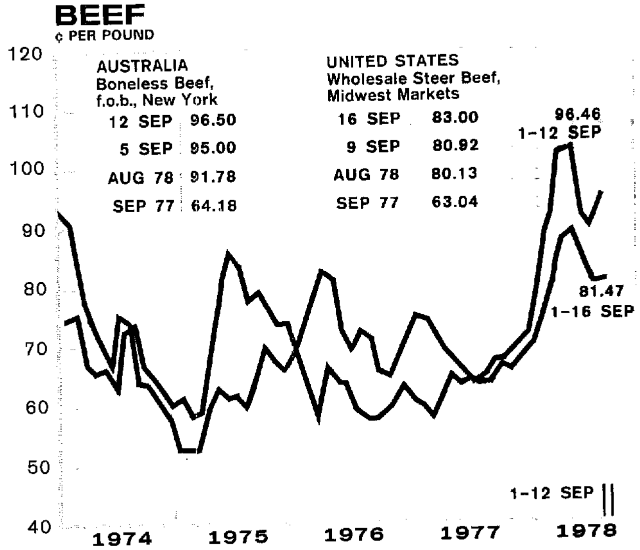
FOOD INDEX



9-78

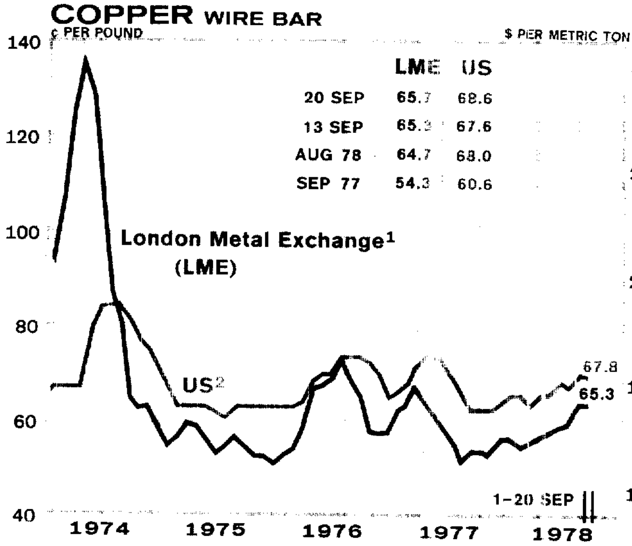
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

BEEF

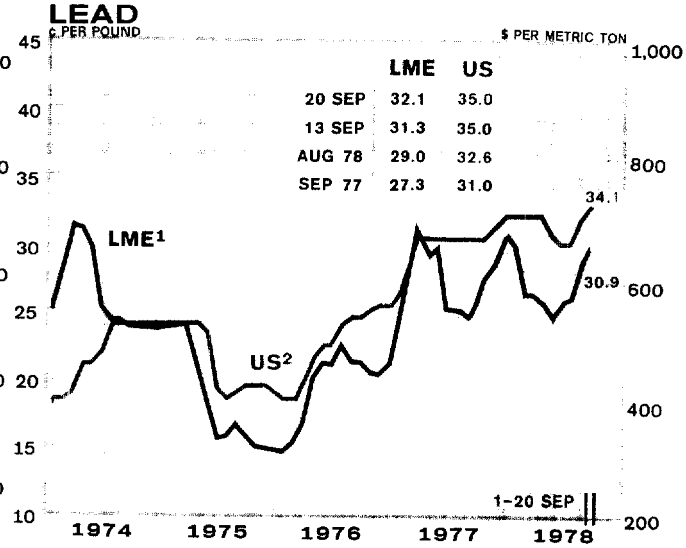


INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

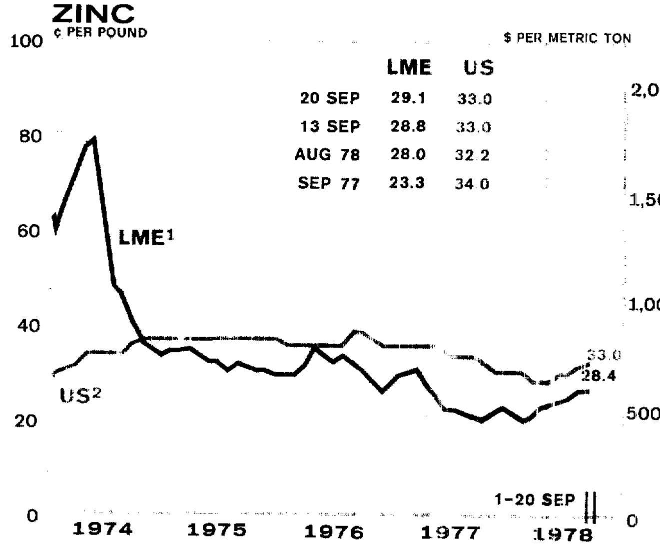
COPPER WIRE BAR



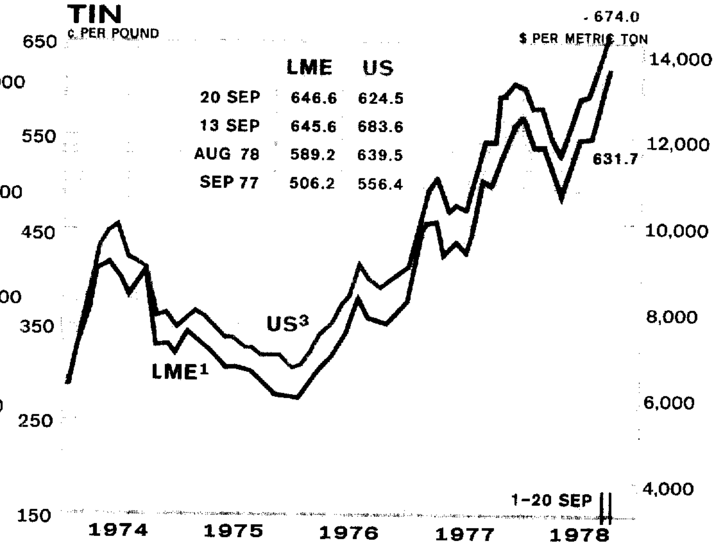
LEAD



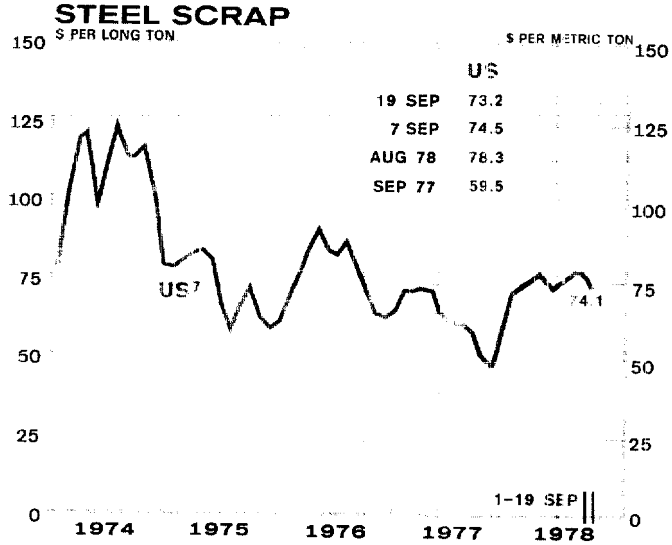
ZINC



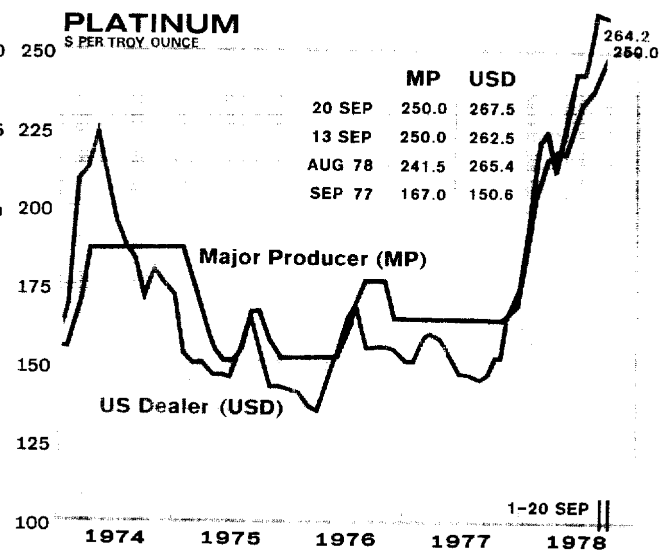
TIN



STEEL SCRAP



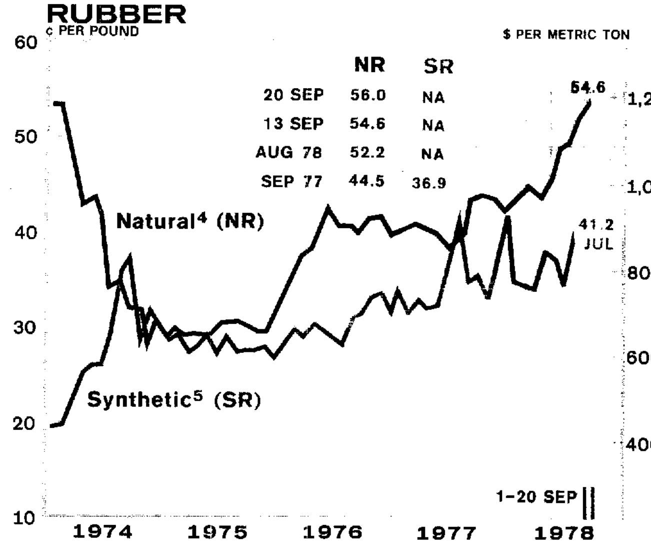
PLATINUM



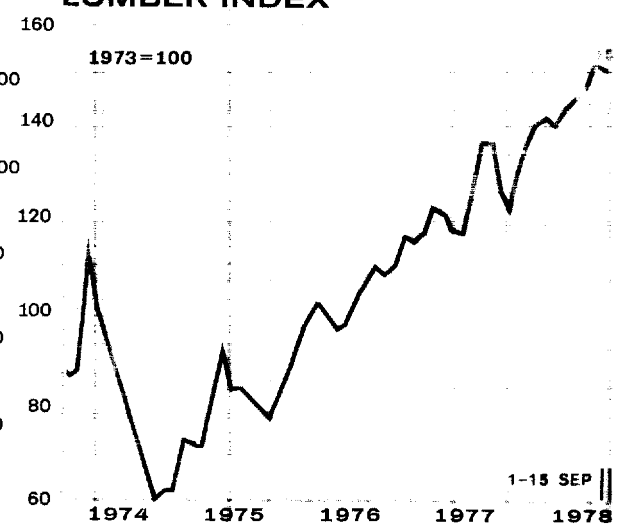
SELECTED MATERIALS

			CURRENT	MAR 78	SEP 77	SEP 76
ALUMINUM	Major US Producer	¢ per pound	55.00	53.00	53.00	48.00
US STEEL	Composite	$ per long ton	419.31	389.60	359.36	327.00
IRON ORE	Non-Bessemer Old Range	$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	42.00	41.00	41.00	44.00
NICKEL	Composite US Producer	$ per pound	2.02	2.06	2.16	2.24
MANGANESE ORE	48 Percent Mn	$ per long ton	67.20	71.80	72.26	72.00
TUNGSTEN ORE	Contained Metal	$ per metric ton	17,907.00	18,822.00	19,494.00	16,045.00
MERCURY	New York	$ per 76 pound flask	156.00	155.17	124.29	116.90
SILVER	LME Cash	¢ per troy ounce	554.58	525.95	453.91	428.96
GOLD	London Afternoon Fixing Price	$ per troy ounce	208.95	183.66	149.52	114.14

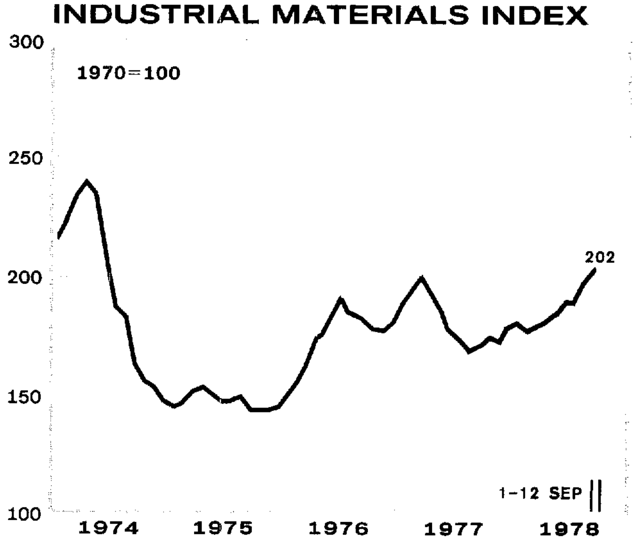
RUBBER



LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX



[1]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.

[2]Producers' price, covers most primary metals sold in the US.

[3]As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4]Quoted on New York market.

[5]S-type styrene, US export price.

[6]This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

[7]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.

5/7443 9-78