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# Economic Intelligence Weekly Review

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**ECONOMIC INTELLIGENCE WEEKLY REVIEW**

**23 November 1978**

<b>Mexico: Impact of Rapid Population Growth .....</b>	<b>1</b>
Explosive population growth and mass migration to the cities not only will pose serious problems for the Mexican Government throughout the remainder of the century but also will have spillover effects on US interests.	
<b>USSR: Meat Shortages Through Soviet Eyes .....</b>	<b>7</b>
	
<b>World Grain: 1978/79 a Bumper Year .....</b>	<b>10</b>
Production will be more than sufficient to meet higher levels of consumption and trade.	
<b>Poland: Economic Options Narrow .....</b>	<b>12</b>
Cuts in imports of industrial materials, made necessary by severe hard currency payments problems, are beginning to impinge on economic growth and production of export goods.	
<b>Taiwan: Impressive Export Gains .....</b>	<b>16</b>
Benefiting from low-cost labor, sizable infusions of foreign capital, and skillful government support, Taiwan has emerged as a major exporter of manufactured goods—second only to South Korea among the LDCs.	
<b>Notes .....</b>	<b>26</b>
Chinese Population Passes One Billion	
Major Developed Countries Show Mixed Third Quarter Trends	
East German Economy Aided by Accords with FRG	
	

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Note: Beginning next week, the *Economic Intelligence Weekly Review* will be published and distributed on Friday rather than Thursday.



Articles

**MEXICO: IMPACT OF RAPID POPULATION GROWTH**

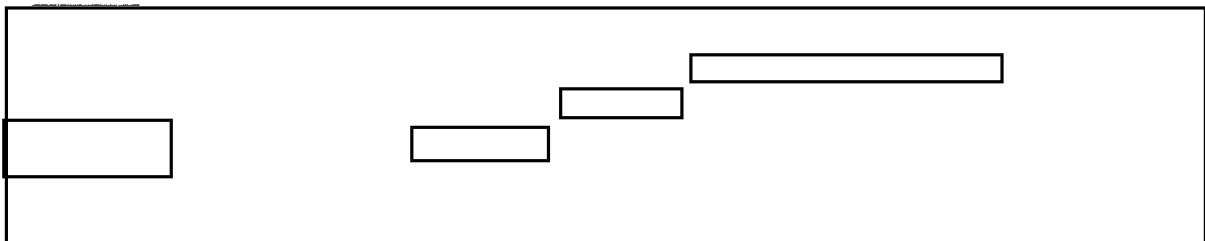
Explosive population growth and its ramifications will constitute the most serious complex of problems that Mexico will face during the remainder of this century. By the year 2000, these problems will also be having serious effects on a wide range of US interests, from illegal migration to the supply of oil.

Mushrooming population growth is straining the structure of Mexico's society and economy and is beginning to put pressure on the political system. The situation will get much worse before there is any chance that it will get better. The population will nearly double between now and the year 2000. During the same period, the labor force will more than double, the number of unemployed will increase substantially, and Mexico City will have become by a wide margin the world's largest mass of urbanized humanity.

Although government measures, including the judicious spending of the new oil wealth, can do much to alleviate the situation, misguided actions—especially certain actions that are intuitively attractive—could exacerbate the problem. The severity of the problem will also be influenced by the ways in which the economic and social systems themselves adjust to changing population pressures. This adjustment process—which cannot be mapped out with much precision—will no doubt affect the pattern of population growth itself as well as such key variables as the path of economic growth and the relationship of economic growth to job creation.

**The Coming Population Explosion**

Under our low projection, population—currently at about 65 million—would reach 110 million by the turn of the century; under the high projection, 126 million. If the higher figure proves correct, one out of every four persons on the North American continent will be a Mexican compared with one of every five today. Although many demographic factors are changing in Mexico, we are confident that the actual population will fall within the range of our two projections.



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### **Impact on the Labor Force**

At least 23 million and possibly as many as 28 million people—roughly the present combined population of New York and Ohio—will be added to the Mexican labor force by the year 2000. Our projections for the total labor force in that year range from 41 million to 46 million, depending not only on population growth but also on participation rates, which are in turn determined in large part by the performance of the economy.

### **Impact on Employment**

The number of jobs created in the years ahead will largely be determined by the rate of Mexican economic growth. Relationships prevalent over the past 25 years indicate that each 1 percentage point change in real GNP has generated an increase in total employment of almost one-half a percentage point. Accompanying these gains was a 3.0-percent annual improvement in labor productivity in industry and a 2.5 percent gain in agriculture. During periods of relatively slow economic growth, however, productivity gains slipped below the trend rates and, as a result, more jobs were created than would otherwise have occurred. This took place between 1970 and 1975 when some 500,000 jobs a year were created; had historic productivity trends been maintained, the gain would have averaged 300,000 annually.

To evaluate job market conditions in the years ahead we have examined three alternative economic growth scenarios. In each instance we have varied labor productivity to take account of differing rates of capital accumulation and of differing demand pressure on the labor force itself. The scenarios used include:

- Historic economic growth—assuming a 6.2-percent annual expansion between 1980 and 2000, the same rate achieved in 1951-75.
- Intermediate economic growth—assuming an 8-percent expansion.
- High economic growth—assuming a 10-percent expansion.

Mexico's actual growth performance is more likely to approximate the intermediate scenario than either of the other two. At least through the 1980s, and perhaps beyond, Mexico's oil potential will provide much of the wherewithal to assure rates of economic growth appreciably above those achieved between 1950 and 1975. Sustained expansion on the order of 10 percent annually could be achieved only if the government were willing to accept very high inflation, attributable to shortages of skilled labor and inadequacies in infrastructure.

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The historic economic growth pattern points to continued rapid increases in unemployment throughout the next two decades. Unless more jobs are created than this scenario suggests, the number of unemployed would increase by 500,000 persons a year in the 1980s and 700,000 persons in the 1990s. Under this model, the number of unemployed would reach 12 million by the year 2000—about equal to the entire work force in 1970—yielding an unemployment rate in the 30-percent range.

Real GNP growth of 10 percent a year would generate approximately 1 million new jobs annually in the 1980s, rising to about 2 million a year in the 1990s. Led by rapid growth in construction, gas, and petroleum, industrial jobs would be expected to increase almost 9 percent yearly over the entire period. Based on past relationships, nonindustrial urban jobs would increase about 4 percent annually; since this scenario incorporates agricultural growth 38 percent above the long-term trend, employment in this sector is projected to rise rather quickly. If the skilled labor bottleneck can be overcome, unemployment would peak at 12 percent in 1985, fall to 7 percent by 1990, and be eliminated before the turn of the century. Under this highly optimistic scenario, the number of unemployed would rise to 3 million in 1985 and then gradually fall until a labor shortage were created by the turn of the century. As the bulk of the new jobs would require high skills, acute shortages of skilled labor would probably coexist with high levels of unemployment among the unskilled.

Under the intermediate economic growth scenario—which probably best characterizes the growth pattern Mexico will experience—new jobs will expand by 3.5 percent yearly in the 1980s and about 4 percent in the 1990s. Over 700,000 new jobs will be created yearly in the 1980s and 1.2 million per year in the 1990s, with more than half the additional positions concentrated in the industrial sector. Under this scenario, 10 million new skilled workers would be required to sustain growth over the next two dozen years—roughly the number that the school system should be able to produce.

Nonetheless, the number of unemployed would continue to grow, reaching 5 million in 1990 and 7 million to 8 million in the year 2000. By 1990, unemployment rates would rise to 17 percent. After 1990, the rate of population growth in the previous decade will determine whether new entrants to the labor force will lag or lead job creation. Under low population growth, the unemployment rate would slip to 16 percent in 2000; with high population growth, it would climb to 19 percent. Again changes in labor productivity could exert a strong influence on these patterns. If labor productivity increases 1 percentage point less than our calculations assume, of course, total employment in each case would increase 1 percent faster than indicated.

In the intermediate growth case, as in the other two, unemployment will continue to be concentrated among urban workers, women, and the uneducated through the

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remainder of the century. Underemployment, particularly pronounced in the agricultural and service sectors, will decline, especially in rural areas, where we expect commercial farming to increasingly displace subsistence and quasi-subsistence agriculture.

### **Impact on Urbanization**

An extremely serious aspect of Mexico's demographic problems will be the rapid and (so far) uncontrolled urbanization. Greater Mexico City, already with 14 million inhabitants, would have more than 40 million people in the year 2000 if it continued to grow at current rates. Even if all migration into the city were to stop this year, natural growth would give the city a population of between 23 million and 27 million.

The valley where Mexico City is located does not have the land and water resources to support a population of much over 20 million. Accordingly, rural-urban migration must be redirected and some interurban migration must take place. Given the average Mexican's predilection toward life in the capital—which shows no signs of lessening despite a sharp decline in the quality of life in Mexico City—the government will have to make heavy use of both sticks and carrots to force such changes. If successful, such a government effort will have spread rather than solved the problems of rapid urbanization. If the redirection of population movements were to be concentrated on the eight largest urban areas apart from Mexico City—as is most likely—the population of these cities would rise four and one-half times, with predictable effects on urban services and welfare.

Rural population is expected to grow slowly, if at all, during the next two decades. Slower population growth in the countryside, combined with expected oil-financed expenditures on education, health care, and basic infrastructure, should allow a substantial improvement in rural living conditions. Even so, employment opportunities will continue to be much greater in urban than in rural areas.

### **Impact on US Interests**

#### *Political Stability*

On balance, we believe that the Mexican political system will be able to cope with the strains induced by rapid population growth and urbanization. The system [redacted] gives each Mexican president almost total control over rewards and punishments in Mexican society for a six-year period. At the end of that period, a massive turnover in government allows a new group to come to the fore. Given the persistence of patron-client relationships and lack of class feeling that characterizes Mexican society (e.g., even the poorest Mexican puts more faith in "connections" than in mass action to improve his lot), this system provides rather well

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for the perceived needs of Mexicans of all classes. Moreover, the existence of large oil revenues—while in themselves not without dangers for political and social stability—will give the Mexican Government additional resources to manage pressures as they arise.

At the same time, we believe that the threats to orderly government will be greater than at any time since the 1930s. These threats will come not from the masses,  but from the politically relevant upper third of the population. This group—including the middle class, organized labor, government and opposition politicians, and the intellectual establishment—could number more than 40 million at the turn of the century. Given its vastly increased size, this segment of the population will be more difficult to control and satisfy through traditional methods.

Hasty and ill-considered attempts at reform would almost certainly exacerbate this situation. Indeed, Mexican Government officials are well aware of this danger. They foresee a time, possibly in the early 1980s, when the growth of oil production may have to be curbed in order to avoid inflows of wealth that would undermine the official party's near monopoly of rewards and punishments. In the unlikely event that the present system collapses under the new strains, it almost certainly will not be replaced by a US-style democracy but rather by a harsher dictatorship or by a series of swiftly changing unconstitutional governments on the South American model.

### *Illegal Migration*

If present trends continue—that is, if the same proportion of the labor force migrates to the United States and the same proportion of migrants remain permanently in this country—the annual flow of Mexican illegals to the United States will be 2 million persons by the year 2000 and the stock of Mexican illegals in this country will number 5 million to 8 million. Present trends are unlikely to continue, however, and the actual situation will probably be either much better or much worse.

On the negative side, the pool of potential migrants will have at least doubled and, given certain not unlikely assumptions, could be five times as large. Not only will the size of the labor force have increased but also the lack of knowledge and the cultural inhibitions that restricted the flow in the past will have lessened. Unemployment will rise at least through the 1980s, and the wage differential between Mexico and the United States is unlikely to diminish. Moreover, an increase in political instability—should it come to pass—would probably be reflected in greatly increased pressures for both legal and illegal migration. In any event, an increasing proportion of the new illegals will remain permanently in the United States, whereas in the past the overwhelming majority of migrants returned to Mexico after a short period.

23 November 1978

SECRET

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On the positive side, oil-led economic growth will be providing good job opportunities for increasing numbers of ambitious Mexicans. It is precisely this group—and not the unemployed—that are most likely to migrate. We believe that a prolonged Mexican economic boom could have an effect on illegal migration far greater than the number of jobs created would indicate. This effect would be essentially psychological, as an increasing number of potential illegals would perceive Mexico to be “where the action is.” At the same time, a shortage of young workers in the United States could lead to a marked increase in temporary legal migration. If an economic boom in Mexico coincided with the adoption of “guest-worker” program in the United States, an absolute decline in the size of the illegal migration flow would probably follow.

### *Oil Supplies*

Mexico's exports of oil and gas in the years ahead will depend heavily on the amount of energy needed to spur economic growth and job creation at home. Economic growth well above the historic average appears likely through the mid-1980s; thereafter the rate will depend on a variety of factors that must be assumed rather than predicted. These factors include (a) the world economic situation, (b) the evolution of Mexican economic policy, (c) the possibility of skilled manpower constraints, (d) the political situation in Mexico, and (e) technological developments in Mexico, especially in the energy sector.

After weighing these uncertainties, we judge that Mexico will not be in a position to export extremely large amounts of oil to the United States at the turn of the century. Under our intermediate economic growth scenario, Mexico would require between 7 million and 10 million b/d of hydrocarbons (oil and natural gas in terms of oil equivalent) in 2000, of which between 5 million and 7.5 million b/d would be oil. The lower figures assume effective conservation and some increase in the use of nonhydrocarbon energy sources. Under these conditions, we doubt that Mexico would be willing to export more than a million or so barrels of oil per day.

If, on the other hand, Mexico is only able to match historic economic growth rates over the entire period 1978-2000, domestic hydrocarbon consumption could be held to between 5 million and 7 million b/d, of which between 4 million and 5.5 million b/d would be of oil. Such rates of consumption would allow substantial exports of oil at least through the first decade of the next century, if the 200 billion barrel potential reserve figure quoted by President Lopez Portillo is proved up through additional exploration. The relatively low economic growth rate required by this scenario would have a serious negative impact on other US interests, including political stability and illegal migration.



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USSR: MEAT SHORTAGES THROUGH SOVIET EYES

*Although the Brezhnev regime has made considerable progress in meeting its commitment to upgrade the Soviet diet, meat shortages remain a major source of dissatisfaction among the Soviet populace. These shortages have required heavy expenditures of hard currency for Western feedgrains, especially following poor domestic harvests. This article describes some of the effects on the Soviet consumer of severe meat shortages following the sharp decline in grain output in 1975.*

[redacted] insights into the effect on the Soviet consumer of the recent severe meat shortages.

They also reveal a wide variety of official and unofficial responses to the problem [redacted]

[redacted] public in general as deeply dissatisfied with the shortages, [redacted]

widespread complaints only occasionally boiled over into overt protest. One essential factor in keeping the lid on civil discontent was continued access to meat supplies in the collective farm market (CFM), even though there was an increasing spread between CFM prices and lower fixed prices in state stores. [redacted]

[redacted] indicates that the time is indeed ripe for the current Kremlin campaign to encourage growth in the private farm sector.

**Background: Drop in Supplies**

After an initial round of distress slaughtering which temporarily raised meat output, per capita production in 1976 dropped below the level achieved in 1971. Meat shortages were frequent and widespread, especially in 1977, occurring both in small cities and towns and in the major cities. Livestock herds finally have been rebuilt so that by the end of 1978 per capita meat output should exceed the levels reached in the early 1970s. Meat shortages are still common, however, and the gap between supply and demand promises to widen as increases in personal money incomes continue to outstrip growth in meat output. It is thus important to review how well individuals and the regime coped with the last period of unusually stringent supplies and to what extent temporary policy responses are becoming institutionalized.

**Severity of Shortages and Proffered Causes**

[redacted] most severe shortages began early in 1976 and continued through at least the fall of 1977. [redacted] diminished supplies but also of the complete absence of all kinds of meat in state stores for two or three weeks at a time. Even when meat was available, the supply did not last beyond noon. The quality was poor and bones could easily make up more than half of an

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individual's purchase. Beef was in the shortest supply [redacted]

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Two groups of people fared better than their fellow citizens—residents of the Baltic republics and of most rural areas throughout the country. [redacted]

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The reluctance of the average Soviet citizen to believe official propaganda is illustrated [redacted] "What was the cause of the meat shortage?" Conceding that the press had given a perfectly logical explanation—that the weather had caused a harvest failure—they went on to offer what they considered the "real" causes:

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- Meat was exported to the West for hard currency.
- Meat was exported to Cuba and Vietnam.
- The best cuts were delivered to party and government leaders. [redacted] [redacted] Brezhnev took it for his brothers."
- Large amounts of meat were canned and stored for defense needs.
- The shortage resulted from poor farm management.

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### Response to Shortages

Although meat consumption appears to be the major measure of Soviet affluence, the consumer's response to the 1976-77 meat shortages was typically stoic. Public disturbances were minor and were apparently quelled quickly and easily. Several strikes were reported, but much of the protest took the form of pranks rather than serious labor disruptions. [redacted] reported a newspaper photo of Brezhnev posted in several train stations along with mug shots of wanted criminals with the subtitle, "He stole our meat." [redacted] claimed that cars loaded with Lithuanian meat destined for shipment from Lithuania to the Russian Republic were welded to the tracks by local citizens.

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We have no evidence of a strong coordinated effort by the central government to alleviate the situation. The only nationwide effort reported was a fish day in restaurants, ostensibly for dietary reasons. All other official efforts could be described

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25X1C as originating from local governmental, trade, or plant authorities. A common practice was to limit meat sales at state stores, the limit ranging from 1 to 2 kilograms per purchase. A bigger purchase was sometimes allowed for large families, pensioners, or disabled war veterans. This practice was only partially effective since many customers queued up again. State industrial managers made a genuine effort to supplement and regularize meat supplies for their employees. It was in their interest to do so since their workers were forced to miss work if they were to be successful in getting meat from the state stores. [redacted] reported that canned meat was sold in the canteen of the coal mine. On major holidays in one Moldavian town, selected state enterprises bought pork and beef directly from the farms and sold it to their employees at a 50-percent discount. A ration card system was set up at some plants entitling each worker to about 3 kilograms per month. The coupons were transferable, which immediately created a black market in coupons.

25X1C Individual efforts to improve meat consumption included the age-old systems of bribes, barter, resort to the CFM, and the private plot. Persons with valuable skills, such as bricklayers, claimed to be able to trade their services for meat, and meat store personnel were usually vulnerable to under-the-table offers. Although they complained about the high prices, [redacted] depended heavily on the CFMs as a reliable alternative source. Several localities attempted to place a ceiling on the CFM price, but it was lifted when the peasants refused to sell their meat. [redacted] 25X1C acknowledged that the acquisition and maintenance of private livestock posed constant problems, those fortunate enough to own a hog, cow, or some poultry felt justified in view of the tight supply situation. [redacted] 25X1C in a wide range of occupations and living conditions owned livestock. Some reported a definite liberalization in the official attitude toward private farm output since 1975, but others detailed repressive measures such as the confiscation of pigs, presumably to help fulfill local farm targets.

### Lessons Learned

25X1C If these attitudes and events can be regarded as fairly typical of the general Soviet populace, the leadership learned a good deal from the last period of meat shortages. First, the Soviet consumer, even in this day of rising expectations, continues to be docile and long-suffering in an area that is vital to improving his living standards. Secondly, informal rationing systems administered at the local level work fairly well and seem much less disruptive than would a national system. And finally, an unfettered CFM and an expanded private farm sector drains off excess purchasing power and energies that might otherwise be used on activities than run counter to government policies. [redacted]

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### WORLD GRAIN: 1978/79 A BUMPER YEAR \*

Grain production \*\* will be more than sufficient to meet higher levels of consumption and trade in 1978/79 so that additions to global stocks can be expected. Despite increased foreign competition, the US share of world trade in wheat and corn probably will show little change.

#### Record Supplies and Consumption

World grain production for 1978/79 is forecast at a new high of 1,160 million tons, 80 million tons above 1977/78 and 40 million tons above the previous record set in 1976/77. Gains are equally divided between wheat and coarse grains.\*\*\* Production is expected to equal or exceed last year in every major region of the world. The EC and USSR will register the largest gains. An increase in the area sown to grain and very favorable growing conditions are the major factors underlying this optimistic production forecast. Estimates for Northern Hemisphere crops are relatively firm; estimates for Southern Hemisphere crops remain tentative.

Plentiful grain supplies, rising incomes and population in LDCs, and expanding livestock programs will push consumption of both wheat and coarse grains to new highs in 1978/79. Consumption will still fall short of production, particularly for coarse grains, permitting an addition to Free World stocks for the sixth consecutive year. Soviet wheat stocks could be built up substantially and Chinese stocks slightly if imports into the USSR and the PRC approximate our forecast. A net addition to US stocks will be possible, a large addition to coarse grain stocks more than offsetting an estimated 20-percent decline in wheat stocks. The US share of Free World stocks of all grains will stay at 40 percent.

#### Import Demand Still Strong

Despite an outstanding production year, we forecast global grain trade in the marketing year ending 30 June 1979 (MY 1979) will be slightly above the previous high of 156 million tons in MY 1978. Import demand for wheat will be down less than a million tons, more than offset by an expected rise in import demand for coarse grains of almost 2 million tons. Although US exports will face stiffer competition, the US share of the world wheat market is expected to hold about 45 percent, with a slight drop in the share of the corn market, to 75 percent.

Foreign demand for US wheat, currently stronger than a year ago, can be expected to slacken by early 1979 as larger Southern Hemisphere supplies become

\* Total grain as used in this article excludes rice.

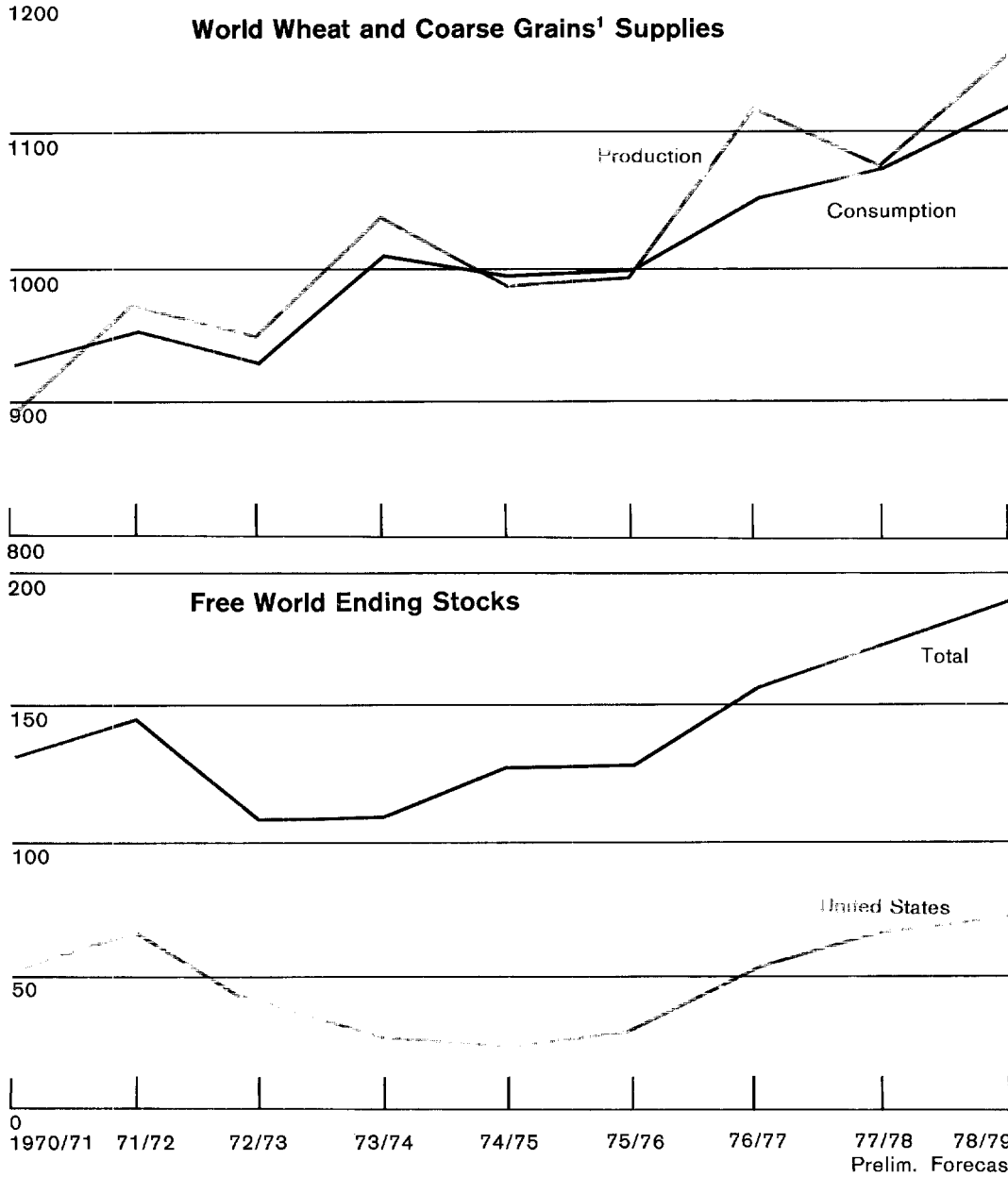
\*\*\* Coarse grains include corn, sorghum, barley, oats, rye, millet, and miscellaneous grains.

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### World Grain: Production, Consumption, and Stocks

Million Tons



1. Includes corn, sorghum, barley, oats, millet, rye, and miscellaneous grains.

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23 November 1978

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Exports of Wheat and Corn <sup>1</sup>				Million Tons
	1976	1977	1978 <sup>2</sup>	1979 <sup>3</sup>
Wheat				
World .....	66.4	61.0	72.4	71.6
Of which:				
United States ....	31.5	25.7	31.3	32.4-34.3 <sup>4</sup>
Corn				
World .....	52.5	54.3	59.2	60.2
Of which:				
United States <sup>5</sup> ..	40.0	42.8	45.6	45.4

<sup>1</sup> Marketing year ending 30 June of stated year.

<sup>2</sup> Preliminary.

<sup>3</sup> Projected.

<sup>4</sup> The United States as residual supplier.

<sup>5</sup> Including major products.

available and as the EC continues to subsidize wheat exports. US exports in MY 1979 are expected to exceed last year's level by more than 1 million tons. Total world trade in corn during MY 1979 is forecast to increase slightly, lower Soviet demand being more than offset by larger Chinese purchases.

Less is known than a year ago about Soviet intentions for buying US grain above the US/USSR Long Term Agreement minimum of 6 million tons. We estimate that Soviet MY 1979 grain imports will be about 14 million tons, nearly 25 percent below last year. US shipments to the Soviet Union are expected to fall to 9.5 million tons due to a 2.7 million ton drop in corn shipments. On the other hand, China is expected to import large amounts of US grain—3.2 million tons of wheat and about 3.0 million tons of corn—for the first time since MY 1975.

US grain export prices for wheat and corn are expected to remain above MY 1978 and to hold relatively stable through early 1979. Although Southern Hemisphere supplies could exert downward pressure on prices, this will be moderated by strong foreign demand.

#### POLAND: ECONOMIC OPTIONS NARROW

The Polish leadership faces rapidly narrowing options in dealing with its serious hard currency payments problems. Exports to the West are sluggish and are expected to remain so. Meanwhile, continuing sharp cuts in imports of industrial materials are beginning to impinge on growth and production of export goods and, perhaps more important, have reportedly led to dissension between Party leader Edward Gierek and other members of the Politburo. Warsaw, in addition to seeking a sizable long-term

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loan in the West to cover next year's current account needs, may also be seeking a "political commitment of aid" from the West that would enable it to deal with its pressing economic problems on a more continuing basis. If unsuccessful, it may have to seek a rescheduling of part of its debt. Barring any major political upheaval, the USSR is unlikely to come forward with another large aid package.

### **External Position Improves**

Poland has managed to cut its deficit with the West, mainly by curbing imports. Imports from the West were down 7.6 percent during the first eight months of 1978 (compared with the first eight months of 1977), following a 4.3-percent decline last year. A 5-percent reduction for 1978 as a whole seems likely. Real imports will have fallen considerably more, perhaps by as much as one-fifth for 1977 and 1978 combined, because of the global inflation. Most of the cuts since 1976 have been in machinery and equipment and in metallurgical products, mainly steel. Cuts also have been made in imports of chemicals and light industry products.

Mainly because of continued lackluster Western economic growth, Warsaw is having increasing difficulty in sustaining its export drive in Western markets. After a 12-percent advance achieved during the first quarter, the growth of exports to the West fell below an 8-percent annual rate by the end of August. Some exports have actually dropped, including exports of coke, petroleum products, rolled steel, metal products, rayon and synthetic textiles, and leather footwear. Even so, Poland may still be able to boost exports by 10 percent in 1978—permitting a reduction in the trade deficit with the West to \$1.3 billion; the current account deficit would then drop to \$2 billion, down from the record level of \$3.4 billion in 1976 and the \$2.6 billion of 1977.

### **... But the Debt Service Mounts**

Despite the reduction in the deficit with the West, debt service payments continue to soar. Projected 1978 payments of \$3.2 billion are double payments in 1976 and are equivalent to 60 percent of Polish merchandise exports to the West. In 1976, the ratio was 37 percent. Poland has aggravated its debt service problems by borrowing short to pay long, relying more on shorter term commodity credits and less on longer term machinery credits. Western creditors, especially those in the private sector, are becoming increasingly cautious in lending to Poland. Many Western banks now claim that they will lend to Poland only as old debts are retired.

### **... And the Cost is High**

Cutbacks in imports of raw materials and intermediate products already appear to be contributing to a drop in industrial production. Growth of output fell from 9 percent in 1976 to 8 percent in 1977 and is expected to decline further, to only 6



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percent, in 1978. Growth in the fuels and power, machine-building, and chemical industries has slowed considerably. Output of such products as pesticides, nitrogen fertilizers, polyethelene, cellulose, cotton and synthetic fabrics, leather footwear, trucks, and ships has actually declined.

The Poles have been able to sharply reduce imports of Western machinery and equipment and steel without any immediate adverse impact on industrial growth. The roughly one-fourth cut in imports of machinery and equipment since 1976—although contributing heavily to the drop in industrial investment—should have little adverse impact on near-term economic growth because of unused industrial capacity and the large amount of uninstalled equipment. The recent initiation of production at the Katowice steel combine has added substantially to Poland's steel capacity.

#### **Consumer: Little Relief**

As part of its import-reduction drive, Poland has imported no meat so far this year. To help build up Christmas supplies and ease consumer complaints, however, the regime reportedly is buying beef abroad. But imports will be less of a help than last year, when they accounted for about 6 percent of total supplies; furthermore Warsaw has expanded meat exports—cut back in 1976-77 to bolster domestic supplies—in order to gain hard currency and hold onto hard-won Western markets.

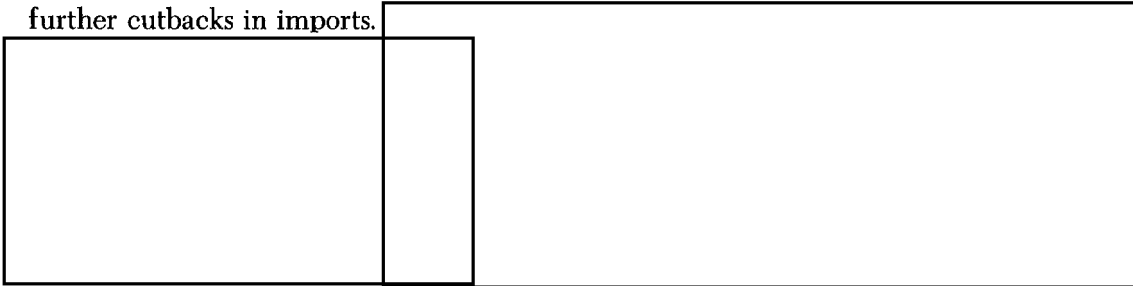
The regime has kept grain imports up in order to maintain its livestock expansion program. Poland imported 7 million tons of grain in marketing year 1977/78 and is expected to import 5 million to 6 million tons in 1978/79. The Poles are seeking \$500 million to \$600 million in new US Commodity Credit Corporation credits to help finance these purchases (\$200 million of these credits have already been extended). Because of large imports of grain and feedstuffs in recent years, livestock herds were largely rebuilt by mid-1978; cattle numbers were only slightly below the June 1975 record of 13.3 million head, and pigs were slightly above the record 21.5 million reached in 1974. Nevertheless, per capital meat consumption still has not topped the 1975 level of about 70 kilograms a year because of population growth and reduction of slaughter to rebuild herds. Meanwhile, money incomes are rising faster than planned, adding to the pressure on meat supplies.

#### **Outlook: Tough Choices Ahead**

In its efforts to ease its hard currency problem, Warsaw apparently intends to tighten its austerity program. This will test its ability to cope with the country's economic problems while minimizing consumer unrest. Despite 1978's improvements in the trade and farm sectors, economic conditions will remain a threat to regime stability.

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Sharp disagreement exists within the Communist Party over Gierek's policy of further cutbacks in imports.



Meanwhile, real imports from the West reportedly are to be trimmed by at least 5 percent in 1979, bringing the total reduction in real imports since 1976 to roughly one-fourth. Warsaw simultaneously will try to expand real exports by 8 to 9 percent, a goal almost certainly doomed to failure, especially given the cuts in imports of raw materials and semifinished manufactures.

Poland's problems will be compounded if the Soviets do not allow the Poles to run a large trade deficit in 1979. Warsaw reportedly is counting on running a \$500 million deficit with the CEMA countries as a group. Meanwhile, the hard currency debt service burden will continue to grow, perhaps consuming as much as four-fifths of merchandise exports to the West in 1979.

Reduced imports of Western machinery and industrial materials and the slowdown in investment will further hobble economic growth. Polish planners forecast an increase in industrial production of about 5 percent in 1979. Although details of next year's plan are still being thrashed out, the "economic maneuver" initiated in 1977—the priority placed on production of export and consumer goods at the expense of investment in heavy industry—is certain to continue. Prospects are particularly gloomy for import-intensive industries like shipbuilding, chemicals, and machine building. Where possible, the planners will shift domestic output of intermediate goods to these industries or try to obtain the necessary inputs from the USSR.

Polish planners anticipate that, while consumer money incomes will continue to rise, real incomes will fall off in 1979 and be held at reduced levels for the next two to four years. The regime apparently intends to continue to raise food and consumer prices, thereby relieving pressure on the state budget. (Some 15 percent of the budget is spent on subsidizing food prices alone.) At the same time, Warsaw will continue to boost production of goods and services for the domestic consumer, partly by encouraging expansion of the private sector in agriculture, services, and retail trade. But Warsaw will have a hard time selling this stepped-up austerity package to a population already demanding more than the government can deliver.

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The Gierk regime may soon have to reconsider its options. A Polish planning official recently stated that his country may require "a political commitment of aid"—in the form of reduced trade barriers and financial credits—from the West in order to avoid import cuts so severe as to result in a disruption of the economy and serious consumer reaction. The Poles are now seeking a large long-term balance-of-payments loan from Western banks for use in 1979. If such a credit is not forthcoming or is not as large as hoped for, Poland may well have to seek rescheduling of part of its debt; this judgment assumes that the Soviet leadership will not come to Poland's aid with large-scale assistance.

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#### TAIWAN: IMPRESSIVE EXPORT GAINS

Working with inexpensive labor, large infusions of foreign capital, and government-supported development programs, Taiwan has entered the big league as an exporter of manufactured goods. It will export more than \$12 billion worth of merchandise this year—85 percent manufactured goods—and capture an impressive 2 percent of developed country import markets for manufactures. Among the less developed countries (LDCs), its foreign sales of manufactures rank second only to South Korea.

Taiwan is gradually moving away from its current big money earners—textiles, clothing, footwear, and electronics—into more capital-intensive, technologically advanced products such as automobiles, petrochemicals, and whole plants. Taipei is pushing hard for development of advanced export industries by giving financial breaks to firms that produce in these areas.

#### Export Performance

Taiwan's export performance over the last decade is the envy of most other LDCs. Foreign sales have grown at a 30-percent average annual rate during the 1970s, from only \$1.4 billion in 1970 to more than \$12 billion this year.

Taiwan's big money earners continue to be items traditionally associated with Asian LDCs such as textiles, clothing, and small electrical products. This year Taiwan will sell about:

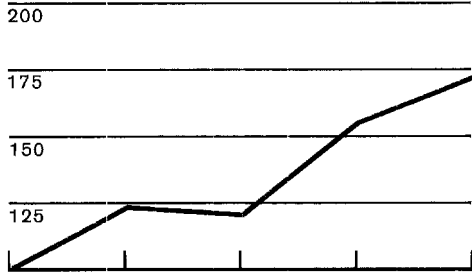
- \$2 billion worth of clothing, up from \$200 million in 1970, mainly synthetic shirts and outerwear.

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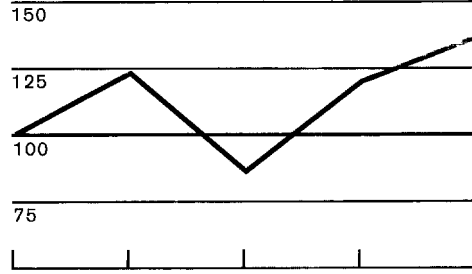
**Taiwan: Commodity Export Trends**

Dollar Value Index: 1973=100

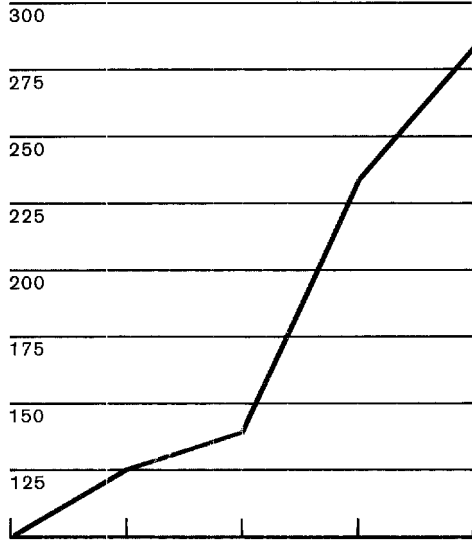
**Clothing**



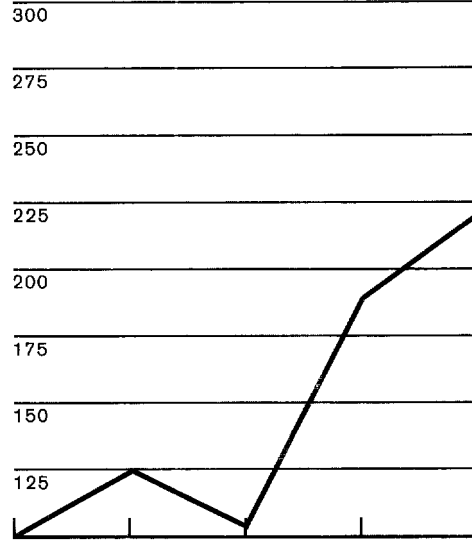
**Televisions, Radios, and Phonographs**



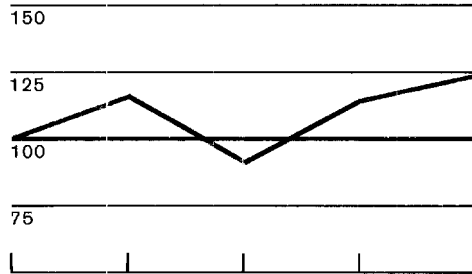
**Footwear**



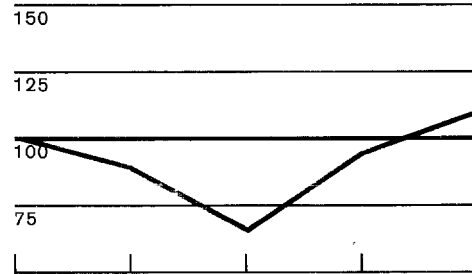
**Electrical Machinery**



**Textiles**



**Wood Manufactures**



1973 74 75 76 77

1973 74 75 76 77

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- \$1 billion in textiles, principally to Hong Kong and the United States.
- \$2 billion in electrical machinery and consumer appliances, including television sets. Most leading US and Japanese producers have been manufacturing electronic equipment in Taiwan for more than a decade.
- \$1 billion worth of footwear, primarily to the developed countries. Because of an orderly marketing agreement with the United States, footwear sales are now concentrated in medium- to higher-priced shoes and boots in contrast to the \$1 to \$2 plastic shoes and clogs which were the industry's mainstay only three years ago.

These four categories currently earn about \$6 billion annually, up from less than \$1 billion in 1970. Most firms in these industries are small, yet are equipped with the most modern machinery. Taiwan's textile industry, for example, uses the most up-to-date spinning and weaving equipment available, purchased mainly in the United States and Japan.

Even more impressive trade gains have come in new product lines such as metal manufactures, office equipment, and machinery.

- Exports of metal manufactures—expected to be \$420 million in 1978—have grown at an average 45 percent annual rate over the last five years, reflecting sharply increased orders from Taiwanese construction firms operating in the booming Middle East market.
- Sales of office machinery (including minicomputers) and consumer electronics now total \$800 million annually, up from only \$100 million five years ago. The increase comes mainly from the burgeoning hand calculator market. Texas Instruments, Hewlett-Packard, and Fairchild Industries all have assembly operations in Taiwan, and Philips recently opened up a plant to produce integrated circuits. Taiwan has also moved heavily into digital watches (70 percent annual export growth since 1970) and scientific hospital equipment.
- Whole plant exports (mainly textile, footwear, and steel rolling plants) grew 40 percent last year in response to strong demand from other Pacific Basin LDCs and should total \$330 million in 1978.

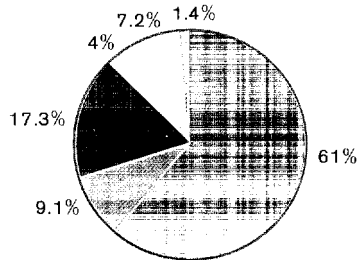
Most of these newer high growth industries operate with technology imported from the United States and Japan and are more capital-intensive than Taiwan's traditional export industries.

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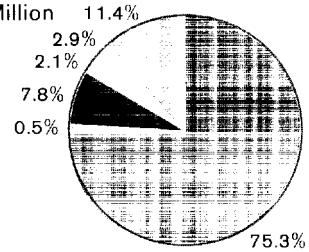
Taiwan: Selected Exports by Destination, 1977

- United States
- Japan
- European Community
- Other Developed
- OPEC
- Non-OPEC LDCs

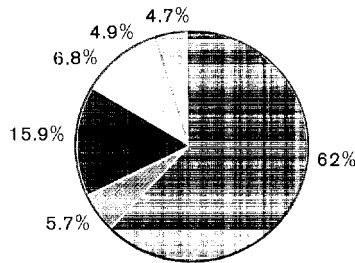
**Clothing**  
US \$ 1,770 Million



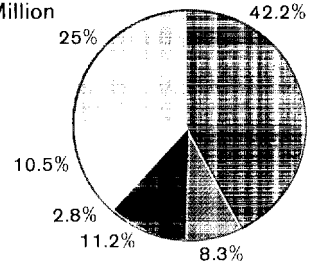
**Televisions, Radios, and Phonographs**  
US \$ 556 Million



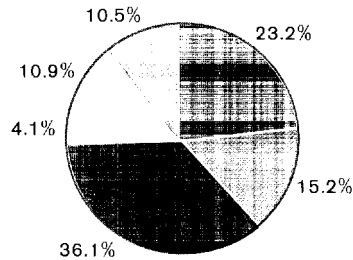
**Footwear**  
US \$ 621 Million



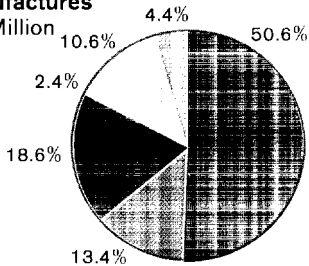
**Electrical Machinery**  
US \$ 770 Million



**Textiles**  
US \$ 310 Million



**Wood Manufactures**  
US \$ 328 Million



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23 November 1978

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19

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### **Market Penetration**

Among the LDCs Taiwan is second only to South Korea in terms of market share in the OECD countries. Taiwan's exports account for 2 percent of OECD imports of manufactures and 20 percent of total LDC exports to the developed countries.

#### *The United States*

Taiwan is the leading LDC supplier in the US market, exporting \$3.5 billion worth of manufactures to this country last year—more than 4 percent of US imports of manufactures. The island holds dominant positions in:

- Footwear—24 percent of the US import market—with a heavy emphasis on the rapidly growing market for sporting gear.
- Clothing—17 percent of the US import market—consisting mainly of casual wear.
- TVs, radios, and CBs—12 percent of the US import market. Taiwan is second only to Japan as an exporter of these items to the United States.

Taiwan will sell nearly 1.5 million color TV sets and chassis in the United States this year. These sales were given a boost by the 1977 accord under which Japan agreed to limit color TV shipments to the United States to 1.75 million annually.

#### *Japan*

With annual imports of about \$600 million, Japan is Taiwan's second largest foreign customer for manufactures. Taiwan supplies nearly 20 percent of Japanese shoe imports and 12 percent of clothing imports. Overall, Taiwan furnishes 4 percent of Japanese manufactured imports. Taiwan has recently scored impressive gains in chemical sales to Japan mainly as a result of Tokyo's decision to export pollution-producing petrochemical operations to countries, such as Taiwan, that are less concerned about the environment.

Japan also relies heavily on Taiwan to supply Western-style furniture, which is rapidly becoming popular with the Japanese. In addition, Japan uses Taiwan as a supplier of components for TVs, radios, and watches. More recently, Taiwan has begun to supply the Japanese market with auto parts.

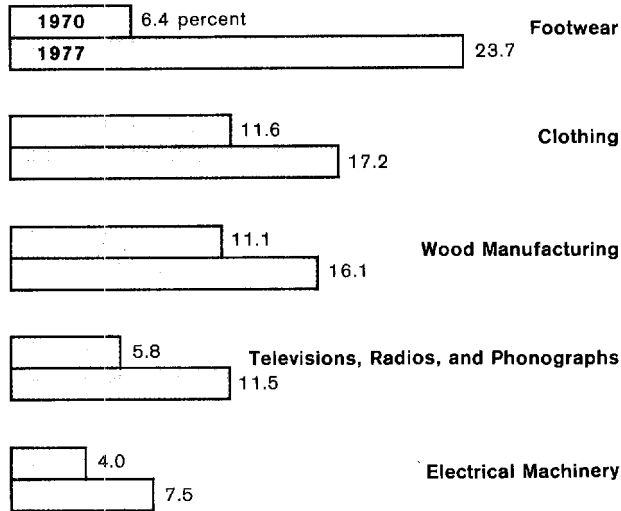
#### *Other OECD*

Taiwan's sales of manufactures to Western Europe and Canada totaled \$1.7 billion in 1977, 18 percent of Taiwan's exports. The island exported \$1.2 billion to the

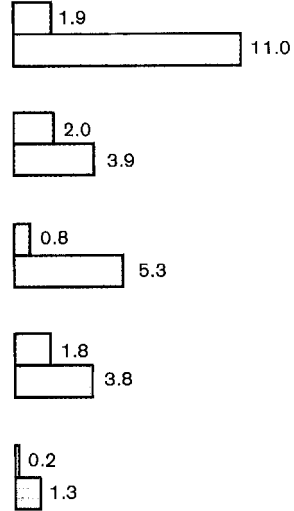
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**Taiwan: Shares of Manufactures Import Markets in Selected Countries**

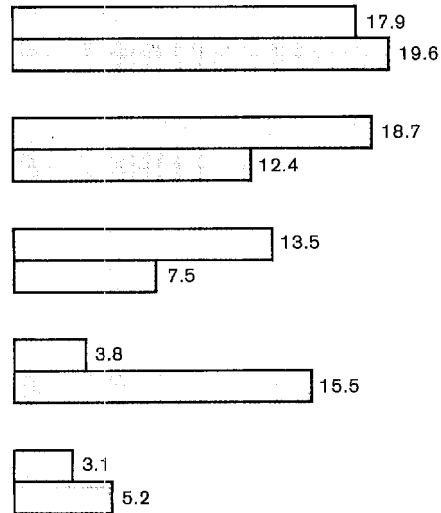
**United States**



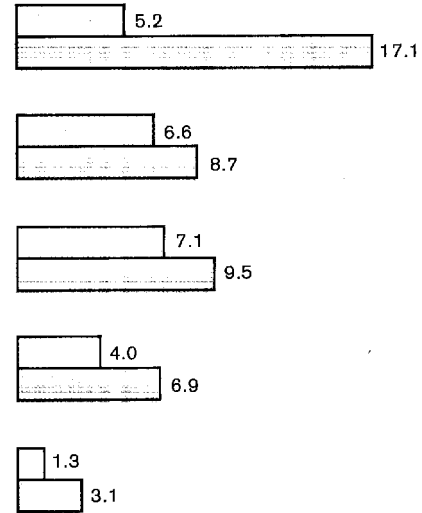
**European Community<sup>1</sup>**



**Japan**



**Major OECD<sup>1, 2</sup>**



<sup>1</sup>Excludes intra-EC Trade.

<sup>2</sup>Includes: The United States, Canada, Japan, The European Community, Sweden, Switzerland, Austria, and Norway.



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EC last year and held a 1.2-percent \* share of EC manufactured imports. West Germany was the biggest customer, buying more than \$500 million in Taiwanese products in 1977, notably footwear, furniture, TVs, radios, and phonographs. Taiwan has about a 3-percent share of the import markets of the United Kingdom and Canada.

### *The Third World*

Taiwan's manufactured exports to LDCs have grown spectacularly, from only \$300 million in 1970 to \$2.1 billion last year. The sales surge has been concentrated mainly in OPEC and the Pacific Basin; exports to Latin America and Africa remain small. Roughly one-fourth of Taiwan's LDC exports go to OPEC countries, where Taiwanese firms are gaining a substantial share of the construction business. Saudi Arabia, for example, purchases about \$100 million annually in steel for construction (reinforcement bars and girders) from Taiwan. Other sizable Third World customers are in the Pacific Basin, partly reflecting the close ties of Taiwanese businessmen with overseas Chinese. The clothing industry in the Crown Colony of Hong Kong, for example, takes one-half of Taiwan's synthetic textile output. Taiwan has also been active in selling whole plants to its Basin neighbors; an agreement to supply a steel-rolling mill has just been inked with Indonesia.

### *Competitive Factors*

Several factors lie behind Taiwan's ability to make such rapid industrial gains and such striking inroads in foreign markets. The country possesses an industrious, strongly motivated labor force. Secondly, the government has promoted rapid export growth, particularly by encouraging the timely expansion of key export industries. Thirdly, this favorable environment has led to large-scale investment by foreign firms in modern production facilities.

### *Efficient Labor Force*

Taiwan has an excellent labor base to attract foreign investment and foster industrial growth. After the Communists came to power in Peking, a sizable number of educated and industrious Chinese came to Taiwan from the mainland. Like other overseas Chinese, the workers are energetic, well-disciplined, and highly motivated toward material gains. Nearly one-half of the labor force has at least nine years of formal education; the literacy rate for the adult population is 91 percent. One out of five workers has an advanced vocational or college education.

\* Taiwan's market share in EC countries decreases considerably when intra-EC trade is taken into account, dropping from 1.2 percent to 0.5 percent for all manufactured goods exports. Taipei's share of footwear exports to West Germany, for instance, drops from 12 percent to less than 4 percent when intra-EC trade is included.

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Furthermore, the labor force has not pushed for excessive wage gains and has allowed Taipei to give investment priority over immediate consumer spending. Nominal wages have risen at an average annual rate of 7 percent over the last seven years while productivity growth in manufacturing has increased by about to percent a year. As a result, unit labor costs have risen by only 10 percent since 1970. Strike activity is nil and labor unions are practically unknown.

*Supportive Government*

The government in Taipei has made the most of Taiwan's underlying economic strengths. It generally allows wide freedom of action to industrial and commercial enterprises while encouraging and subsidizing development and exports in certain target areas.

Taipei's exchange rate policy has been geared to maintaining export competitiveness. Until recently, Taiwan has kept its currency firmly pegged to the US dollar. Despite rapid improvement in domestic unit labor costs, the Taiwan dollar has appreciated only 11 percent against the US dollar since 1970. Measured in US dollar terms, Taiwan's hourly wages stood at only 65 cents last year—roughly on a competitive par with Singapore and South Korea. Although the appreciation of the yen and the resulting increase in the cost of imports from Japan (30 percent of total imports) has boosted the domestic inflation rate by 2 percentage points this year, Taiwan has accepted this inflation rather than further appreciating its dollar and losing export competitiveness.

Selected Countries: Average Hourly Earnings in Manufacturing

	Taiwan	South Korea	Singapore	Hong Kong	Japan	US \$
1970.....	0.21	0.20	0.29	0.34	0.93	3.36
1971.....	0.24	0.21	0.30	0.39	1.11	2.57
1972.....	0.25	0.22	0.35	0.46	1.48	3.81
1973.....	0.29	0.25	0.44	0.57	1.99	4.08
1974.....	0.41	0.28	0.52	0.61	2.43	4.41
1975.....	0.48	0.35	0.62	0.61	2.83	4.81
1976.....	0.56	0.48	0.62	0.77	3.10	5.19
1977.....	0.65	0.64	0.66	0.77	3.76	5.63

The government gives financial breaks and other aids to export-oriented firms. It has:

- Created tax- and duty-free export processing zones to encourage investment in the assembly of electronic products, garments, and plastic products for export. Sixty percent of foreign investment funds have flowed into

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Taiwan's three processing zones; 10 percent of total exports originate in the zones.

- Exempted from duties all raw materials imported for the manufacture of export goods.
- Established an Export-Import Bank this month with an initial capitalization of \$2.6 billion.
- Allowed firms to deduct 2 percent of export profits from taxable income.
- Granted a 10-percent reduction in business taxes for manufacturing, mining, and handicraft corporations that export more than one-half their output; exempted exporters from stamp taxes.
- Provided low interest loans for raw materials imports destined for re-export.

Taipei also plays an equity role in firms and industries judged important to the country's export growth, such as petrochemicals, steel, shipbuilding, and electronics. During the current slowdown in the world shipbuilding market, the government bailed out the industry by pouring \$200 million into a joint public-private shipyard project and took over failing firms to form the publicly owned China Shipbuilding Corporation. Taipei also funnels funds into research facilities such as the Electronics Industry Research Center to develop integrated circuits and the Industrial Technology Research Institute to develop precision machinery.

*Key Foreign Investment*

Foreign firms play a key role in export-oriented industries, accounting for about 30 percent of manufactured export earnings. Foreign direct investment in Taiwan totals \$1.5 billion, with an annual average inflow of \$150 million. In the manufacturing sector, more than 18 percent of total output is produced by foreign-controlled firms; the heaviest concentration is in the electronics, footwear, and auto parts industries. In the electronics industry, 18 of the 20 television receiver producers are foreign owned; US firms control about one-half of TV output. All major US and Japanese auto firms operate assembly or parts plants in Taiwan.

**Looking Ahead**

Taipei is targeting a 20-percent rate of real export growth through 1982 and is taking several steps to meet that goal. To keep the ball rolling on foreign investment in

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Taiwan: Selected Foreign Direct Investment

Automotive	
General Motors .....	Trucks, vans
Ford .....	Passenger cars
Nissan .....	Trucks, truck chassis
Honda .....	Passenger cars
Subaru .....	Vans, small trucks
Goodyear .....	Tires
Electronics	
Zenith .....	TVs and components
Philips .....	Color TV picture tubes
Hitachi .....	TVs, stereos, radios
Sony .....	TVs, stereos, radios
RCA .....	TVs and components
GTE .....	Electronics
Matsushita .....	Electronics
Olympic .....	TV receivers
Tandy .....	Stereos
Petrochemicals	
Amoco .....	Petrochemicals
Union Carbide .....	Petrochemicals
Processing	
Nestle .....	Food processing

Taiwan, the government recently put together a new package of incentives including measures that (a) allow an additional one- to three-year grace period on taxes; (b) exempt from taxes income used for investment in machinery and equipment; (c) allow an annual repatriation of 15 percent of invested capital beginning two years after startup of a facility (a liberal repatriation allowance for an LDC); and (d) permit companies to fully remit profits and interest earnings.

To overcome possible labor shortages, Taipei is directing future growth toward more capital-intensive industries. High on the list are automobiles and parts, whole plants, farm machinery, chemical and petrochemical products, machine tools, and advanced electronic goods. To foster growth in these industries, the government is taking a variety of actions:

- Taiwan (which now plays host to auto assembly operations) is looking to the expanded production of auto parts as the forerunner of a full-fledged auto industry. The government is offering tax breaks and subsidies to attract automotive investment.
- In petrochemicals, the government has built several naphtha crackers to produce resins and is subsidizing the cost of oil used as feeder stock in petrochemical facilities. This subsidy gives Taiwanese industry a substantial

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leg up on Japanese competitors. In addition, the government has reorganized the plastics industry to form the vertically integrated Formosa Plastics Corporation and has placed a heavy tax on resins destined for domestic use.

• In the electronics industry, Taipei uses the Electronics Industry Research Center to promote development of integrated circuits and advanced electronics equipment.

• The government is also giving its blessing to the establishment of Taiwan's first large trading company patterned after the Japanese model. The Pan Overseas Corporation, which includes 40 local and overseas firms, opened for business early this month. It will provide overseas outlets for member firms and establish a global market information network. The organizers hope to form tie-ins with large foreign department stores to provide ready marketing outlets for member firms.



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Notes

Chinese Population Passes One Billion

Recent statements from Peking suggest the leadership recognizes that China's population has passed the one billion mark, lending support to the US Government's population series for the PRC—which presents an estimate of 1,004 million for mid-1978:

• Vice-Premier Teng Hsiao-p'ing, [redacted] stated that "China possesses [redacted]"

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China: Estimated and Projected Population <sup>1</sup>

						Million Persons <sup>2</sup>
1949	537.9	1962	707.0	1975	943.0	
1950	547.4	1963	721.8	1976	962.3	
1951	558.1	1964	737.5	1977	982.5	
1952	569.9	1965	754.0	1978	1,003.9	
1953	582.6	1966	771.1	1979	1,023.6	
1954	596.0	1967	788.7	1980	1,042.0	
1955	610.2	1968	807.3	1981	1,059.3	
1956	625.1	1969	826.6	1982	1,075.7	
1957	640.2	1970	846.6	1983	1,091.6	
1958	655.2	1971	866.7	1984	1,106.9	
1959	669.7	1972	886.4	1985	1,122.0	
1960	683.1	1973	905.7	1990	1,198.3	
1961	694.6	1974	924.4	2000	1,379.6	



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nothing apart from one thousand million Chinese and natural resources that have to be exploited." (By contrast, the Chinese press is continuing to use rounded figures of 8 hundred million or 9 hundred million.)

- Another indication that the Chinese Government is, in fact, using a figure of 1 billion came obliquely in a July 1978 speech by Hu Ch'iao-mu, president of the Chinese Academy of Social Sciences. Hu stated that "the average per capita grain distribution in 1977 only matched that of 1955." Given Chinese claims for grain output and the estimated level of grain imports, this statement implies that the population figure used in Hu's calculations was in the neighborhood of 1 billion.
- A recent *Peking Review* article offered statistics on the number of primary school-age children in China; these data are 4 percent *above* the comparable figure in the US Government series that gives the billion total for mid-1978.

According to Tung Chih-wen, secretary of the Hunan Provincial Party Committee, speaking at a provincial meeting on planned parenthood this month, the national 10-year economic plan (1976-85), approved at the Fifth National People's Congress, "stipulates that the nationwide natural population growth be reduced to nine per thousand by 1985." This may be compared with Chairman Hua Kuo-feng's statement at the same Congress last February that China should "strive to lower the annual rate of growth . . . to less than one percent within three years." Either goal is significantly more optimistic than the current US Government estimate that the rate of growth will only decline to 13 per thousand by 1985.

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### Major Developed Countries Show Mixed Third Quarter Trends

Based on data in the *EIWR Indicators* databank, the third quarter evidenced the following trends for the seven largest industrial countries:

- Industrial production in the Big Six countries generally leveled off in the quarter. Among individual countries, West Germany recorded a fairly strong growth in its industrial sector; however, much of this growth was due to a sharp upswing in July. Japan, Britain, and Canada posted slight increases in output, France a slight decline, and Italy a substantial drop.
- Inflation heated up throughout the Big Six except in Canada where a slight improvement in the high inflation rate occurred. Japan, after seeing its inflation rate drop to under 1 percent (annual rate) in the first quarter, experienced a near 8-percent rate in the third quarter. For the entire Big Six,

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Major Developed Countries: Recent Economic Trends <sup>1</sup>

	1977				1978		
	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Index: 1970=100							
<b>Industrial Production</b>							
United States .....	123.9	127.1	128.4	129.2	129.5	133.6	136.3
Big Six .....	124.0	122.3	121.6	122.5	124.5	125.7	126.0 <sup>2</sup>
Japan .....	129.1	128.9	128.7	130.1	134.0	136.4	137.3
West Germany ....	117.0	115.7	116.0	117.3	117.0	116.3	118.7 <sup>2</sup>
France .....	128.3	125.3	125.3	123.7	126.3	127.7	127.3
United Kingdom ..	105.5	103.0	104.0	103.4	102.8	104.2	104.8 <sup>2</sup>
Italy .....	131.9	125.5	115.9	120.4	125.3	126.1	118.7
Canada .....	131.9	132.1	133.0	134.8	135.7	137.5	138.6 <sup>2</sup>
Percent Change From Previous Quarter at Annual Rate							
<b>Consumer prices</b>							
United States .....	8.3	8.7	5.3	4.4	7.9	10.7	9.1
Big Six .....	10.4	9.9	8.1	5.6	4.6	7.2	8.9
Japan .....	7.8	8.9	6.1	2.1	5	6.1	7.6
West Germany ....	5.3	3.8	3.6	2.0	2.9	2.2	2.5
France .....	6.4	12.3	10.3	7.9	6.4	11.5	11.6
United Kingdom ..	21.1	12.4	11.6	7.7	6.4	5.2	12.2
Italy .....	20.8	16.4	14.5	11.5	11.1	12.4	13.5
Canada .....	9.9	9.5	7.2	10.0	8.6	9.8	8.7
Thousand Persons							
<b>Unemployment</b>							
United States .....	7,161.3	6,889.0	6,736.0	6,553.7	6,154.7	5,962.0	6,054.3
Big Six .....	6,642.0	6,923.0	7,297.0	7,133.1	7,037.4	7,237.1	7,495.5
Japan .....	1,026.7	1,116.7	1,150.0	1,133.3	1,156.7	1,266.7	1,276.7
West Germany ....	1,012.0	1,036.0	1,042.7	1,026.7	1,008.3	991.0	991.3
France .....	996.8	1,069.2	1,148.7	1,073.0	1,054.7	1,141.4	1,251.0
United Kingdom ..	1,330.2	1,330.5	1,417.0	1,427.8	1,409.4	1,372.7	1,380.5
Italy .....	1,450.0	1,518.7	1,660.7	1,572.0	1,498.3	1,522.7	1,658.0 <sup>2,3</sup>
Canada .....	826.3	852.0	878.0	900.3	910.0	942.7	938.0
Billion US \$ at Annual Rate							
<b>Balance of trade</b>							
United States .....	-23.0	-23.1	-25.7	-34.4	-38.7	-26.8	-25.2
Big Six .....	22.5	31.6	42.9	49.8	52.1	62.0	58.6
Japan .....	15.6	16.4	17.5	19.1	29.5	27.5	26.7
West Germany ....	17.9	22.3	21.4	24.5	20.5	27.4	28.4
France .....	-4.4	-2.9	-2.1	0.4	-0.5	1.1	1.0
United Kingdom ..	-6.6	-4.9	-0.2	0.3	-4.5	-1.0	-2.2
Italy .....	-2.7	0.3	4.0	1.9	2.0	5.7	2.7
Canada .....	2.6	0.4	2.2	3.1	5.2	1.3	2.0

SECRET

Index: 1970=100<sup>4</sup>

Export Volume

United States .....	147.3	149.0	152.6	145.5	145.8	162.8	167.4 <sup>5</sup>
Big Six.....	166.5	168.3	169.3	172.5	174.0	177.4	175.7 <sup>5</sup>
Japan .....	224.9	220.9	223.1	218.0	239.4	211.9	210.0
West Germany ....	156.7	159.3	160.4	165.7	161.2	171.2	168.7 <sup>5</sup>
France .....	165.8	166.4	170.3	177.0	177.6	178.6	183.3 <sup>6</sup>
United Kingdom ..	137.2	145.0	148.9	141.1	143.0	144.9	147.6
Italy .....	156.0	164.1	158.1	174.0	154.4	179.4	165.8 <sup>5</sup>
Canada .....	139.5	136.4	136.9	137.3	148.6	149.3	147.1 <sup>5</sup>

Index: 1970=100<sup>4</sup>

Import Volume

United States .....	151.2	150.8	154.0	157.4	159.6	161.4	166.7 <sup>5</sup>
Big Six.....	147.6	145.1	143.9	147.7	149.3	152.7	154.3 <sup>5</sup>
Japan .....	156.6	152.6	156.2	157.8	157.5	159.2	166.3
West Germany ....	160.5	155.3	159.4	166.5	168.8	173.4	166.9 <sup>5</sup>
France .....	167.6	163.1	167.0	169.1	171.9	173.3	179.6 <sup>6</sup>
United Kingdom ..	125.0	127.0	122.3	117.8	131.6	126.2	131.2
Italy .....	122.9	121.0	107.5	126.0	111.0	121.2	120.8 <sup>5</sup>
Canada .....	164.1	167.1	159.3	153.3	157.0	172.1	167.8 <sup>5</sup>

Index: 1970=100

Export prices in  
US dollars

United States .....	189.2	192.2	191.1	192.4	198.4	204.5	211.1 <sup>2</sup>
Big Six.....	197.3	200.9	206.9	213.0	223.1	227.4	239.6 <sup>2</sup>
Japan .....	179.9	185.3	189.9	200.9	206.2	232.6	246.4
West Germany ....	208.4	210.7	215.6	224.6	237.1	236.6	246.2 <sup>2</sup>
France .....	206.5	208.4	215.4	218.9	227.7	236.7	249.0 <sup>7</sup>
United Kingdom ..	196.1	201.3	208.6	222.8	240.0	234.4	252.3
Italy .....	200.8	206.4	214.4	212.8	223.4	225.0	238.8 <sup>2</sup>
Canada .....	188.3	187.3	190.3	185.0	188.9	187.7	193.6 <sup>2</sup>

Index: 1970=100

Export prices in  
national currency

United States .....	189.2	192.2	191.1	192.4	198.4	204.5	211.1 <sup>2</sup>
Big Six.....	186.3	188.3	191.5	191.8	193.7	196.7	197.7 <sup>2</sup>
Japan .....	142.7	141.7	140.4	137.9	136.1	142.7	132.0
West Germany ....	136.4	135.9	135.9	136.5	134.5	134.3	135.1 <sup>2</sup>
France .....	185.0	185.8	189.6	190.6	194.6	196.3	196.5 <sup>7</sup>
United Kingdom ..	274.7	281.1	288.6	294.7	298.6	306.9	313.6
Italy .....	283.4	292.6	302.8	299.0	308.3	310.2	318.8 <sup>2</sup>
Canada .....	185.1	188.1	194.4	194.6	200.7	201.8	211.4 <sup>2</sup>

<sup>1</sup> Based on series contained in *EIWR Indicators*; all series except export price series are seasonally adjusted.

<sup>2</sup> Estimate for September.

<sup>3</sup> Not seasonally adjusted.

<sup>4</sup> Derived from trade value, national currency base trade price, and exchange rate series.

<sup>5</sup> Estimate for September value of price series.

<sup>6</sup> Estimate for third quarter value of price series.

<sup>7</sup> Estimate for quarter.



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The third quarter composite inflation rate was 8.9 percent, compared with a 4.6 percent first quarter rate.

- Unemployment continued to climb slightly in the Big Six, reaching a total of 7.5 million persons, 0.9 million above the level recorded at the beginning of 1977. On an individual country basis, all of the Big Six experienced worsened or unchanged unemployment except Canada and, even there, most observers believe the slight improvement was a temporary phenomenon.
- The combined trade surplus of the Big Six fell for the first time in eight quarters, still remaining above a \$58 billion annual rate. Japan's surplus declined for the second quarter in a row, but the West German surplus, after jumping sharply in the second quarter, rose again. Italy's surplus showed the most marked decline.
- Trade volume trends probably reflected a response to shifts in relative competitiveness as a result of past exchange rate movements. Japan's export volume, for example, declined for the second consecutive quarter, and the overall average for the Big Six was down. In contrast, US export volume posted its second consecutive quarter of strong growth. On the import side, Japan's volume moved strongly upward as did Britain's. On the other hand, West German import volume is estimated to have fallen from the second quarter level.
- Export price trends show that realignment of relative competitive positions has occurred, especially for the United States vis-a-vis the other countries. A comparison of the US export price index to the average of Big Six export prices expressed in US dollars shows average Big Six dollar export prices standing 14 percent above US export prices in the third quarter, with both indexes based on 1970 = 100. In contrast, in second quarter 1976, the Big Six index was less than 1 percent above the US index. Both Japan's and West Germany's export prices in dollars were 17 percent above US export prices; West German prices were only 4 percent higher in mid-1976 and Japanese prices 7 percent lower. These marked swings in relative competitiveness mainly reflect exchange rate movements; in national currency terms, US prices have continued to climb faster than the Big Six average.

25X1

SECRET

### East German Economy Aided by Accords With FRG

The new series of economic agreements between the two German states will boost transfer payments to East Germany by 60 percent, substantially reducing the current account deficit with West Germany and preventing cutbacks in sorely needed imports from the Federal Republic. Beginning in 1980, these payments—which consist mainly of transit fees and payments for construction services—should provide East Germany with an annual hard currency inflow of about \$400 million, equivalent to 18 percent of hard currency imports from West Germany. Other direct West German payments to the GDR should bring in at least another \$200 million annually over the life of the agreement.

During first half 1978, the East German trade deficit with the Federal Republic totaled almost \$200 million, largely because of a continued rise in imports in the face of a leveling off in exports. The poor quality of East German products and increasing GDR export commitments to CEMA trading partners have been holding back exports to West Germany, heightening the importance of future West German transfer payments in maintaining a reasonable balance in inter-German trade

25X1  
25X1



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**National  
Foreign  
Assessment  
Center**

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# **Economic Indicators Weekly Review**

24 November 1978

*ER EI 78-047  
24 November 1978*

Approved For Release 2005/07/12 : CIA-RDP80T00702A001000010001-8

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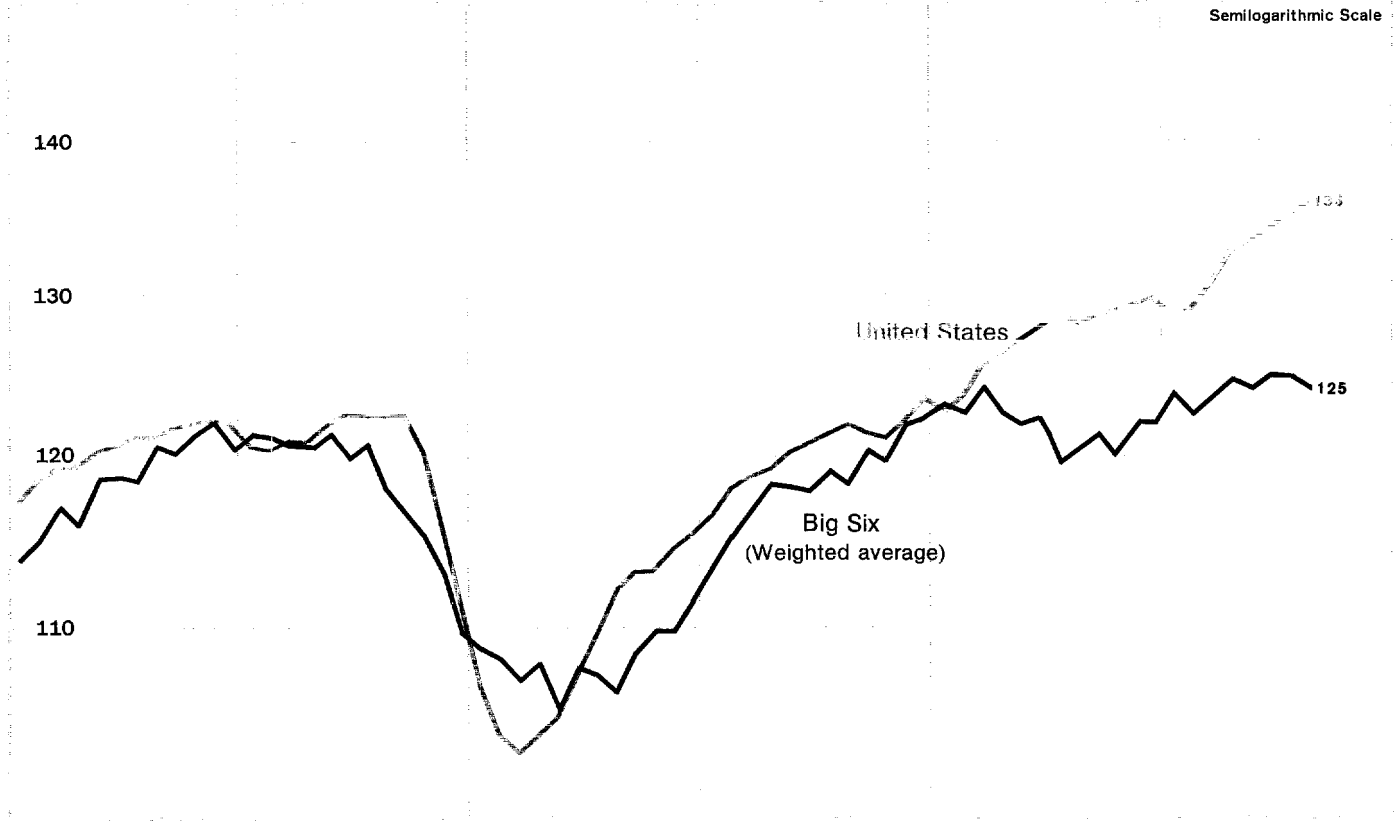
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# BIG SIX FOREIGN COUNTRIES COMPOSITE INDICATORS

## Industrial Production

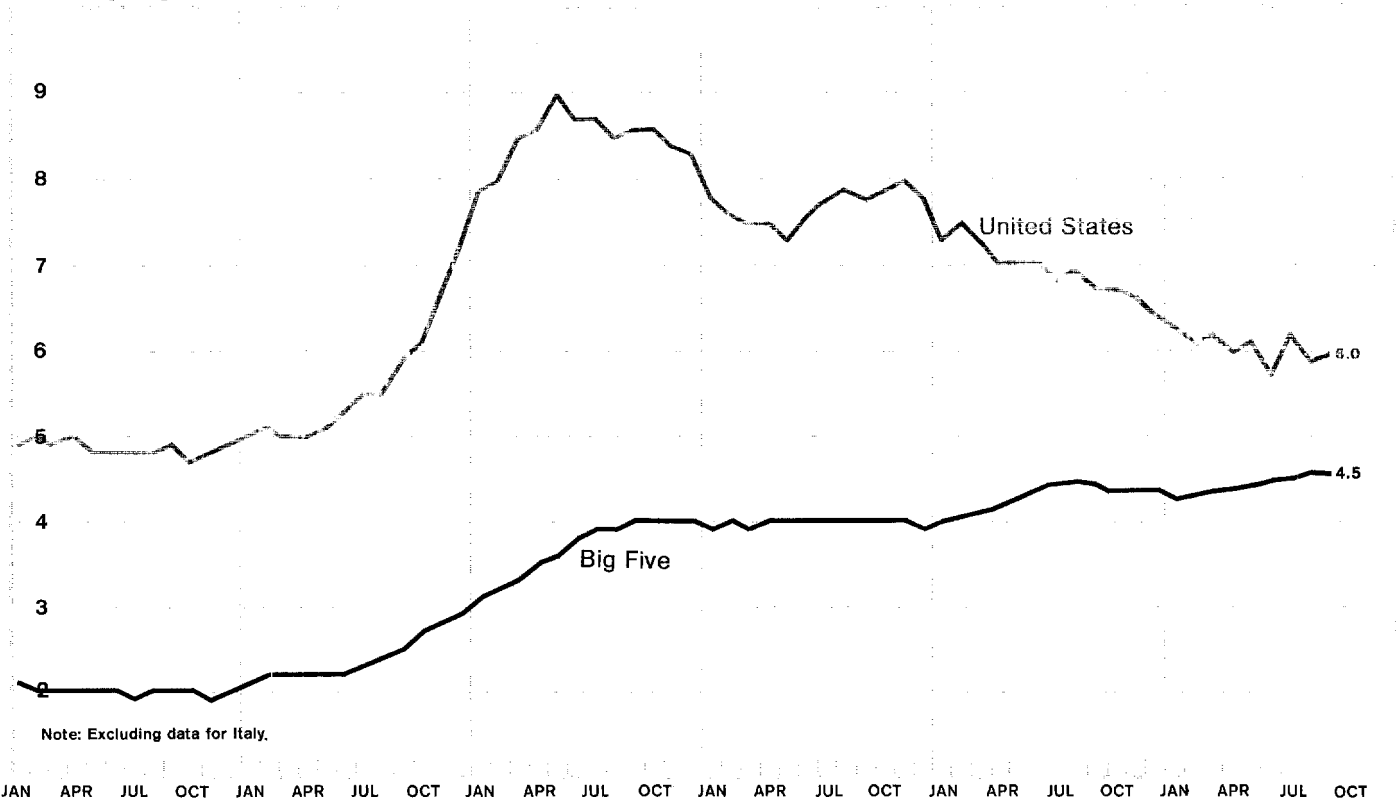
INDEX: 1970=100, seasonally adjusted

Semilogarithmic Scale



## Unemployment Rate

Percent

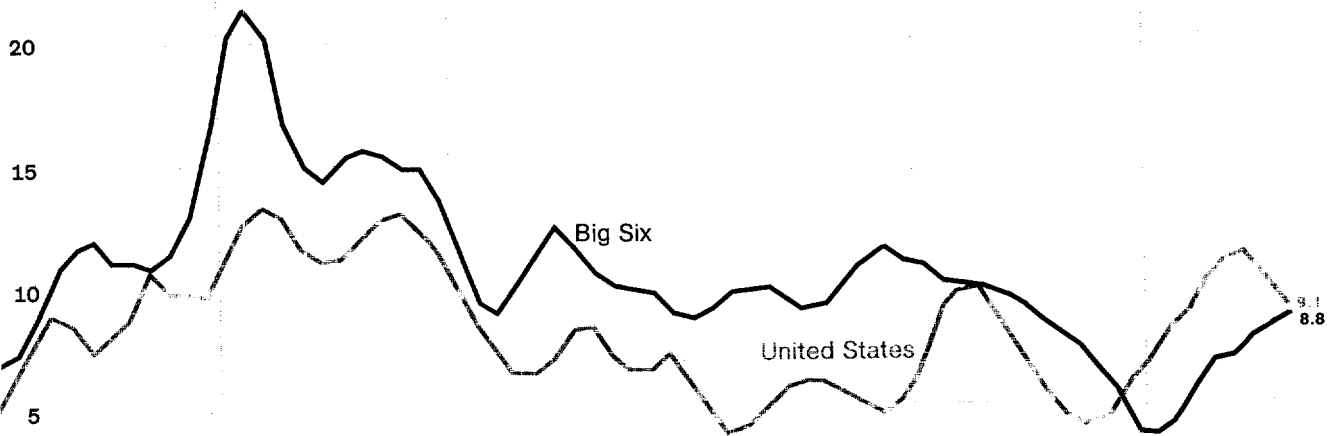


Note: Excluding data for Italy.

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

**Consumer Price Inflation**

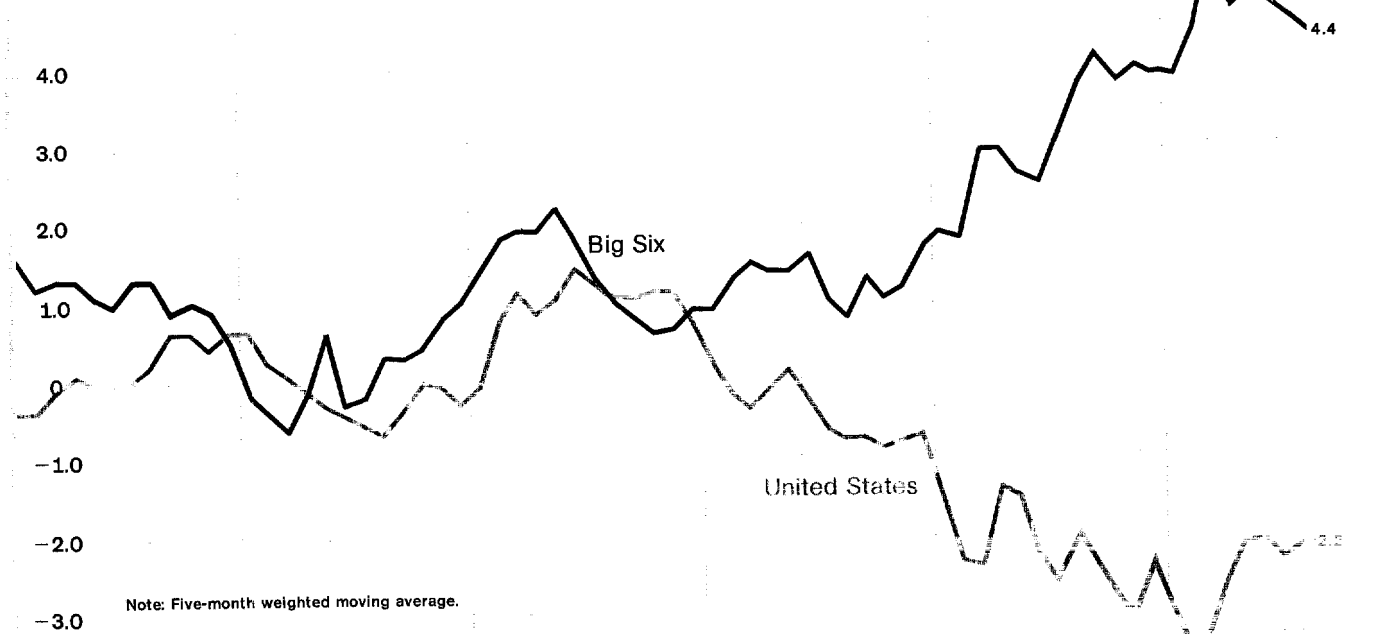
Percent, seasonally adjusted, annual rate



Note: Three-month average compared with previous three months.

**Trade Balance**

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



Note: Five-month weighted moving average.

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			Unemployment Rate					
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>	Big Five	Big Six	United States	United States		
						LATEST MONTH	1 Year Earlier	3 Months Earlier			
<b>Industrial Production</b>						SEP 78	4.5	4.4	4.5		
Big Six	AUG 78	-0.5	2.8	3.1	1.5	SEP 78	8.0	6.8	5.7		
United States	AUG 78	0.6	3.9	6.4	9.7						
<b>Consumer Prices</b>						<b>Trade Balance</b>					
Big Six	SEP 78	0.3	9.2	6.3	8.8	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)			
United States	SEP 78	0.8	6.8	8.3	9.1	Big Six	AUG 78	5,581	36,973	20,145	16,828
						United States	AUG 78	-1,621	-20,976	-16,050	-4,926

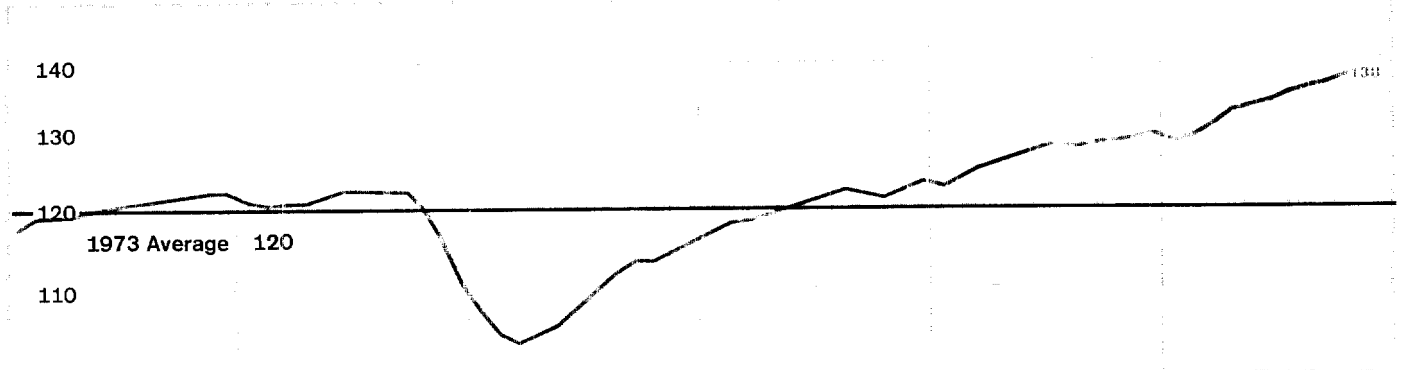
<sup>2</sup>Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.



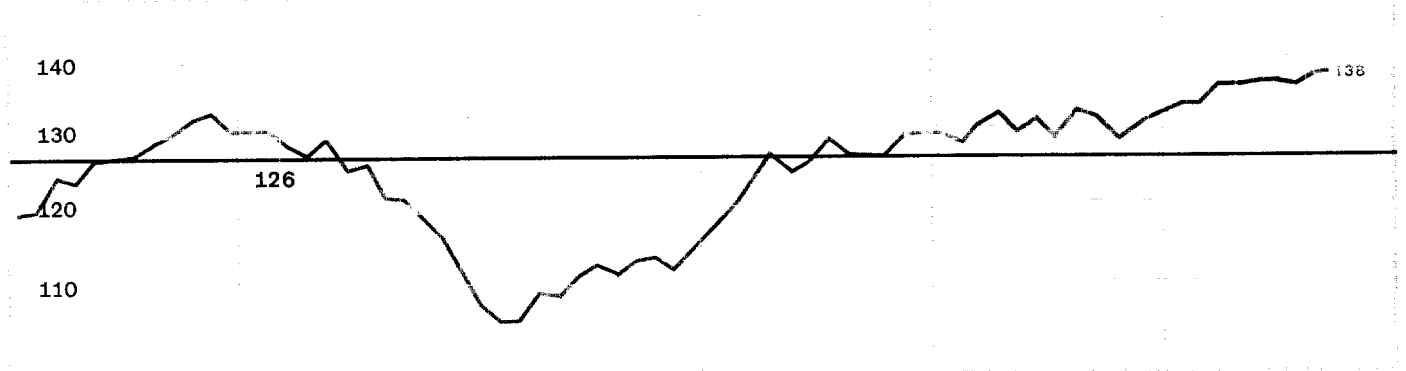
# INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted

## United States

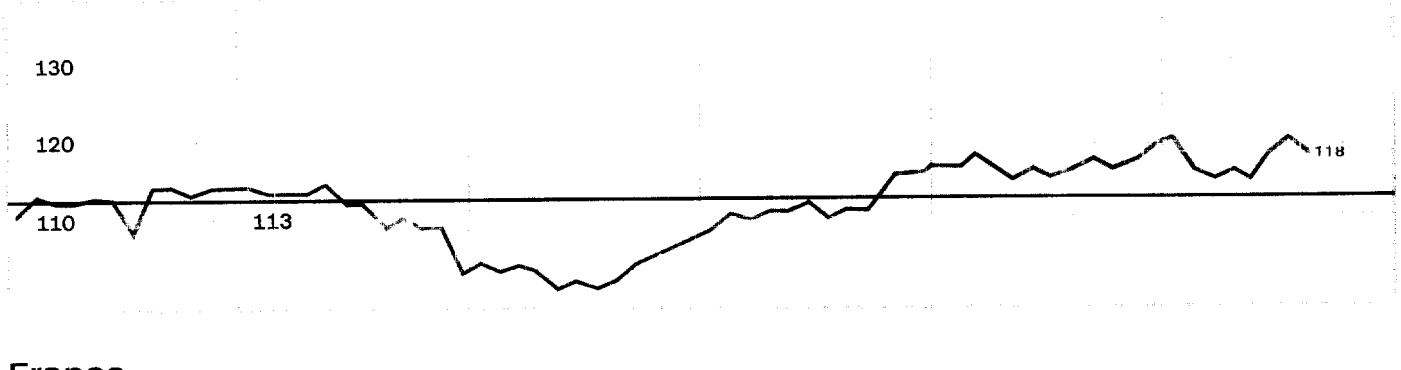
Semilogarithmic Scale



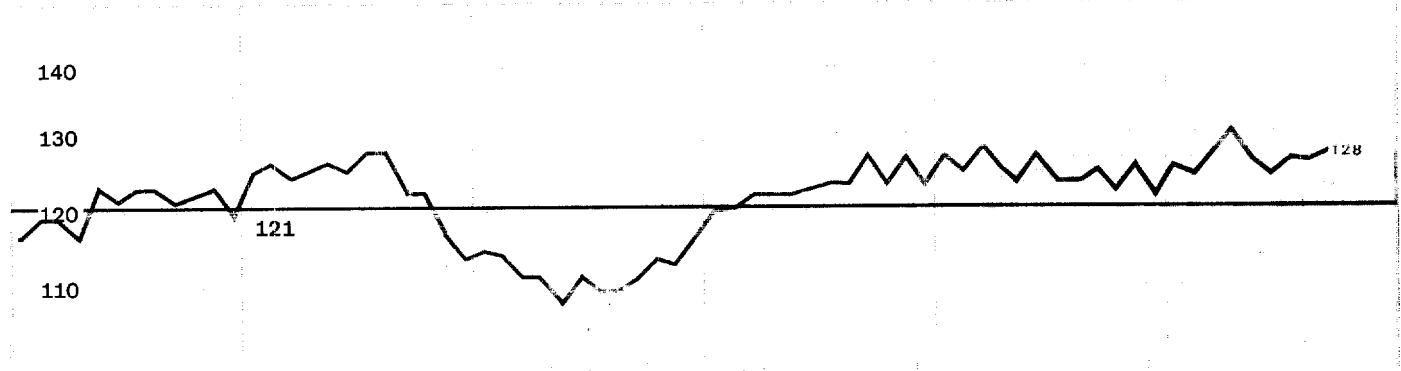
## Japan



## West Germany

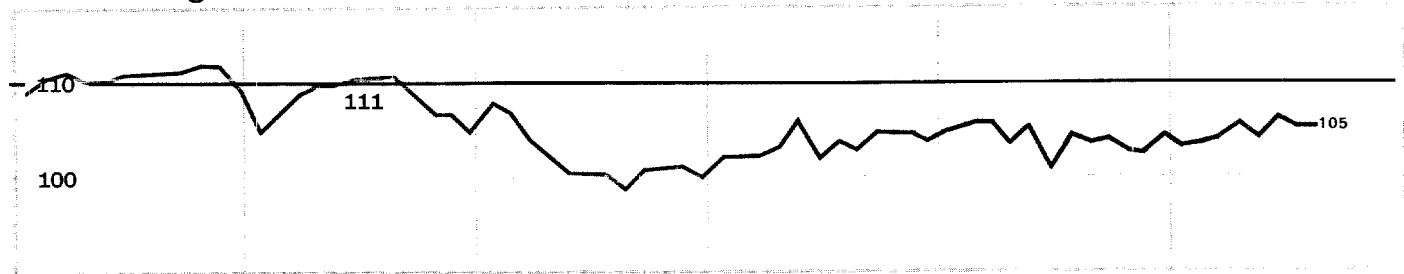


## France

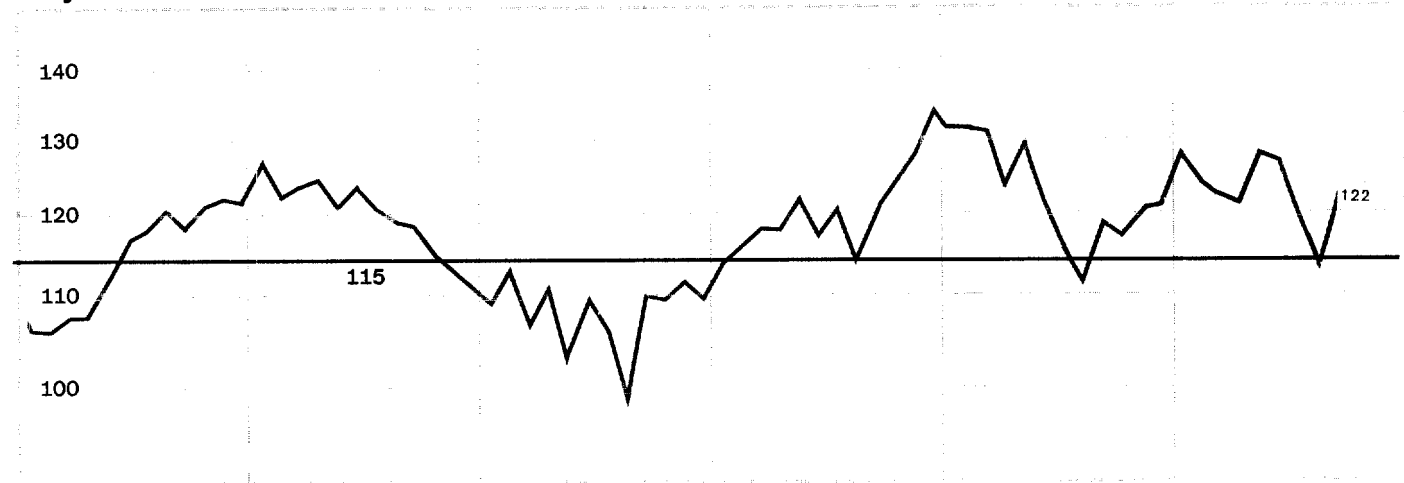


**United Kingdom**

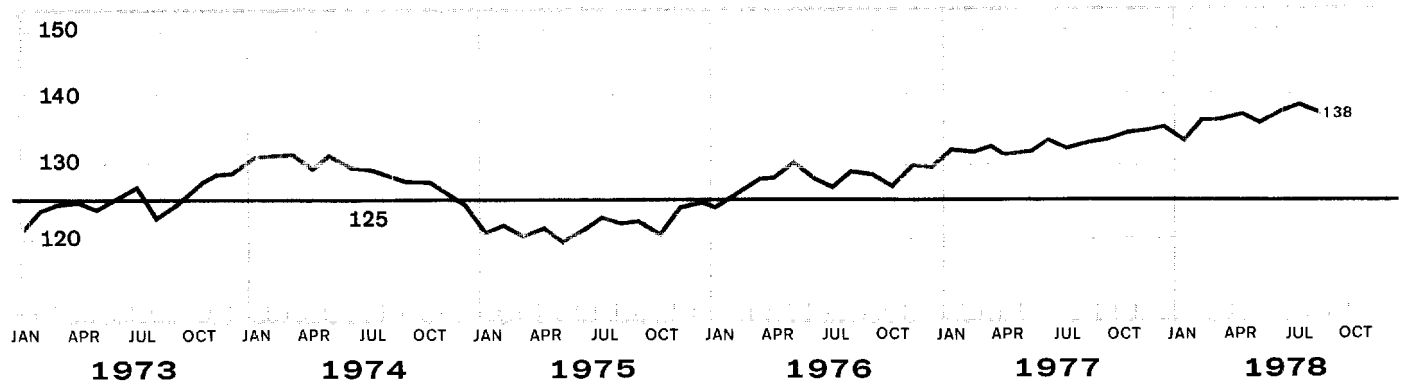
Semilogarithmic Scale



**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>1</sup>			1970	1 Year Earlier	3 Months Earlier <sup>1</sup>	
United States	OCT 78	0.5	3.9	6.8	7.8	United Kingdom	AUG 78	0.9	0.6	1.2	5.0
Japan	SEP 78	0.6	4.0	6.8	2.6	Italy	SEP 78	6.8	2.4	1.9	-21.4
West Germany	AUG 78	-1.7	2.1	1.7	12.1	Canada	AUG 78	-0.8	4.1	3.8	3.6
France	SEP 78	0.8	3.1	1.6	-1.0						

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

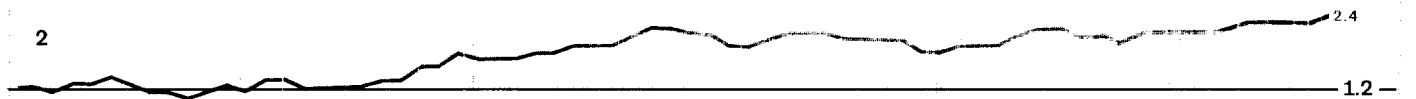
# UNEMPLOYMENT RATE

PERCENT

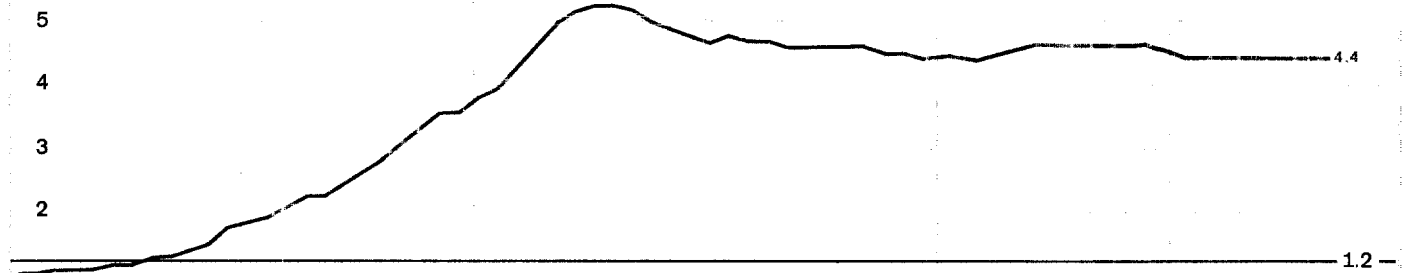
## United States



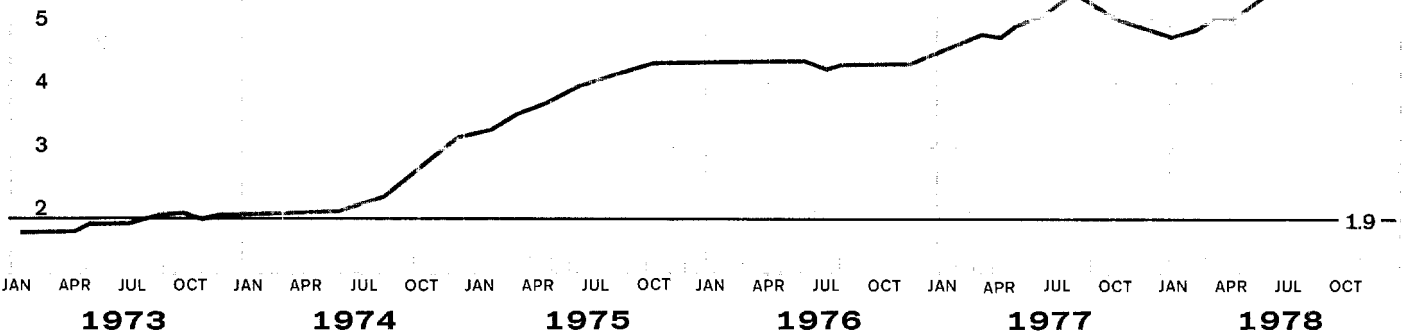
## Japan



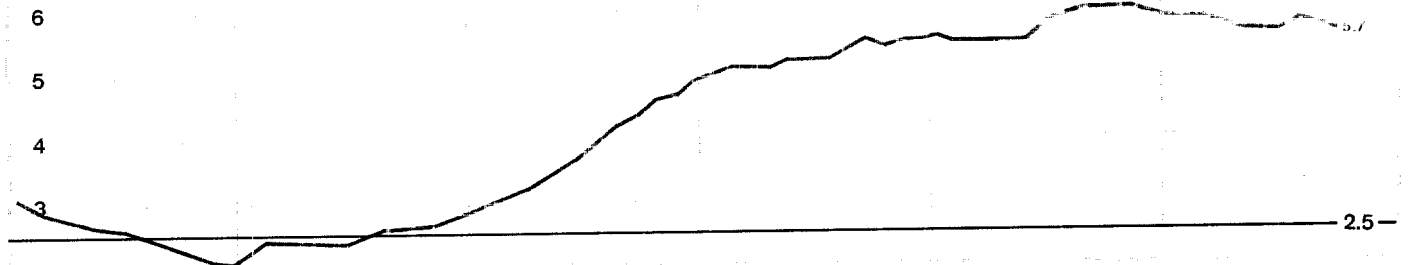
## West Germany



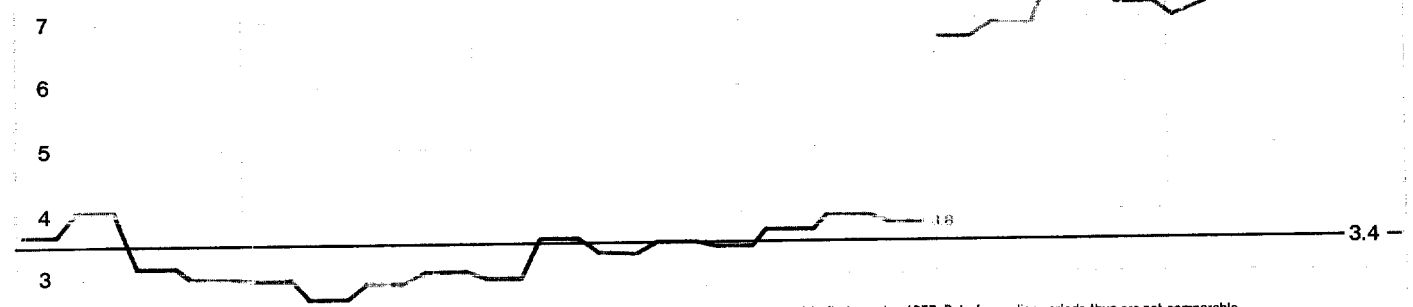
## France



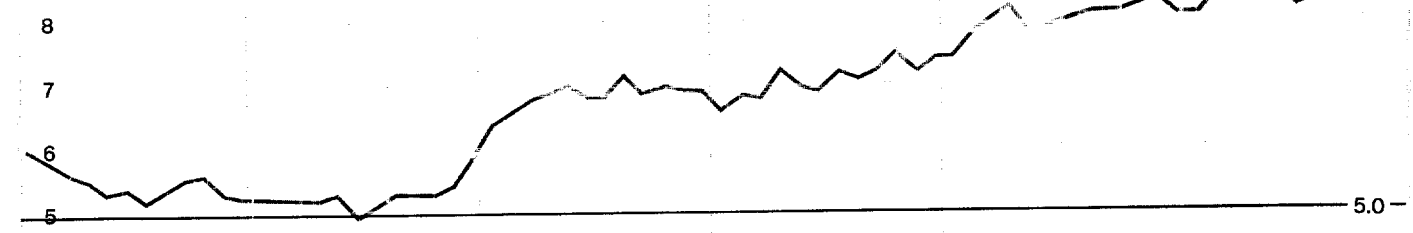
**United Kingdom**



**Italy (quarterly)**



**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

**THOUSANDS OF PERSONS UNEMPLOYED**

	LATEST MONTH	1 Year Earlier	3 Months Earlier		LATEST MONTH	1 Year Earlier	3 Months Earlier
United States	OCT 78	5,870	6,688	United Kingdom	OCT 78	1,360	1,432
Japan	SEP 78	1,300	1,310	Italy	78 iii	1,658	1,455
West Germany	SEP 78	986	1,035	Canada	SEP 78	946	887
France	OCT 78	1,215	1,097				

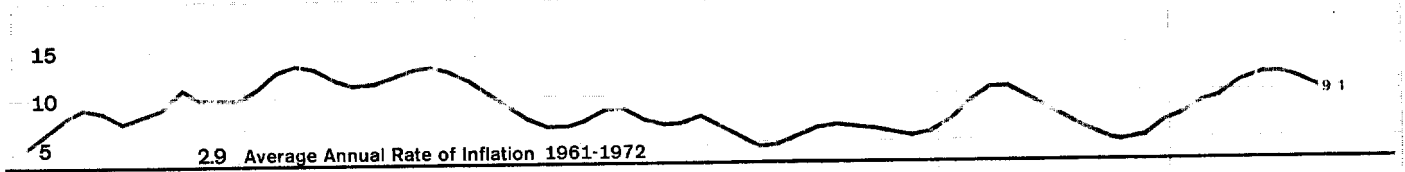
NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased 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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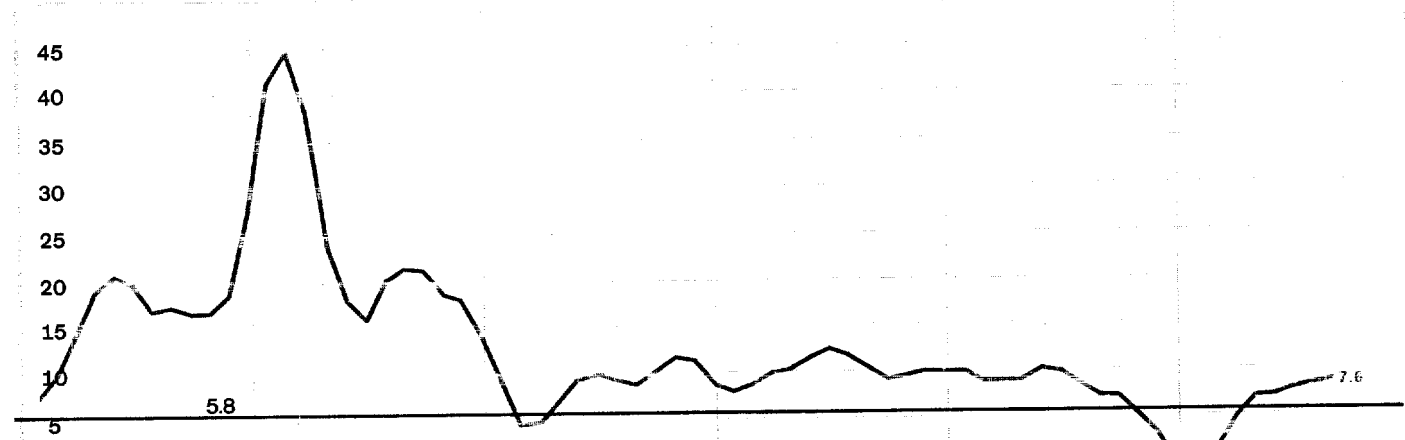
# CONSUMER PRICE INFLATION

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

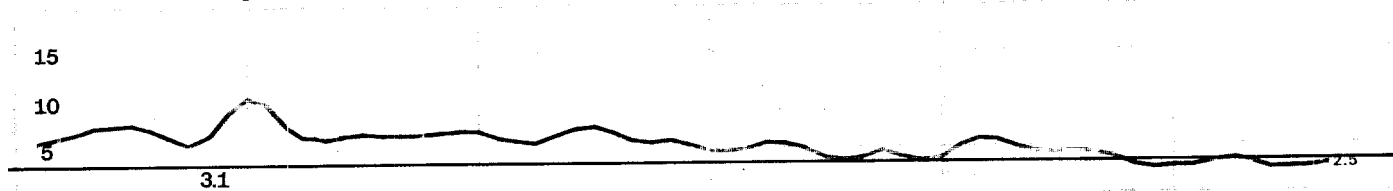
## United States



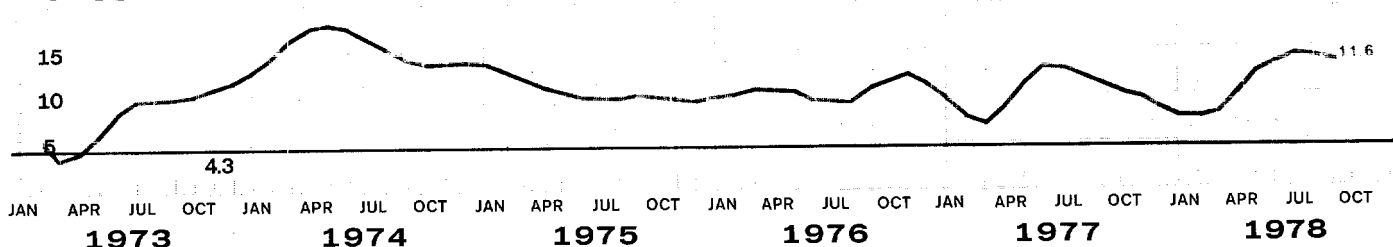
## Japan



## West Germany

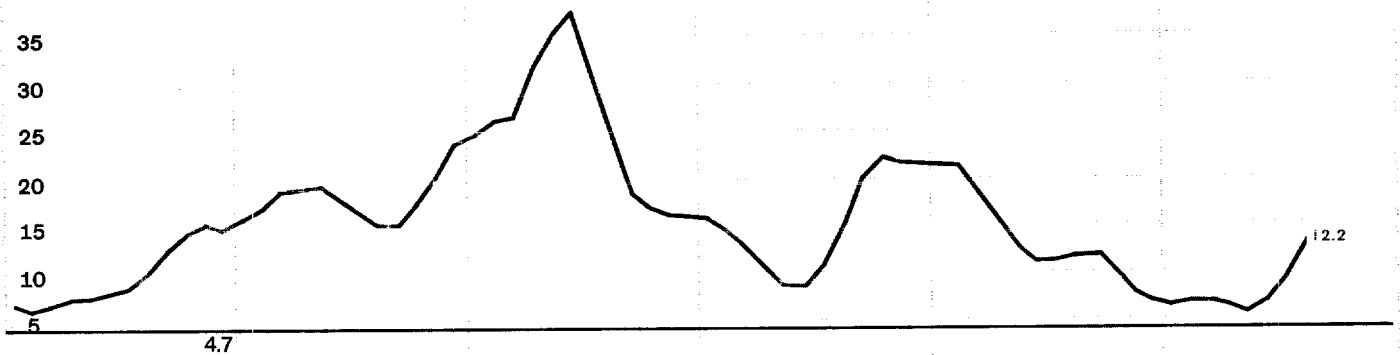


## France

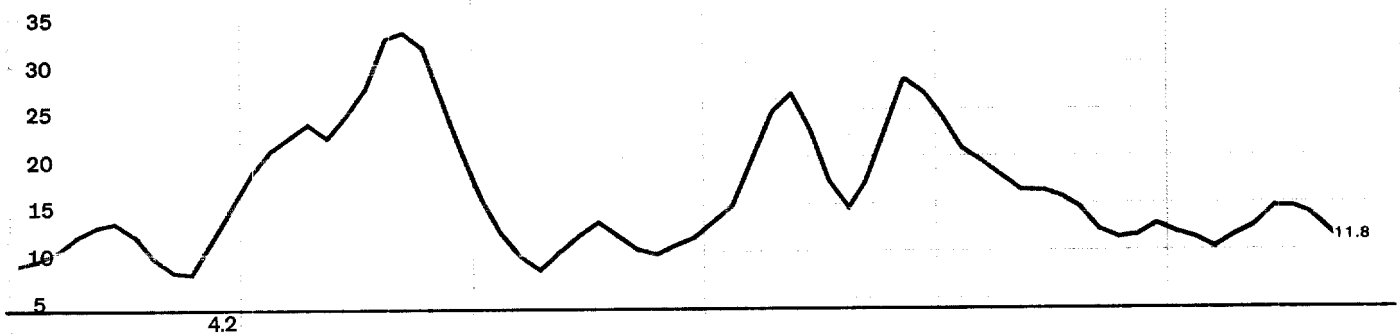


<sup>1</sup>Three-month average compared with previous three months.

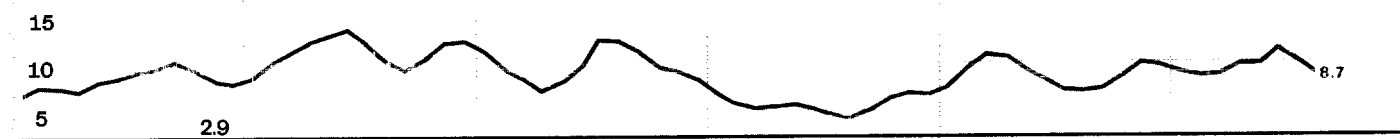
**United Kingdom**



**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	SEP 78	0.8	6.8	8.3	9.1	United Kingdom	SEP 78	0.9	13.2	7.8	12.2
Japan	SEP 78	-0.2	9.7	3.7	7.6	Italy	OCT 78	0.9	13.1	12.3	11.8
West Germany	SEP 78	0	5.1	2.2	2.5	Canada	SEP 78	0.1	7.6	8.6	8.7
France	SEP 78	0.5	9.1	9.2	11.6						

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<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		
			1970	1 Year Earlier	Previous Quarter
			United States	78 III	0.8
Japan	78 II	1.1	5.4	5.3	4.4
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	78 I	1.7	1.8	2.3	7.2
Italy	78 I	2.0	2.8	-0.8	8.2
Canada	78 II	1.1	4.7	3.7	4.5

<sup>1</sup> Seasonally adjusted.

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

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>
			United States	Sep 78	0.8
Japan	Jun 78	1.3	9.3	5.8	11.0
West Germany	Aug 78	0	2.7	2.5	6.6
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Oct 78	0	1.2	6.6	2.8
Italy	Jul 78	-7.0	2.9	3.0	28.3
Canada	Aug 78	3.7	4.1	1.3	1.1

<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		
			1970	1 Year Earlier	Previous Quarter
			United States	78 III	-0.1
Japan	78 II	1.8	1.5	5.1	7.6
West Germany	78 II	-0.5	1.2	7.8	-2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	78 I	2.8	1.8	11.3	11.6
Italy	78 I	2.3	1.1	-19.6	9.4
Canada	78 II	10.6	6.5	6.1	49.9

<sup>1</sup> Seasonally adjusted.

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

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>
			United States	Jul 78	1.2
Japan	Jun 78	1.2	15.8	5.6	4.0
West Germany	78 II	1.7	8.8	4.2	7.1
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Jun 78	0.1	16.3	20.5	84.0
Italy	Aug 78	4.0	20.2	14.7	15.6
Canada	Aug 78	0.9	10.7	6.8	6.5

<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	Nov 1	9.33	6.55
Japan	Call money	Nov 3	4.13	4.63	4.25	4.25
West Germany	Interbank loans (3 months)	Nov 1	3.90	4.06	3.68	3.86
France	Call money	Nov 3	7.00	8.75	7.62	7.00
United Kingdom	Sterling interbank loans (3 months)	Nov 1	11.08	4.84	9.58	9.70
Canada	Finance paper	Nov 1	9.98	7.38	8.68	9.35
Eurodollars	Three-month deposits	Nov 1	10.98	7.14	8.28	9.58

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EXPORT PRICES  
US \$

	Latest Month	Percent Change		Average Annual Growth Rate Since		
		from Previous		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Aug 78	1.3	9.7	11.0	19.5	
Japan	Sep 78	-1.0	11.7	31.3	12.8	
West Germany	Aug 78	1.7	11.7	14.3	23.3	
France	Jun 78	2.2	11.5	13.6	7.8	
United Kingdom	Oct 78	2.8	12.5	22.2	36.3	
Italy	Aug 78	2.6	11.4	10.9	28.2	
Canada	Aug 78	4.1	8.7	1.4	19.2	

EXPORT PRICES  
National Currency

	Latest Month	Percent Change		Average Annual Growth Rate Since		
		from Previous		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Aug 78	1.3	9.7	11.0	19.5	
Japan	Sep 78	-0.2	3.3	-6.6	-30.5	
West Germany	Aug 78	-1.2	3.7	-1.5	-0.3	
France	Jun 78	0.6	8.8	5.3	-2.8	
United Kingdom	Oct 78	0.3	14.9	7.7	8.2	
Italy	Aug 78	2.6	15.4	5.2	9.5	
Canada	Aug 78	5.6	9.8	7.6	28.7	

IMPORT PRICES  
National Currency

	Latest Month	Percent Change		Average Annual Growth Rate Since		
		from Previous		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Aug 78	0.6	12.7	7.9	3.3	
Japan	Sep 78	-0.4	5.0	-23.7	-37.8	
West Germany	Aug 78	0.4	3.4	-3.4	7.6	
France	Jun 78	-0.6	9.1	0.2	-9.1	
United Kingdom	Oct 78	0.5	17.0	4.1	5.2	
Italy	Aug 78	0.8	18.4	1.8	1.3	
Canada	Aug 78	1.7	9.8	10.0	16.1	

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		End of		1 Year Earlier	3 Months Earlier
		Month	Billion US \$		
United States	Sep 78	18.8	14.5	19.0	18.9
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Sep 78	44.7	8.8	34.5	40.7
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Sep 78	17.6	2.8	17.3	17.3
Italy	Sep 78	14.1	4.7	10.5	13.2
Canada	Oct 78	5.1	9.1	4.2	4.6

CURRENT ACCOUNT BALANCE <sup>1</sup>

	Latest Period	Cumulative (Million US \$)			
		Million US \$	1978	1977	Change
United States <sup>2</sup>	78 I	-6,954	-6,954	-4,158	-2,796
Japan	Sep 78	1,900	13,982	6,442	7,540
West Germany	Aug 78	10	2,725	788	1,937
France	78 I	-84	-84	-1,628	1,543
United Kingdom	78 I	-803	-803	-896	94
Italy	78 I	288	288	-1,025	1,313
Canada	78 II	-1,201	-2,381	-2,658	277

<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 and Long-Term Capital Transactions

	Latest Period	Cumulative (Million US \$)			
		Million US \$	1978	1977	Change
United States		No longer published <sup>2</sup>			
Japan	Sep 78	600	6,746	4,390	2,356
West Germany	Aug 78	-75	1,730	-3,308	5,038
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 II	883	327	-557	884

<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 3 Nov 78

	US \$ Per Unit	Percent Change from			
		19 Mar 73		3 Months Earlier	
		19 Mar 73	1 Year Earlier	3 Months Earlier	27 Oct 78
Japan (yen)	0.0054	40.77	34.60	0.49	-3.45
West Germany (Deutsche mark)	0.5283	48.61	19.49	3.91	-7.03
France (franc)	0.2326	4.80	12.56	-0.02	-5.70
United Kingdom (pound sterling)	1.9820	-19.83	11.54	0.92	-3.93
Italy (lira)	0.0012	-31.95	5.36	-0.17	-4.62
Canada (dollar)	0.8558	-14.70	-5.36	-2.77	0.50

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

As of 3 Nov 78

	Percent Change from			
	19 Mar 73		3 Months Earlier	
	19 Mar 73	1 Year Earlier	3 Months Earlier	27 Oct 78
United States	-4.05	-9.14	0.02	2.86
Japan	43.76	30.37	0.27	-1.94
West Germany	33.93	5.26	1.87	-2.25
France	-10.41	-2.23	-2.65	-0.36
United Kingdom	-29.09	-0.25	-0.85	0.34
Italy	-43.72	-7.95	-2.21	0.57
Canada	-16.38	-8.75	-3.07	1.52

<sup>1</sup> Weighting is based on each listed country's trade with 16 other industrialized countries to provide the major currencies.



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

Billion US \$

	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other
<b>UNITED STATES</b>						
1975 .....	107.59	46.93	16.25	10.77	3.37	30.27
1976 .....	115.01	51.30	17.67	12.57	3.64	29.82
1977 .....	120.17	53.92	18.54	14.02	2.72	30.97
1978						
1st Qtr .....	30.96	13.65	4.60	3.76	1.00	7.95
2d Qtr .....	37.05	16.14	5.25	4.43	1.44	9.79
Jul .....	10.94	4.51	1.51	1.38	0.40	3.14
Aug .....	11.61	4.95	1.65	1.32	0.37	3.33
<b>JAPAN</b>						
1975 .....	55.73	16.56	6.07	8.42	5.17	19.52
1976 .....	67.32	22.61	8.59	9.27	4.94	21.91
1977 .....	81.12	28.03	9.72	12.03	5.33	26.01
1978						
1st Qtr .....	22.11	7.79	2.43	3.35	1.32	7.22
2d Qtr .....	24.07	8.60	2.44	3.55	1.74	7.74
Jul .....	8.58	2.99	1.02	1.33	0.51	2.73
Aug .....	8.18	2.94	0.86	1.19	0.58	2.60
<b>WEST GERMANY</b>						
1975 .....	90.11	28.33	36.44	6.78	7.21	11.33
1976 .....	101.93	33.44	41.86	8.25	7.02	11.36
1977 .....	118.01	39.00	48.01	10.78	7.30	12.92
1978						
1st Qtr .....	32.45	11.17	13.05	2.76	1.97	3.49
2d Qtr .....	34.69	11.94	13.71	3.01	2.26	3.77
Jul .....	10.42	3.64	3.93	1.01	0.65	1.18
Aug .....	10.99	3.38	4.57	1.01	0.71	1.32
<b>FRANCE</b>						
1975 .....	53.03	20.01	15.50	4.90	3.13	9.50
1976 .....	57.05	22.49	16.15	5.08	3.23	10.10
1977 .....	64.86	25.90	18.18	5.96	2.99	11.82
1978						
1st Qtr .....	18.49	7.66	5.07	1.57	0.66	3.53
2d Qtr .....	20.36	8.31	5.60	1.70	0.84	3.91
Jul .....	6.66	2.78	1.72	0.59	0.27	1.29
Aug .....	4.86	1.92	1.25	0.46	0.24	1.00
<b>UNITED KINGDOM</b>						
1975 .....	44.46	12.54	16.59	4.55	1.56	9.21
1976 .....	46.56	14.03	17.53	5.13	1.39	8.48
1977 .....	58.04	17.29	22.20	6.77	1.63	10.14
1978						
1st Qtr .....	16.86	5.09	6.27	2.03	0.55	2.92
2d Qtr .....	17.60	5.38	6.59	2.20	0.51	2.92
Jul .....	5.80	1.84	2.10	0.71	0.16	1.00
Aug .....	5.77	1.73	2.18	0.69	0.15	1.02
<b>ITALY</b>						
1975 .....	34.84	15.61	7.86	3.72	2.46	5.19
1976 .....	37.25	17.58	8.73	4.27	2.18	4.48
1977 .....	45.04	20.91	10.20	5.84	2.46	5.64
1978						
1st Qtr .....	10.80	5.22	2.40	1.37	0.48	1.33
2d Qtr .....	13.65	6.51	2.92	1.81	0.66	1.75
Jul .....	4.46	2.17	0.93	0.57	0.22	0.57
<b>CANADA</b>						
1975 .....	34.07	26.30	1.72	0.71	1.20	4.14
1976 .....	40.52	32.01	2.03	0.81	1.25	4.40
1977 .....	43.08	34.83	2.20	1.17	1.08	3.80
1978						
1st Qtr .....	10.87	8.88	0.45	0.23	0.22	1.10
2d Qtr .....	12.66	10.32	0.56	0.23	0.36	1.19
Jul .....	3.53	2.81	0.13	0.08	0.15	0.36

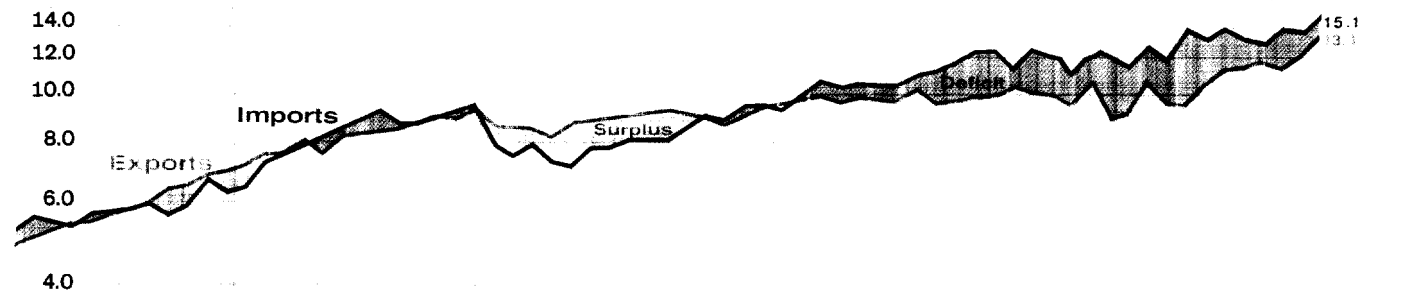
<sup>1</sup> Source: International Monetary Fund, Direction of Trade.

		Developed Countries: Direction of Trade <sup>1</sup>					Billion US \$
		Imports from (c.i.f.)					
		World	Big Seven	Other OECD	OPEC	Communist	Other
<b>UNITED STATES</b>							
1975	.....	103.42	49.81	8.83	18.70	0.98	25.09
1976	.....	129.57	60.39	9.75	27.17	1.16	31.10
1977	.....	156.71	70.48	11.09	35.45	1.23	38.47
1978							
1st Qtr	.....	43.14	20.39	3.51	8.15	0.47	10.62
2d Qtr	.....	45.99	22.53	3.68	7.90	0.48	11.40
Jul	.....	15.67	7.56	1.29	2.62	0.14	4.04
Aug	.....	14.96	6.92	1.11	2.91	0.19	3.83
<b>JAPAN</b>							
1975	.....	57.85	16.93	6.08	19.40	3.36	12.07
1976	.....	64.89	17.58	7.78	21.88	2.91	14.73
1977	.....	71.32	18.88	7.92	24.33	3.41	16.79
1978							
1st Qtr	.....	18.32	5.04	2.06	6.46	0.86	3.89
2d Qtr	.....	19.39	5.51	2.30	5.95	1.01	4.63
Jul	.....	6.47	1.95	0.80	1.82	0.30	1.60
Aug	.....	6.92	2.17	0.81	1.92	0.32	1.70
<b>WEST GERMANY</b>							
1975	.....	74.92	27.09	27.78	8.24	3.51	8.30
1976	.....	88.14	31.28	32.64	9.73	4.38	10.11
1977	.....	101.42	36.39	37.37	10.12	4.92	12.61
1978							
1st Qtr	.....	28.24	10.11	10.88	2.32	1.39	3.55
2d Qtr	.....	29.75	11.10	11.43	2.24	1.40	3.58
Jul	.....	9.57	3.60	3.48	0.77	0.54	1.18
Aug	.....	9.43	3.41	3.51	0.82	0.50	1.19
<b>FRANCE</b>							
1975	.....	53.99	23.04	14.33	9.43	1.94	5.24
1976	.....	64.38	27.81	16.93	11.36	2.24	6.04
1977	.....	70.49	30.28	18.24	11.81	2.46	7.69
1978							
1st Qtr	.....	19.76	8.58	5.40	3.05	0.64	2.09
2d Qtr	.....	20.42	9.16	5.62	2.77	0.68	2.19
Jul	.....	6.31	2.88	1.65	0.94	0.23	0.61
Aug	.....	5.56	2.49	1.29	0.95	0.21	0.63
<b>UNITED KINGDOM</b>							
1975	.....	53.93	18.47	18.52	6.91	1.68	8.36
1976	.....	56.20	19.65	18.81	7.29	2.08	8.36
1977	.....	64.06	24.03	21.38	6.32	2.42	9.91
1978							
1st Qtr	.....	18.87	7.44	6.68	1.80	0.55	2.40
2d Qtr	.....	19.31	7.66	7.27	1.30	0.59	2.48
Jul	.....	6.42	2.58	2.17	0.58	0.21	0.88
Aug	.....	6.30	2.48	2.08	0.60	0.23	0.91
<b>ITALY</b>							
1975	.....	38.39	17.32	6.75	7.85	2.09	4.39
1976	.....	43.43	19.35	8.05	8.12	2.65	5.26
1977	.....	47.57	20.80	8.66	9.03	2.80	6.28
1978							
1st Qtr	.....	11.26	5.03	2.10	2.18	0.51	1.44
2d Qtr	.....	13.38	6.14	2.58	2.15	0.73	1.76
Jul	.....	4.90	2.18	0.93	0.82	0.37	0.61
<b>CANADA</b>							
1975	.....	38.67	29.78	1.70	3.43	0.32	3.43
1976	.....	43.04	33.55	1.82	3.48	0.38	3.81
1977	.....	44.91	35.75	1.79	3.06	0.34	3.98
1978							
1st Qtr	.....	10.80	8.60	0.44	0.77	0.08	0.91
2d Qtr	.....	13.52	11.08	0.50	0.71	0.09	1.13
Jul	.....	3.88	3.05	0.17	0.26	0.04	0.35

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

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

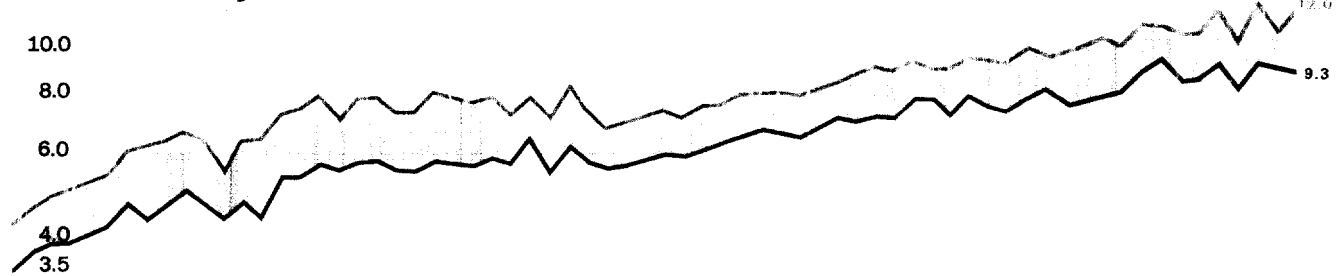
## United States



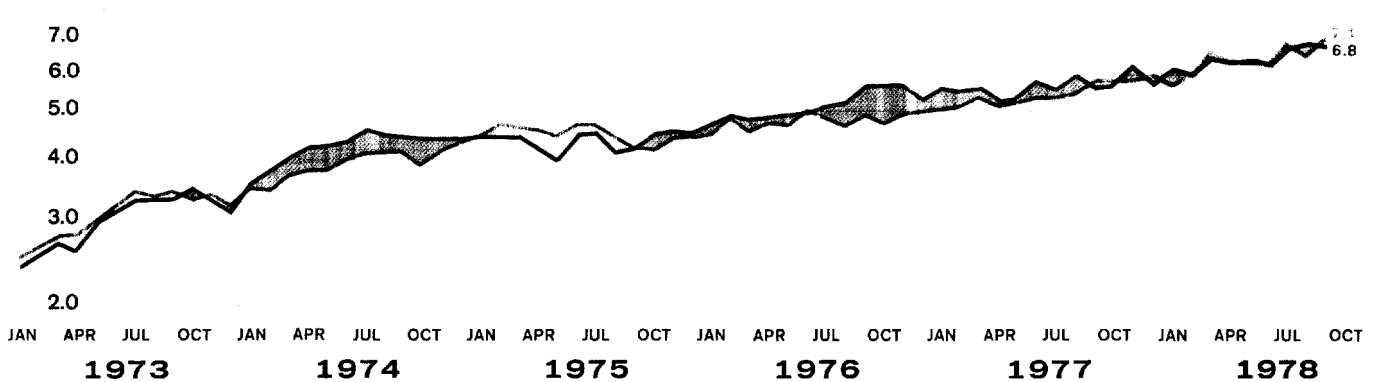
## Japan



## West Germany

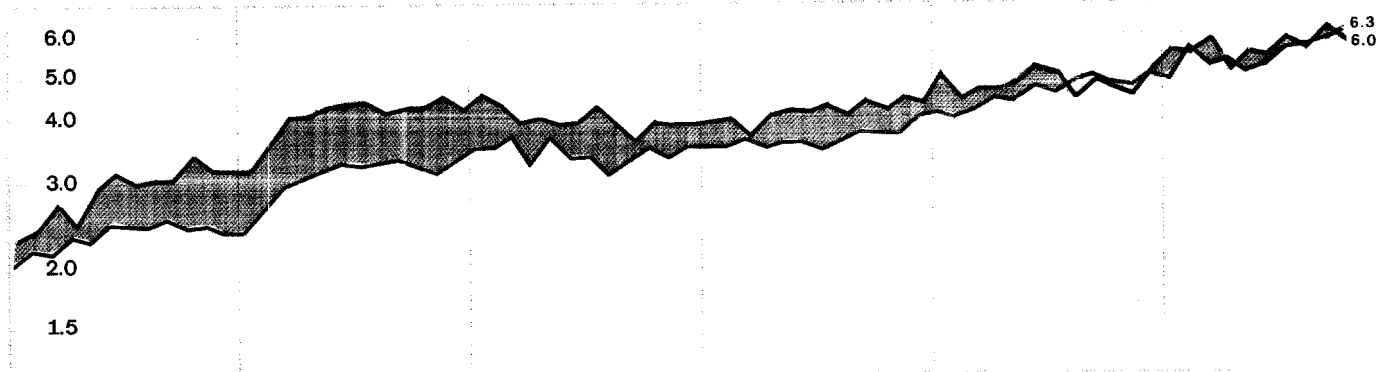


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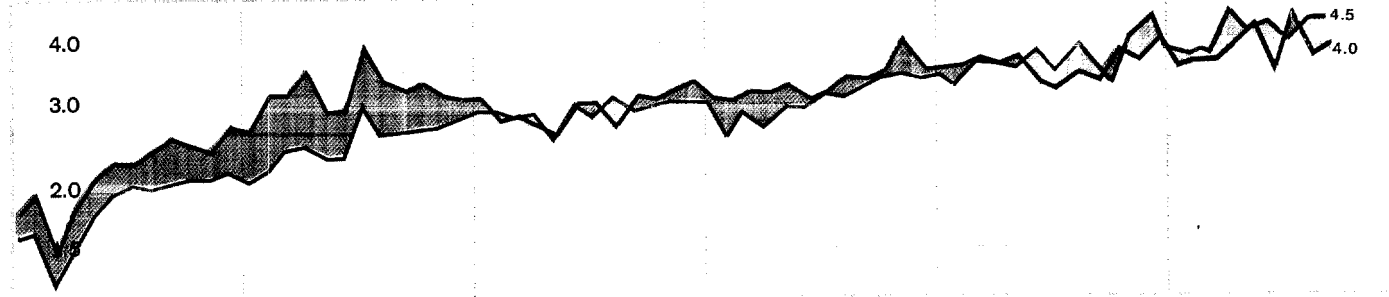


United Kingdom

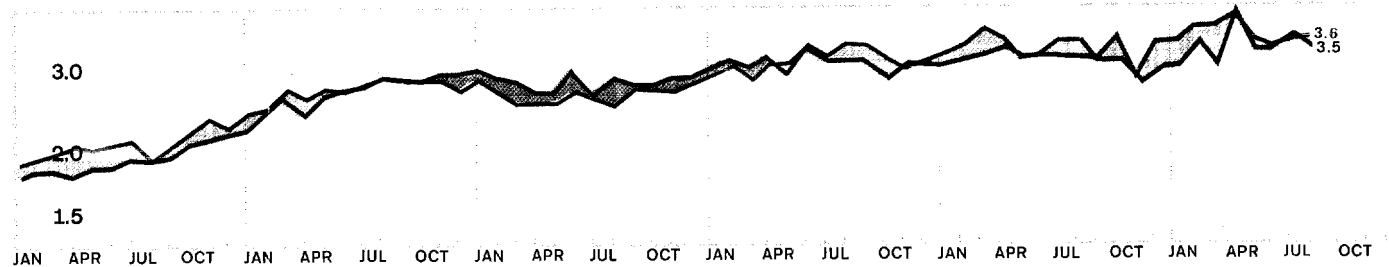
Semilogarithmic Scale



Italy



Canada



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 1973 1974 1975 1976 1977 1978

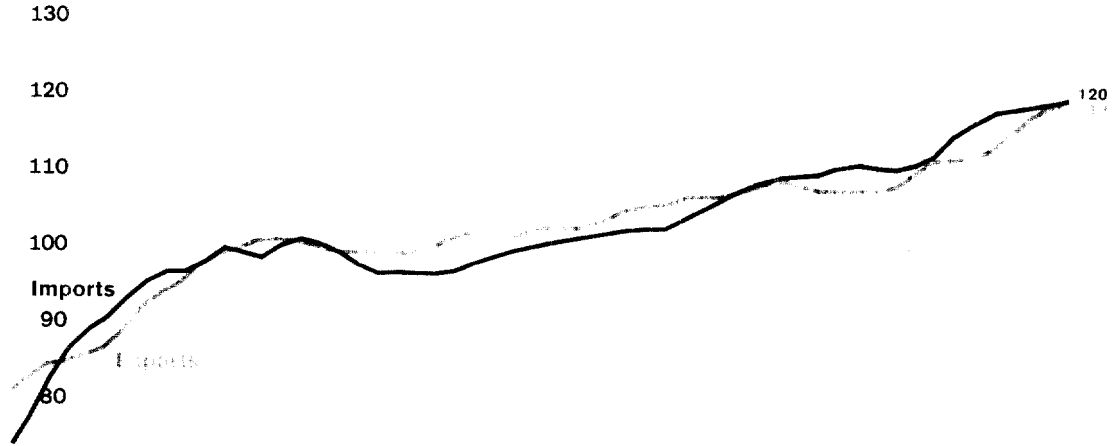
	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)			LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)			
			1978	1977	CHANGE			1978	1977	CHANGE	
United States	SEP 78	13,429	104,054	91,352	13.9%	United Kingdom	OCT 78	6,264	56,265	46,177	21.8%
	Balance	15,120	126,721	109,305	15.9%		Balance	6,025	57,957	49,019	18.2%
Japan	SEP 78	8,618	71,117	58,515	21.5%	Italy	SEP 78	4,509	37,843	32,756	15.5%
	Balance	6,216	50,210	46,130	8.8%		Balance	4,005	35,250	32,347	9.0%
West Germany	AUG 78	11,974	90,233	76,223	18.4%	Canada	AUG 78	3,640	29,739	27,962	6.4%
	Balance	9,258	74,131	62,846	18.0%		Balance	3,478	28,071	26,672	5.2%
France	SEP 78	7,075	57,929	47,645	21.6%						
	Balance	6,776	57,541	49,999	15.0%						
		299	417	-2,354	2,771			162	1,668	1,289	379

577802 11-78

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

United States

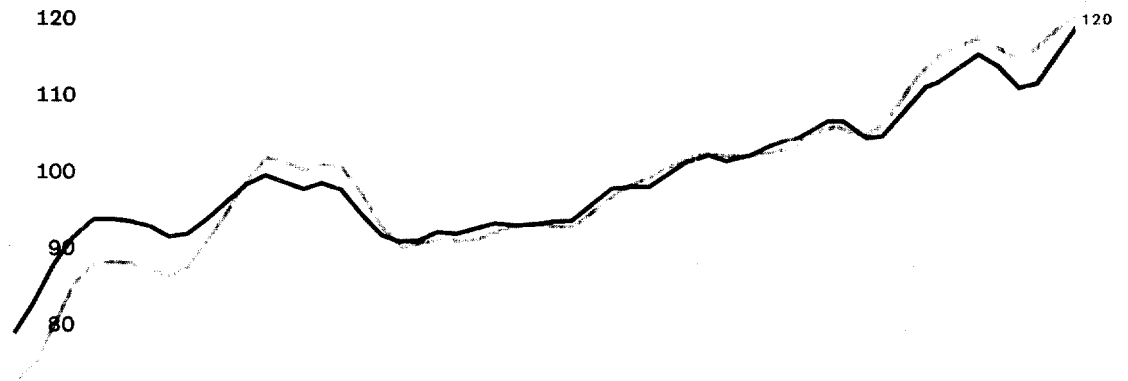
INDEX: JAN 1975 = 100



Japan



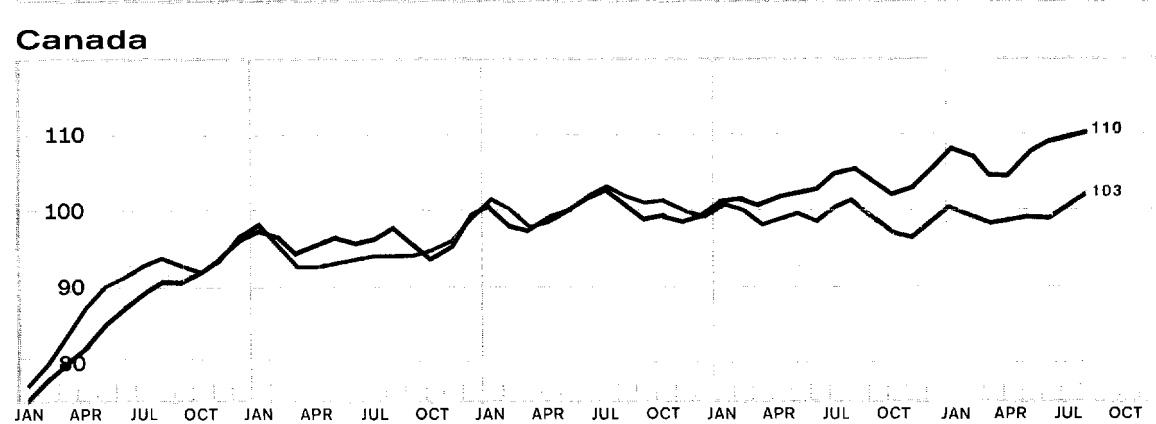
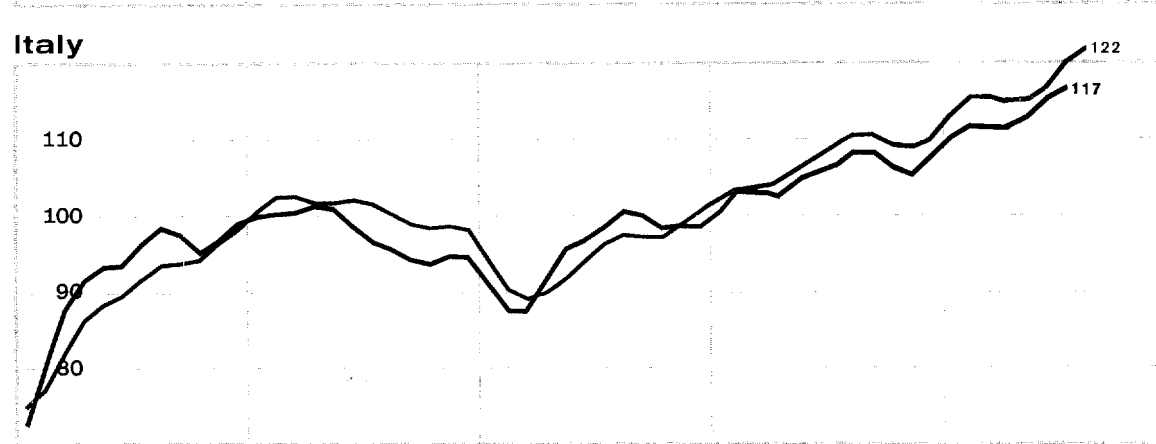
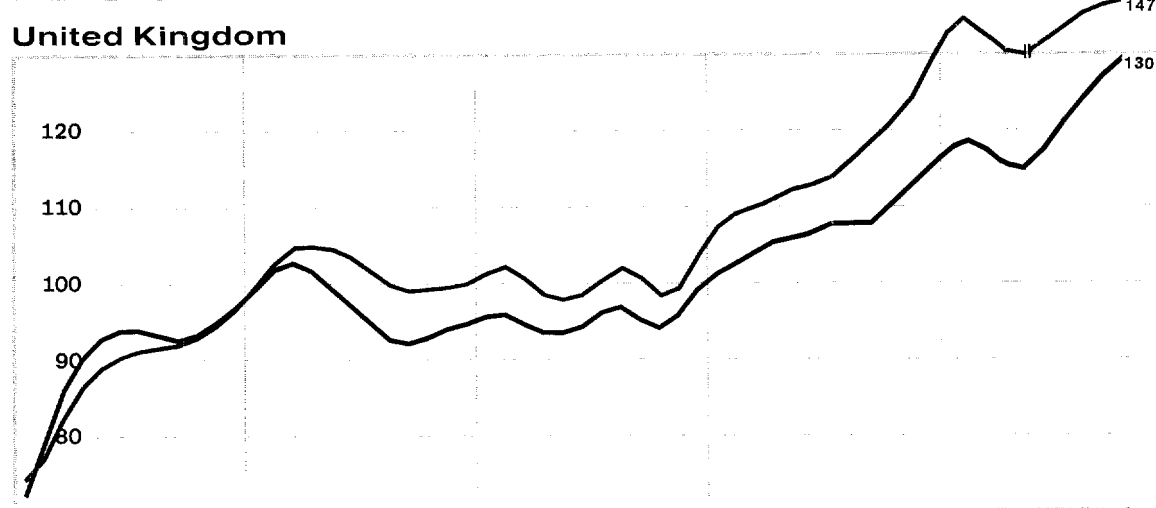
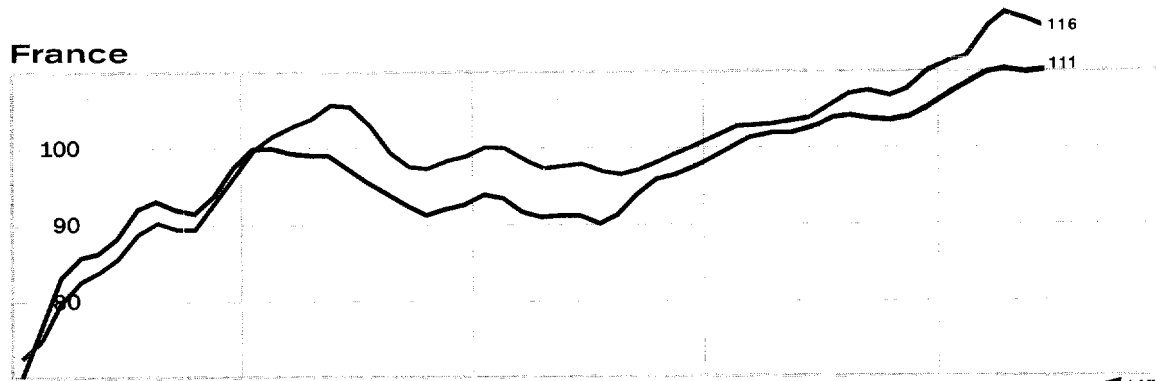
West Germany



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Approved For Release 2005/07/12 : CIA-RDP80T00702A001000010001-8

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



Approved For Release 2005/07/12 : CIA-RDP80T00702A001000010001-8  
**SELECTED DEVELOPING COUNTRIES**

**INDUSTRIAL PRODUCTION <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>
India	Jun 78	-1.8	5.1	5.4	18.2
South Korea	Jul 78	-2.0	22.0	20.2	23.2
Mexico	Jun 78	0	6.2	8.5	27.7
Nigeria	78 I	6.8	11.4	0.5	30.0
Taiwan	Aug 78	3.0	16.3	31.0	42.1

<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		
			1970	1 Year Earlier	3 Months Earlier <sup>2</sup>
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Apr 78	2.5	14.0	16.2	13.0
Iran	Jul 78	1.8	28.5	28.9	20.7
South Korea	Aug 78	5.8	31.3	30.9	26.2
Mexico	Jul 78	1.9	21.0	37.3	36.4
Nigeria	Mar 78	5.6	35.3	18.9	3.3
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Apr 78	-3.2	13.3	12.5	32.3

<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	Jun 78	1.2	7.5	2.2
Iran	Aug 78	-0.4	11.8	7.8
South Korea	Sep 78	2.2	14.6	15.6
Mexico	Aug 78	1.0	15.1	17.0
Nigeria	Dec 77	3.1	16.6	31.3
Taiwan	Aug 78	1.9	9.8	-0.6
Thailand	Jun 78	0.9	8.7	8.4

**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	Aug 78	-1.3	10.0	7.8
South Korea	Sep 78	2.0	15.8	12.3
Mexico	Aug 78	-0.2	16.3	13.8
Taiwan	Aug 78	0.4	8.1	1.6
Thailand	Mar 78	-0.1	9.4	5.8

**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	14.0	1.5
India	Sep 77	-2.7	10.0	18.4
South Korea	78 II	2.4	8.8	8.9
Taiwan	Jun 78	1.9	11.3	3.3
Thailand	Dec 77	0.1	10.2	-7.8

**OFFICIAL RESERVES**

	Latest Month	Million US \$			
		Percent Change			
		End of	Million US \$	Jun 1970	1 Year Earlier
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	Jun 78	6,140	1,006	4,559	5,823
Iran	Sep 78	11,659	208	11,463	12,068
South Korea	Aug 78	4,354	602	3,765	4,101
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Aug 78	1,872	148	4,611	2,609
Taiwan	Jun 78	1,462	531	1,411	1,433
Thailand	Sep 78	2,269	978	1,925	2,161

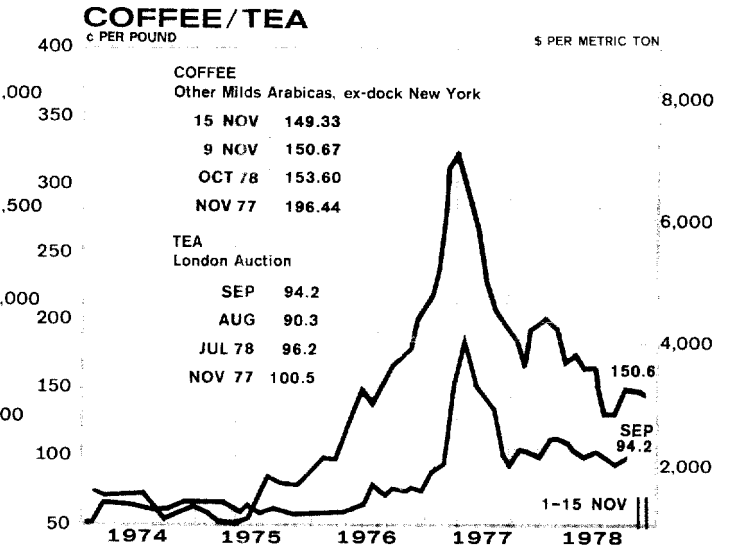
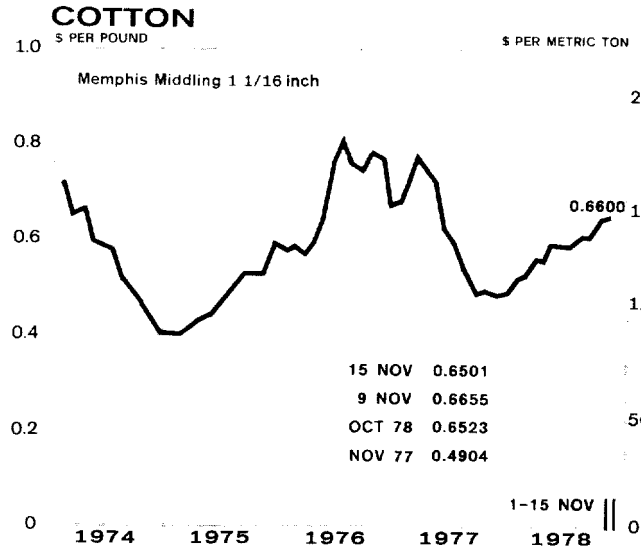
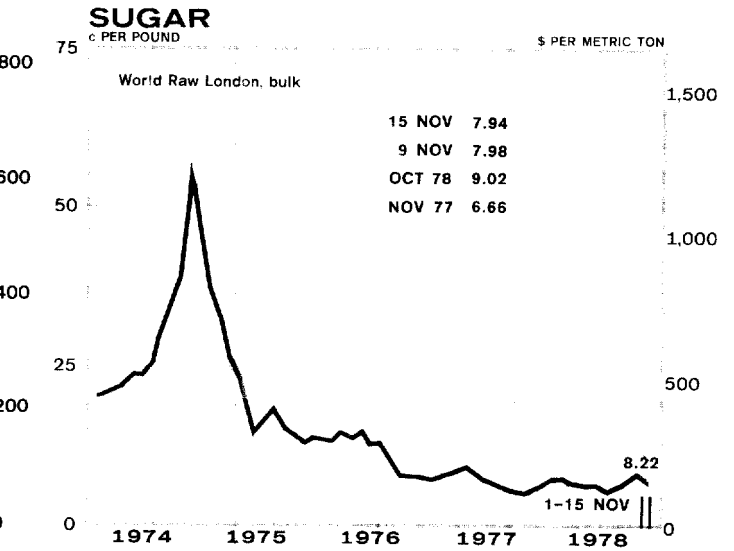
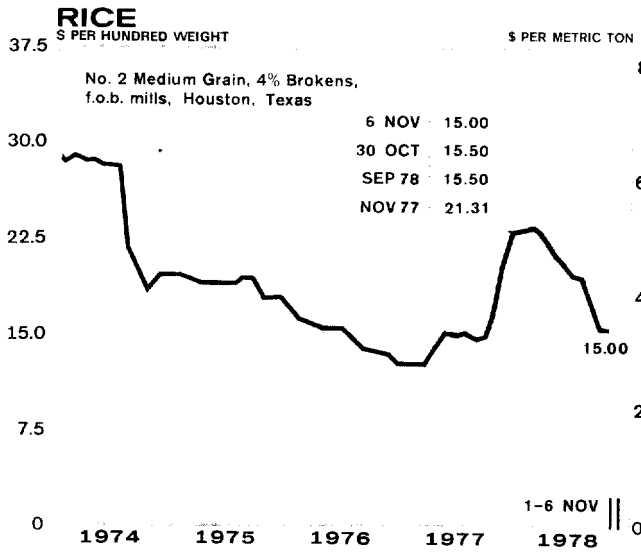
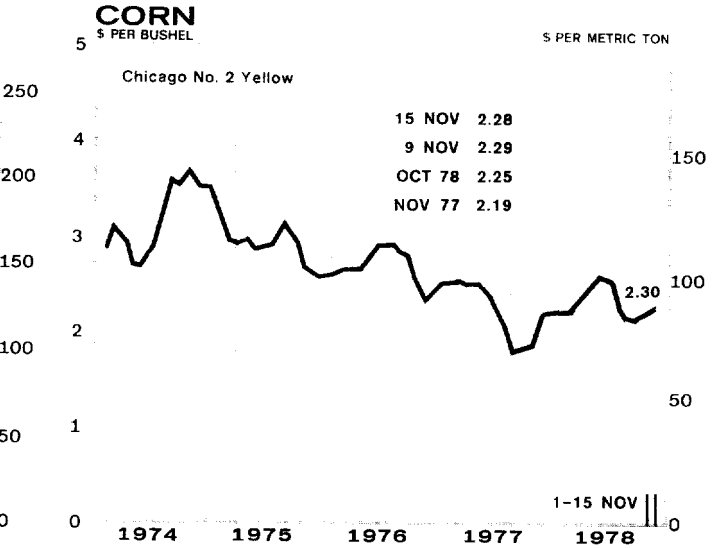
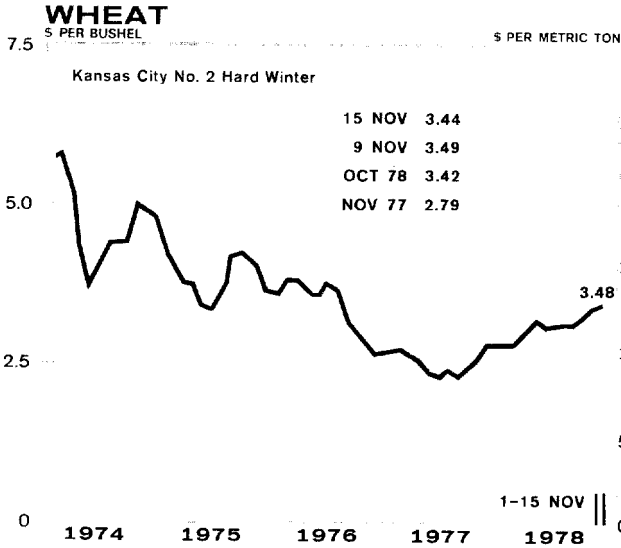
**FOREIGN TRADE, f.o.b.**

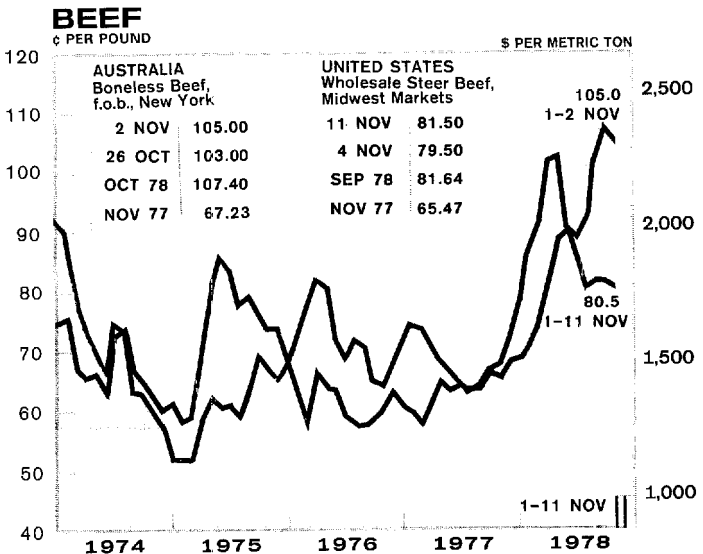
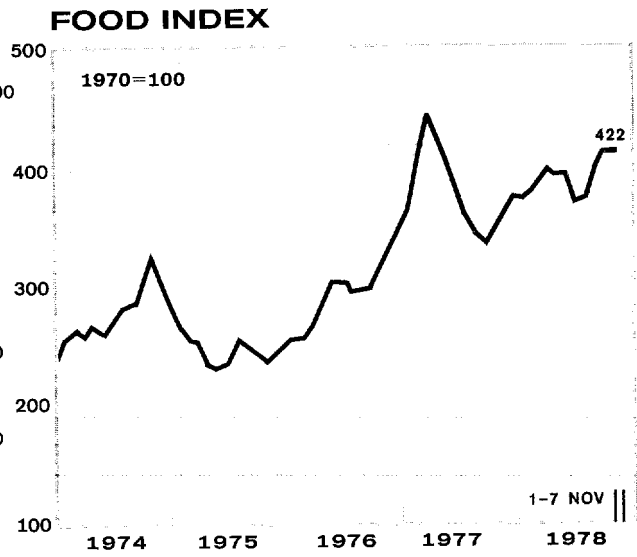
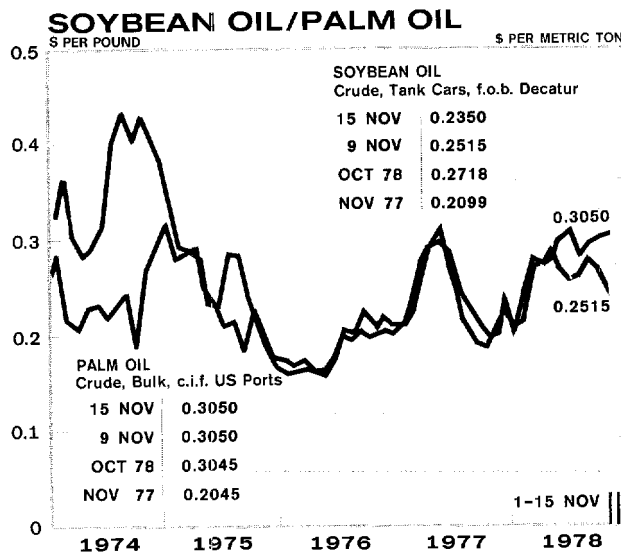
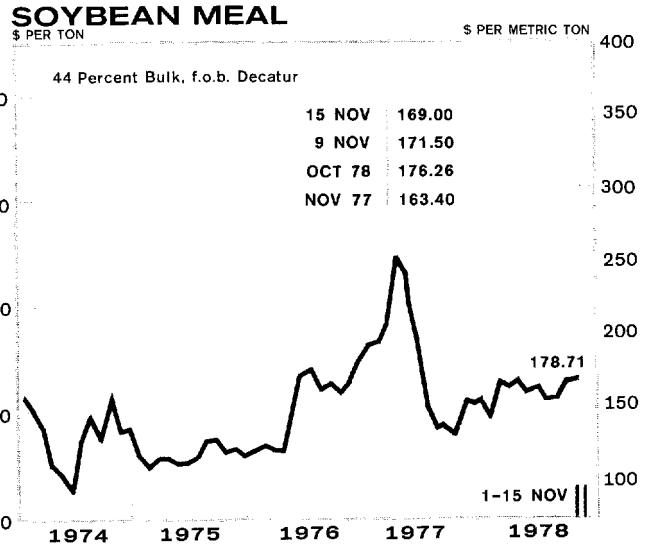
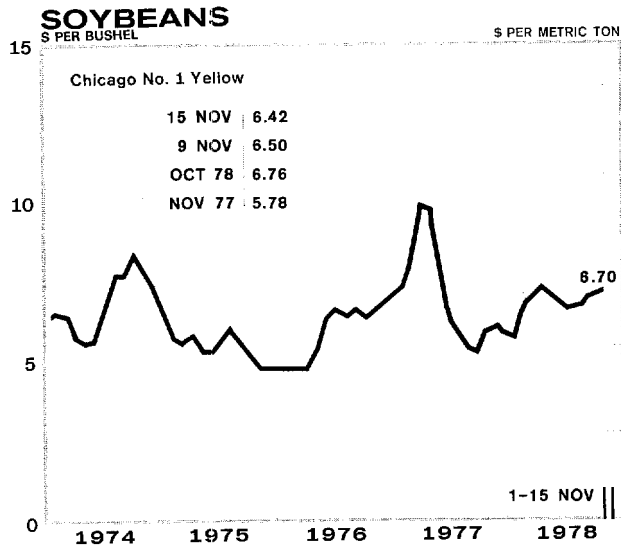
Latest Period			Latest 3 Months		Cumulative (Million US \$)		
			Percent Change from		1978	1977	Change
			3 Months	1 Year			
			Earlier <sup>1</sup>	Earlier			
Brazil	May 78	Exports	84.8	-3.7	4,743	4,979	-4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			-367	40	-407
India	Mar 78	Exports	-19.6	-13.5	1,476	1,707	-13.5%
	Mar 78	Imports	-24.1	9.7	1,444	1,316	9.7%
	Mar 78	Balance			32	391	-358
Iran	Aug 78	Exports	2.9	10.4	15,868	15,635	1.5%
	May 78	Imports	-1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	-783
South Korea	Jul 78	Exports	39.3	23.5	6,749	5,351	26.1%
	Jul 78	Imports	83.0	29.2	7,284	5,695	27.9%
	Jul 78	Balance			-535	-344	-191
Mexico	Jul 78	Exports	78.8	29.8	2,867	2,453	16.9%
	Jul 78	Imports	225.3	41.9	3,596	2,751	30.7%
	Jun 78	Balance			-728	-298	-430
Nigeria	78 II	Exports	86.7	-26.0	1,808	2,526	-28.4%
	78 I	Imports	579.5	115.0	1,808	841	115.0%
	78 I	Balance			-974	368	-1,342
Taiwan	Aug 78	Exports	84.2	38.7	8,044	5,884	36.7%
	Aug 78	Imports	68.9	32.5	6,439	5,119	25.8%
	Aug 78	Balance			1,605	765	840
Thailand	Jul 78	Exports	7.1	10.4	2,246	2,099	7.0%
	Jul 78	Imports	51.5	13.8	2,697	2,330	15.7%
	Jul 78	Balance			-450	-231	-219

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



# AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

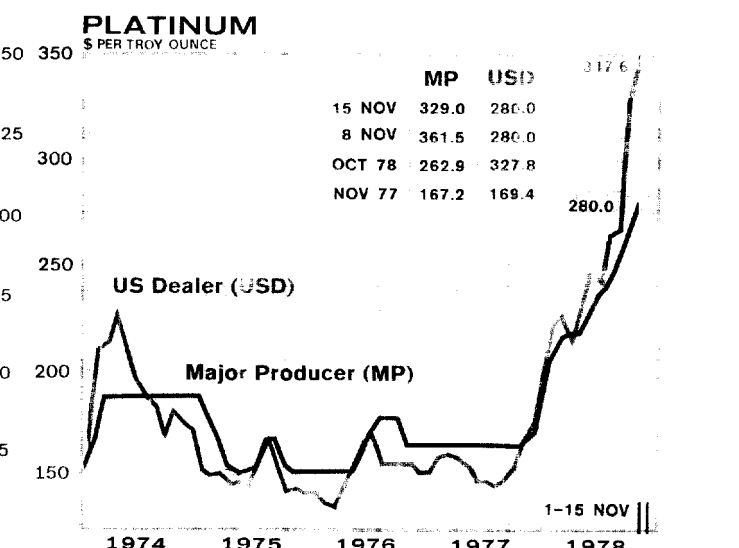
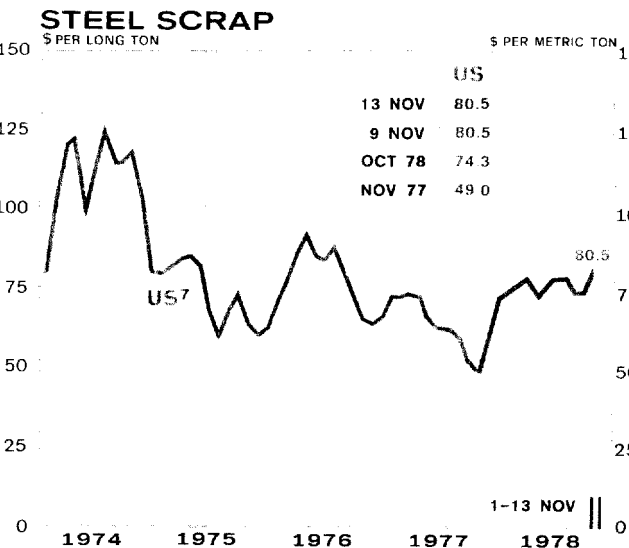
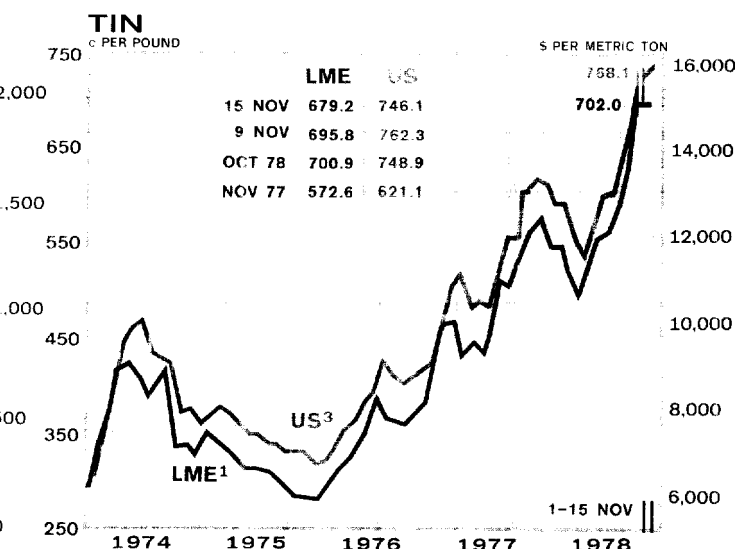
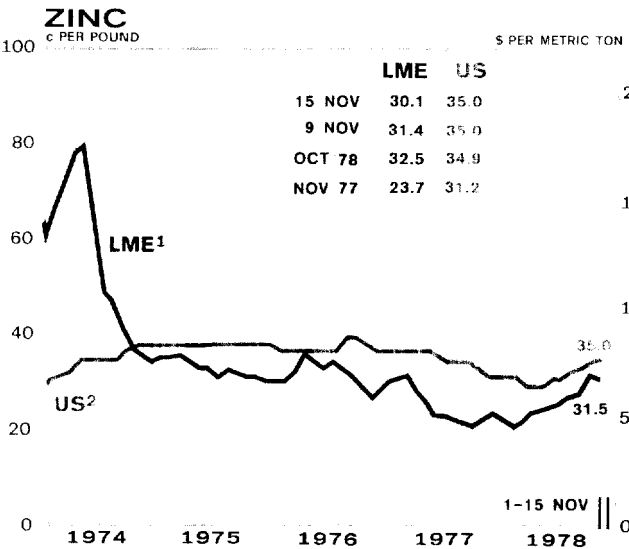
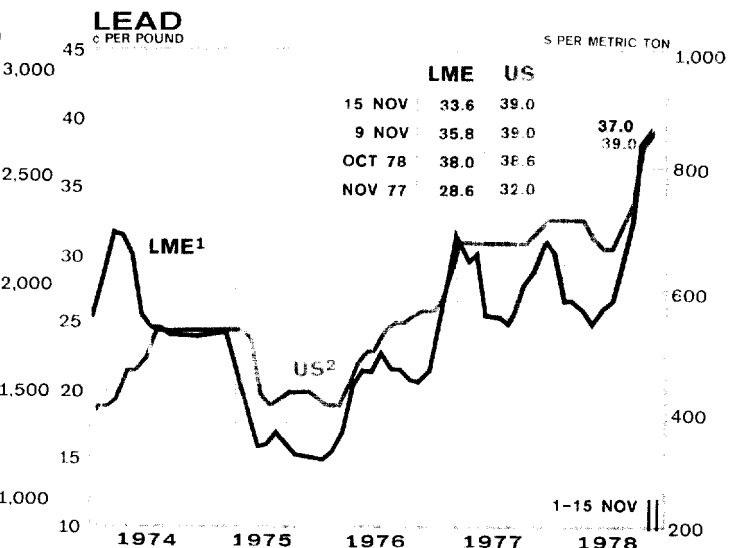
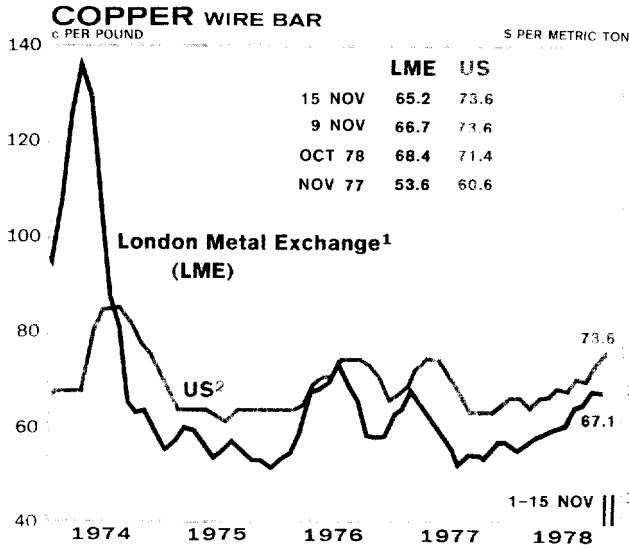




NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

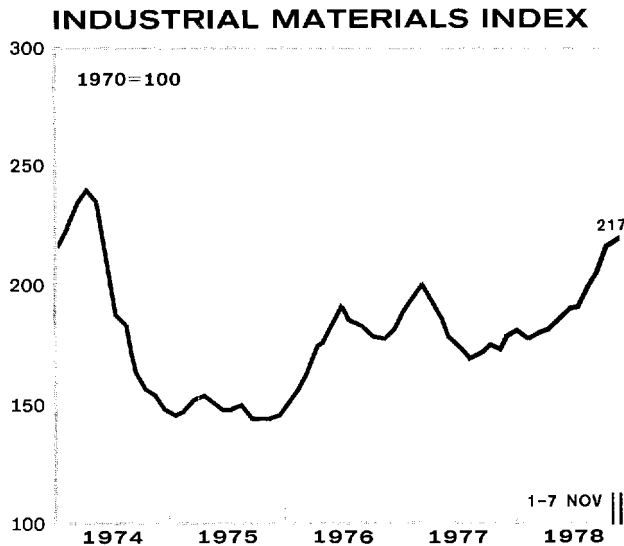
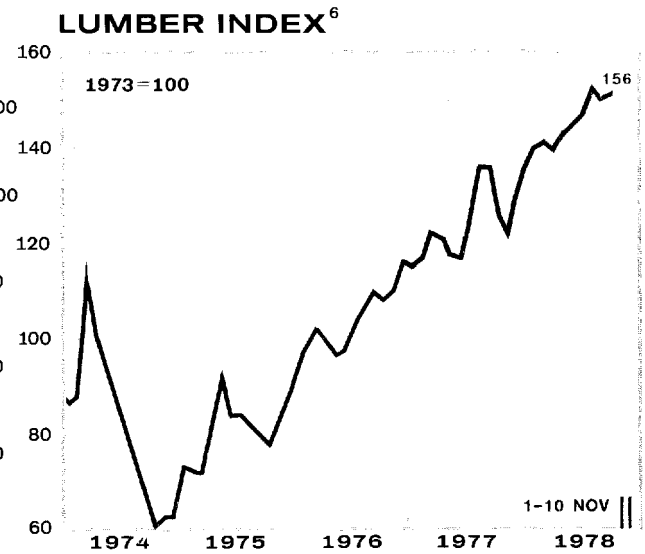
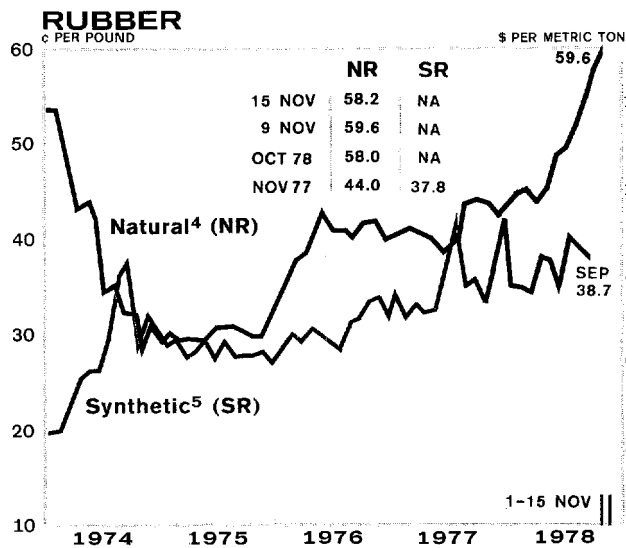
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# INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE



**SELECTED MATERIALS**

			CURRENT	MAY 78	NOV 77	NOV 76
<b>ALUMINUM</b>	Major US Producer	£ per pound	55.25	53.00	53.00	48.00
<b>US STEEL</b>	Composite	\$ per long ton	419.31	395.81	359.36	327.00
<b>IRON ORE</b>	Non-Bessemer Old Range	\$ per long ton	22.55	21.43	21.43	20.51
<b>CHROME ORE</b>	Russian, Metallurgical Grade	\$ per metric ton	NA	NA	150.00	150.00
<b>CHROME ORE</b>	S. Africa, Chemical Grade	\$ per long ton	56.00	56.00	58.50	42.00
<b>FERROCHROME</b>	US Producer, 66-70 Percent	£ per pound	42.00	42.00	41.00	43.00
<b>NICKEL</b>	Composite US Producer	\$ per pound	2.02	2.06	2.07	2.41
<b>MANGANESE ORE</b>	48 Percent Mn	\$ per long ton	67.20	67.20	72.24	72.00
<b>TUNGSTEN ORE</b>	Contained Metal	\$ per metric ton	18,474.00	17,169.00	22,113.00	18,082.00
<b>MERCURY</b>	New York	\$ per 76 pound flask	153.00	150.55	138.43	134.50
<b>SILVER</b>	LME Cash	£ per troy ounce	581.58	514.64	482.70	436.90
<b>GOLD</b>	London Afternoon Fixing Price	\$ per troy ounce	213.02	176.31	162.10	130.44



- 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 1b 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.