Directorate of
Intelligence

25X1

International Economic & Energy Weekly

25X1

21 January 1983

~~Secret~~

DI IEEW 83-003
21 January 1983

Copy 0861

Page Denied

Sanitized Copy Approved for Release 2011/01/25 : CIA-RDP84-00898R000100030009-4

[redacted] 25X1

International Economic & Energy Weekly [redacted] 25X1

21 January 1983

25X1

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

25X1

International Economic & Energy Weekly

25X1

Synopsis

Perspective—*Mubarak's Vulnerabilities on Economic Issues* 25X1

Egyptian President Hosni Mubarak will use his visit to Washington next week to seek additional US security and economic help and to press for urgent US efforts to carry President Reagan's peace initiative to fruition. 25X1

Egypt: The Economy on the Eve of Mubarak's Visit 25X1

Egypt so far has weathered the soft oil market and the global recession better than most LDCs, but the country's economic problems could grow sharply in 1983. Faced with growing criticism of the US connection, Mubarak will use his forthcoming Washington visit to seek changes in the economic aid program that will more clearly demonstrate the wisdom of close US-Egyptian relations. 25X1

Japan: NTT Boosts Domestic Memory Chip Producers 25X1

Nippon Telegraph and Telephone (NTT) Corporation, a Japanese Government entity, is giving a boost to the Japanese integrated circuit industry by becoming the first purchaser of the next generation random access memory (RAM) chip—the 256K (K=1024 bits) RAM. US firms already lag Japanese companies in developing the 256K RAM; NTT's purchase and technical assistance will give the Japanese companies an additional competitive edge over their US rivals, bolstering Japanese efforts to perpetuate their lead in the high-volume memory chip market. 25X1

South Korea: Economic Decisionmaking in Transition 25X1

South Korea's highly efficient economic decisionmaking process has come under increasing strains in recent years as Seoul attempts to devise new approaches to manage a large and complex economy. Routine decisions and macroeconomic policy continue to be handled efficiently, but Chun must define lines of authority more clearly if the country is to achieve its relatively bright long-term growth prospects. 25X1

 25X1

Cameroon: Tough Times Ahead [redacted] 25X1

Cameroon has been a model of economic progress and political stability since it gained independence in 1960, thanks to the country's careful use of its resources and the effective leadership of former President Ahmadou Ahidjo. Despite this strong past performance, we believe the country will face significant economic challenges over the next few years as a result of less favorable international economic conditions and an overly ambitious domestic development program. [redacted] 25X1

25X1

International Economic & Energy Weekly 25X1

21 January 1983

Perspective

Mubarak's Vulnerabilities on Economic Issues 25X1

Egyptian President Hosni Mubarak will use his visit to Washington next week to seek additional US security and economic help. Since Mubarak believes that to strengthen his domestic standing he must gain further visible benefits from the US connection, he can be expected to press for a more flexible aid program, greater funding for weapons, and urgent US efforts to carry President Reagan's peace initiative to fruition.

Mubarak's critics cannot point to any major blunders by him, but they contend his performance has not matched the promise he showed upon taking office 15 months ago. Mubarak has been frank in discussing Egypt's domestic problems, and the notion is widespread that the government must "do something." The President has been unsuccessful in defining new policies, however, and there is little agreement in Cairo over what should be done. By failing to offer a clear vision of a better future, Mubarak has contributed to a malaise that resembles the mood in Egypt during Sadat's last year, as well as to growing doubts about his own leadership ability.

While Egypt so far has weathered the effects of the soft oil market and the global recession better than most developing countries, it nevertheless faces enormous economic problems, including rapid population growth and urban congestion, inefficient public-sector industries, and unchecked government spending. Lacking consensus on actions to deal with these issues, Mubarak has focused on improving urban services in Cairo.

Egypt does not have the resources to deal with its economic problems; it faces a tight foreign exchange situation requiring additional Eurodollar borrowings and policy adjustments to limit imports. Should oil prices tumble or major disruptions in international financial markets impede access to new foreign commercial loans, a foreign exchange shortfall could force the government to impose much tougher and politically risky austerity measures.

Egypt's economic problems during the coming year, if combined with foreign policy setbacks and a further deterioration in the quality of life in Cairo, could touch off domestic unrest. Mubarak's opponents are divided, however, and discontent so far has not coalesced around any single leader or issue. Political dissent has been kept within limits considered tolerable by the government, which retains the emergency powers that it assumed after Sadat's assassination. The legal opposition parties are annoyances to Mubarak, not serious threats.

The largest Islamic fundamentalist group, the Muslim Brotherhood, apparently has no intention to challenge the regime. Although it is technically illegal, the government tolerates its activities. The more extreme Islamic groups have only limited popular support and, since Sadat's assassination, have been kept in check by the security forces. These groups, nonetheless, still are capable of isolated terrorist acts.

The military—Mubarak's most crucial source of support—remains loyal despite penetration attempts by the Islamic extremists and some dissatisfaction within the ranks over the same day-to-day problems of living that beset civilians. Senior officers generally support the policies of the government, which in turn has tried to keep them happy by preserving their perquisites.

Progress toward a Middle East peace is Mubarak's most immediate foreign policy concern. Given the bitterness in Egyptian-Israeli relations stemming from Israel's occupation of Lebanon, settlement activity in the West Bank, and a territorial dispute along the Sinai border, Mubarak is relying on the United States to move the peace process forward. He is trying to encourage a US-PLO dialogue, which he believes would lend enough momentum to the peace process to compel the Begin government to show some flexibility.

A solution to the Palestinian problem would facilitate Egypt's reintegration into Arab ranks. Mubarak does not consider reintegration itself urgent, since there is considerable Egyptian-Arab cooperation even without formal diplomatic relations. Nonetheless, reintegration would be applauded by the many Egyptians who believe that Egypt is being denied its rightful role as leader of the Arab world and would briefly divert attention from domestic problems.

25X1

Briefs

Energy

25X1

Probable Demise of Major Canadian LNG Project

Dome Petroleum's proposed $1.7 billion project to ship 4.2 billion cubic meters per year of Canadian gas to Japanese utilities appears to have encountered insurmountable problems. According to Alberta's Deputy Energy Minister, his government plans to impose a minimum price on any of the province's gas destined for the project at a level that almost certainly would make the price of liquefied natural gas charged Japanese customers prohibitive. Because Alberta was to have supplied 75 percent of the gas needed for the project, this decision probably will make completion of the project impossible in spite of the fact that British Columbia, scheduled to supply 25 percent of the project's gas, gave its approval late last year. Demise of this project will hamper Canada's efforts to diversify its markets for natural gas exports. 25X1

International Trade, Technology, and Finance

25X1

Soviets Refuse To Pay Higher Bosporus Fees

According to Turkish and Western press reports, over 100 Soviet ships have transited the Bosporus Strait since mid-December without paying Turkish service fees required by the 1936 Montreux Convention. The USSR reportedly will formally protest the increase in fees that resulted from Turkey's decision in November 1982 to peg the gold-denominated rates to the market price of gold instead of the officially set rate that had been used previously. Turkey maintains that the daily bullion rate for gold reflects its true value as envisaged by the drafters of the Convention. Ankara's action follows years of frustration over continuing decreases in real revenues received for services agreed to in the Convention, which entitles Turkey to just compensation. Although most other users of the passage to the Black Sea—including the United Kingdom and Bulgaria, who also are planning formal protests—reportedly are paying the higher fees, the Soviets contend the increase contravenes the Convention and requires a revision of it. 25X1

The USSR generates the majority of the merchant shipping volume going through the Bosporus. If Turkish projections of $300 million in revenue this year are accurate, the increased fees could cost the Soviets an additional $225 million in hard currency at a time when they are seeking to reduce such expenditures. Press reports state that the Soviets owed the Turks almost $4 million in back transit fees by the first week in January. 25X1

A spokesman for the Turkish Government last week downplayed the press reports with statements that payments for Soviet ships are not normally received until four months after their transit. Ankara, nonetheless, is anticipating formal protests and warns it will take action upon firm evidence of noncompliance by the USSR or any other country. Neither party is seeking a confrontation, but the Turks, encouraged by the provisional acceptance of the new fees by non-Soviet vessels, may try to impound a Soviet merchant ship that has docked in a Turkish port or slow down the sanitary inspection process for Soviet vessels that are seeking passage. The Soviets possibly would respond by imposing limited economic countermeasures to force the Turks to negotiate a lower fee. 25X1

Mexican Agricultural Import Requirements Increasing

According to the US Department of Agriculture, Mexico will need to import $2.5 billion worth of agricultural products this year—up from $1.8 billion last year—because of bad weather, spending cutbacks, and the lack of hard currency to purchase crucial agriculture inputs. Mexico's combined grain and oilseed production last year dropped an estimated 27 percent, in large part because rainfall was 75 percent below normal. Cuts in the Ministry of Agriculture's 1982 budget curtailed subsidies for seed, fertilizer, and crop insurance, and guaranteed support prices paid to farmers did not keep up with inflation. Production of some other commodities—such as eggs—declined because controlled farm prices did not cover production costs. 25X1

To meet its import needs, we expect Mexico will seek new trade arrangements with its agricultural suppliers. Mexico City already has approached Washington for $600-800 million in agricultural credit guarantees, in addition to the $1 billion already extended, to cover the remainder of 1983 agricultural purchases from the United States. [redacted] Mexican agricultural officials expect that the initial credit will be exhausted by July. Nearly half of those credit guarantees were drawn down by a $450 million loan from 26 US banks for Mexican imports of grain and oilseeds signed at the end of December. We believe Mexico also is discussing new deals—including barter arrangements—with other foreign agricultural suppliers. [redacted] 25X1 25X1

Canada Extends Customs Jurisdiction

Ottawa recently announced its intention to extend by September its customs jurisdiction from the current 12-mile limit to a distance of 200 miles or to the edge of the continental shelf, whichever is greater. This extension will permit Ottawa to levy duties on offshore installations and on the supplies carried by their associated vessels. Current plans call for fishing vessels to be exempt from the new regulations. The government's legislation also continues a program of federal subsidies to Canadian shipbuilders and includes provisions requiring coastal trade to be carried in ships built, registered, and operated in Canada. [redacted] 25X1

Since major oil and gas deposits were discovered off the east coast and in the Beaufort Sea in the 1970s, Ottawa has been pressured by Canadian manufacturers and shipbuilders to adopt protectionist measures to maximize Canada's gains from offshore development. Ottawa expects its program, by discouraging imports related to offshore development, to generate $2.4 billion in new business for Canadian suppliers over the next decade. The retention of federal subsidies will encourage the use of Canadian-built ships for resource exploration and will also provide domestic shipbuilders with an edge in obtaining contracts for the construction of patrol frigates and icebreakers used by Canada's Maritime Command. [redacted] 25X1

25X1

[redacted]

We believe that the increased use of protectionist policies will aid the current retooling and restructuring of the French electronics industry. If successful, the French policies, coupled with increased government leverage as a result of recent nationalizations, could significantly reduce US computer sales to France—nearly 10 percent of US computer exports in 1981, and could further reduce the US share of the French installed-computer base. [redacted] 25X1

US Countervailing Duties on Spanish Steel Exports

The impact of countervailing duties imposed by the United States earlier this month against certain Spanish steel exports is likely to be substantial, as steel products account for about 15 percent of total Spanish exports to the United States. Export sales have become less profitable recently due to declining steel prices, and imposition of the duties may force at least one firm, Echevarria, to cease exporting to the United States. The decision to impose duties follows the International Trade Commission's ruling in December that US steel producers had been damaged by highly subsidized Spanish exports. Madrid considered other alternatives, such as voluntary restraints, but, after consultations with Spanish steel producers, the Gonzalez administration concluded that countervailing duties would do the least damage to the private sector—an important point at a time when the Socialists are seeking to reassure a business community nervous about the government's economic policies. [redacted] 25X1

25X1

[redacted]

National Developments

Developed Countries

Japan Debating New Economic Plan

Prime Minister Nakasone last week abandoned efforts to extend through 1987 a revised version of Japan's current economic plan. The government believes the current plan's average annual target growth rate of 5.1 percent is out of reach because of two years of poor economic performance. [redacted] 25X1 By scrapping the nearly completed revision of the current plan and requesting instead a longer term—eight- to 10-year—economic planning document, Nakasone has headed off this confrontation. Press reports indicate the new plan will not be ready before the June parliamentary elections. 25X1

By delaying revision, Nakasone is only temporarily avoiding the confrontation. The current seven-year plan's overly optimistic growth targets have led to inflated revenue forecasts for the past two years. The resulting revenue shortfalls are hindering government efforts to phase out deficit-financing bonds. Faced with an even larger deficit in 1983, the Finance Ministry wants to raise taxes. 25X1

25X1

Israel Averts New Inflation Record

The 5.5-percent rise in the consumer price index in December brought the inflation rate for the year to 131.4 percent—only slightly below the 1980 record level of 133 percent. Finance Minister Aridor had pulled out all the stops in recent months to avoid being tagged with a new inflation record, including slowing the rate of depreciation of the shekel to lower the price of imported goods and increasing the prices of government-controlled commodities by a modest 5 percent a month. Aridor, however, faces an uphill fight to prevent a new record this year. The recent agreements on a new cost-of-living formula and public-sector wages make real wage gains likely. Real wage increases have been a major impetus to inflation in recent years. 25X1

Italian Budget Deficit Financing Problems

The Treasury last month exhausted its authorized line of credit with the Bank of Italy, and Rome now is proposing legislation providing for an extraordinary one-year loan of $5.9 billion from the Bank of Italy. The proposal, if passed, would circumvent 1981 legislation that ended the Bank of Italy's obligation to act as the residual purchaser of Treasury bills. While adding to the monetary base would worsen inflationary pressures, the primary alternative, boosting interest rates on Treasury bills, would risk crowding private borrowers out of the market and constraining economic growth—a politically less attractive choice given already poor growth and employment prospects. The government's deficit financing problem probably will persist because current labor unrest will make agreement on bugetary austerity within the four-party government coalition even more difficult. 25X1

Turkey's 1983 Budget Approved

Hoping to bring spending and inflation under control, Ankara recently approved a budget for 1983 that represents a continuation of the government's 1980 stabilization efforts. Expenditures are slated to rise by 20 percent, about equal to the expected rate of inflation. Investment—directed largely toward energy-related projects and housing—will grow substantially, primarily at the expense of transfer payments and current expenditures. Total projected revenue will fall short of planned expenditures by about $800 million, and Turkish officials expect to make up the difference through domestic borrowing. Although the anticipated deficit is greater than last year's, it still is less than 2 percent of GNP. The overall thrust of the budget indicates that Finance Minister Kafaoglu is largely adhering to the austerity policies of former economic czar Turgut Ozal. 25X1

Australian Unemployment Still Rising

Unemployment in December stood at 9.2 percent, a half percentage point higher than the November level and the worst since the 1930s. The number of unemployed now is 55 percent higher than it was a year ago. The rise in unemployment coincides with a worsening economic situation. Canberra again has trimmed its economic growth forecast and now is predicting a 2-percent decline in real GDP for the fiscal year ending June 1983. The Fraser Cabinet met in mid-January to examine job creation proposals, but concern within Fraser's own party over the growing budget deficit makes it unlikely that any major jobs program will be initiated. As a result, we believe unemployment will continue to rise and probably reach 10 percent in several months. 25X1

Less Developed Countries

Mexican Cabinet Reorganization

We do not believe that President de la Madrid's recent reorganization of several ministries and the creation of the cabinet post of Comptroller General will be effective in eliminating inefficiency or reducing corruption. The greatest change was the shifting of industrial planning and promotion from the Patrimony Ministry to the Commerce Ministry. Patrimony, renamed Energy, Mines, and Parastatal Industry, will administer Mexico's state-owned enterprises, including the state oil monopoly, Pemex. The new Comptroller General, Francisco Rojas Gutierrez, de la Madrid's campaign treasurer, will be charged with monitoring government spending procedures and preventing misappropriation of funds. 25X1

Success will be limited, we believe, by development of new jurisdictional disputes and the magnitude of the sacrifices required to cut total government spending some 20 percent. With the administration of the parastatal industries separated from industrial planning, for example, conflicts between Commerce and Energy are likely to arise and inhibit efficiency. Even though the new Comptroller General was credited with stricter control in assigning and auditing funds than past campaign treasurers, it seems unlikely that he will be able to hold government spending within budget targets. We expect the ministries to resist the cuts in federal employment necessary to live within the 1983 budget. De la Madrid will face increasing pressure to raise spending limits as austerity begins to pinch—especially if inflation exceeds his administration's projected 50-percent rate this year. 25X1

Venezuela's Financial Difficulties Intensifying

The failure of two Venezuelan state corporations to meet loan repayments during the past month have heightened banker concern about the country's financial prospects. As a result, international lenders last week postponed a $204 million syndication, thereby undermining the government's plans to refinance maturing short-term public debt. This year Caracas faces the need to restructure about $7 billion in maturing credits into long-term loans to avoid further depleting its liquid reserves, now estimated at $4.5 billion. According to the US Embassy, failure to refinance most of these maturing debts could cause Caracas to take extreme measures—the imposition of exchange controls or the declaration of a payments moratorium—to avoid a foreign exchange crisis. 25X1

Costa Rican Rescheduling Agreement

At a Paris Club meeting last week, Costa Rica secured agreement on the rescheduling of its repayment obligations through the end of 1983 on nearly $1 billion of government-to-government debt; payments will be stretched out through 1992, following a four-year grace period. San Jose also is nearing final agreement on the rescheduling of its $1.5 billion foreign commercial debt. Even with the rescheduling, Costa Rica will need to continue its tight rein on spending and imports to keep the budget and current account deficits under control. Despite the sharp drop in the country's standard of living, a privately run public opinion poll indicates that support for Monge's policies has increased and may suggest that growing numbers of Costa Ricans are resigned to a lengthy period of belt tightening. Monge, nevertheless, could encounter mounting criticism from left-of-center elements within his own party as the austerity measures take hold. 25X1

Chile's Economic Problems Mount

Chile's economic slide accelerated during second-half 1982. Business failures are at record levels, the inflation and unemployment rates both exceed 20 percent, and industrial output is more than 17 percent below year-earlier levels. The government has moved to stimulate the economy through increased expenditures on public works and jobs programs, but the drop in consumer purchasing power has negated the impact of these actions. 25X1

The worsening economy is sapping public confidence and creating domestic discontent. Coalitions of farmers, small businessmen, and influential labor leaders have organized protest actions ranging from boycotts of foreclosure sales to street demonstrations. The government has taken a hard line toward open dissidence; it used force to break up a Santiago labor demonstration and exiled two prominent labor leaders and the president of the national Wheat Producers Association in early December. Although Pinochet still favors free market policies, he may be forced to make some concessions if the economy continues to deteriorate. 25X1

Jamaican Bauxite Output Lagging

The recent sale of $30-35 million worth of bauxite for the US stockpile probably will allow Jamaica to squeak through its March performance review to retain IMF funding, but serious problems still plague the bauxite sector. Although Alpart, a consortium led by US aluminum companies, has reconsidered earlier plans to shut down, the consortium intends to maintain current production only if it can continue to slash operating costs. Even with the 1-million-ton sale for the US stockpile and anticipated new barter agreements, Kingston predicts that bauxite output in 1983 will fall to 7.7 million tons, compared with more than 9 million tons last year. The bauxite sector—which accounts for 75 percent of Jamaica's total export earnings—traditionally is the country's major source of growth. Real GDP climbed only 1 percent last year, well below Kingston's original target of 4 percent. Sluggish bauxite performance is likely to crimp recovery again in 1983. 25X1

India To Buy More Grain From United States

Grain traders indicate that India will buy another 1.5 million tons of wheat from the United States, probably by the end of this month. New Delhi buys almost all of its imported wheat from the United States. In the current marketing year that ends in June 1983, India already has purchased 3.9 million tons, an increase of 1.5 million tons over last year. 25X1

New Delhi probably is taking advantage of low international grain prices to build grain stocks to the target level of 18 million tons by midyear, a target that now appears within reach, according to USDA estimates. Stocks on 1 July 1982 were only about 15.5 million tons. Although India could purchase grain from a number of exporters, the offer of blended credits may have influenced New Delhi's decision to come to the United States. 25X1

Communist

Continuing Improvement in Soviet Hard Currency Trade

The USSR's improved hard currency trade picture continued into third-quarter 1982. A surplus of $700 million brought the deficit for the January-September period down to $1.5 billion, less than a third of the $5.2 billion gap registered in the same period in 1981. Exports fell in the third quarter but in the first three quarters as a whole were still 20 percent above the comparable period of the previous year. About three-fourths of the increase was due to a rise in oil exports, which are estimated to have climbed at least 50 percent. Partial reporting suggests that exports of natural gas also may have risen sharply due to increases in both volume and average prices. 25X1

Soviet Hard Currency Trade with Selected Countries *Million US $*

	Jan-Sept 1981			Jan-Sept 1982		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	**16,369**	**21,609**	**−5,240**	**19,695**	**21,159**	**−1,464**
Developed West	14,250	16,110	−1,860	16,847	16,869	−22
Of which:						
Australia	13	636	−623	17	605	−588
Austria	872	499	373	680	534	146
Canada	56	1,231	−1,175	23	1,304	−1,281
France	2,414	1,778	636	2,296	1,322	974
Italy	2,430	1,044	1,386	3,048	1,207	1,841
Japan	812	2,199	−1,387	767	2,938	−2,171
Netherlands	915	532	383	1,621	390	1,231
Sweden	251	388	−137	399	390	9
Switzerland	252	538	−286	450	429	21
United Kingdom	711	1,083	−372	859	733	126
United States	145	1,460	−1,315	155	2,499	−2,344
West Germany	3,452	2,897	535	4,116	3,037	1,079
LDCs	2,119	5,499	−3,380	2,848	4,290	−1,442
Of which:						
Argentina	38	2,855	−2,817	34	1,564	−1,530
Brazil	13	722	−709	168	491	−323
Iraq	873	5	868	1,235	25	1,210
Libya	211	353	−142	204	1,003	−799

[redacted] 25X1

The Soviets reduced imports in the nine-month period 2 percent below the comparable period in 1981 by cutting purchases of Western agricultural products, chemicals, and nontubular steel. A notable exception was imports of steel pipe, which rose roughly 75 percent as Japan and West Germany began deliveries for the Siberia–to–Western Europe pipeline. Sketchy Western trade data indicate that imports of Western machinery and equipment also may have risen substantially after falling by one-fourth in 1981. [redacted] 25X1

Polish Price Increases

Warsaw officially has announced that retail prices will increase only 15 percent in 1983, with price hikes scheduled thus far on public transportation, postal services, and private vehicles. Many workers probably are concerned about rumors of price increases that may not be covered by wage increases. According to a survey by the regime, about 30 percent of Polish families cannot afford to buy their meat or flour ration because of the 350-percent increase in food prices last year. Significant price increases could generate more resistance this year than last year. With martial law suspended, Polish workers may be more willing to show their anger and frustration at the regime's austerity policies. Such outbursts, however, would be localized and controllable by the authorities. 25X1

Romanian Efforts To Spur Savings

The Romanian Government this month increased interest rates on savings deposits and instituted a voluntary investment scheme, in which a typical worker would contribute 8 to 38 percent of his income to his factory in return for a guaranteed dividend. The moves are the latest in a series of steps by Bucharest, including price and tax increases and administrative controls, to sop up domestic purchasing power and support the drive to improve the country's balance of payments. There has been a decline in the supply of consumer goods, and the 22-percent rise in consumer prices since 1980 has led to an unprecedented decrease in real wages. Consumers have reacted largely by reducing savings rates, and the result has been long lines and severe shortages, especially of food and energy supplies. The new measures do not appear to go far enough to bridge the gap between supply and demand. 25X1

25X1

Decentralization of Services in Hungary

Hungary is moving rapidly to decentralize its service sectors in the hope that improved and expanded services will lessen the impact on consumers of a planned decline in real wages, as well as provide employment for workers displaced by efficiency measures in large industrial establishments. As one step to meet its goals, the government this month liquidated two of its largest service establishments—the automobile and electrical maintenance enterprises—and replaced them with more than a hundred locally run, independent businesses. Budapest also is encouraging small service enterprises by granting them highly advantageous bank financing and by giving workers permission to use workplace facilities and equipment after normal working hours for their private businesses. In addition, from January to October 1982, the government issued almost 8,000 permits to private artisans, maintenance and repair partnerships, and private taxicab operators. 25X1

China Considering Purchase of Nuclear Plant

China's State Council has approved importing the country's first major nuclear power facility, but formidable obstacles at home and abroad put its construction in doubt. The chairman of the Hong Kong–based China Light and Power Corporation—a joint participant in the project with Guangdong Province—says his company has not decided whether to proceed. China has not resolved major differences with the power company over management of the plant and the cost to be borne by each side. The company can profit only if it makes substantial sales of power to Hong Kong after 1990. There has been no official word on how the project will be financed. Earlier reporting indicated that the Bank of China would not back the project, which has construction and startup costs estimated at $4 billion—more than China's total annual budget for electric power. 25X1

Prospective sellers of a nuclear plant presumably are cautious about any costly project not backed by the Bank of China. The Chinese, nonetheless, have been negotiating since July with French, British, Japanese, Swedish, and US firms for nuclear technology and other cooperation. Beijing has been seeking bids to begin construction this year. Guangdong reportedly has been disappointed with the prices and financing offered by France, which has been energetically seeking the contract. The lack of a strong nonproliferation policy currently prevents the Chinese from contracting for the Westinghouse plant they are said to prefer. 25X1

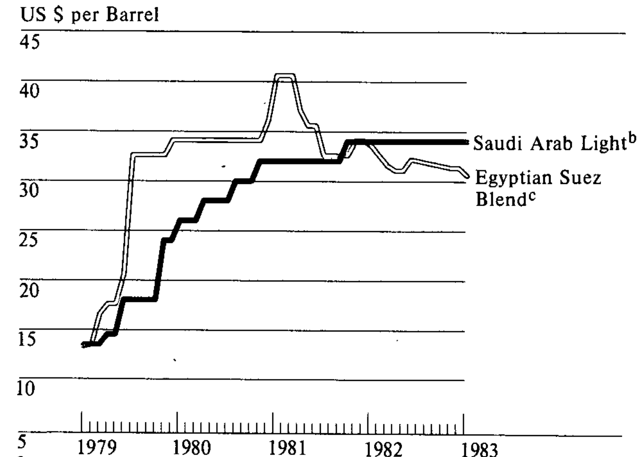
Egypt: The Economy on the Eve of Mubarak's Visit

25X1

Egypt so far has weathered the soft oil market and the global recession better than most LDCs, but the country's economic problems could grow sharply in 1983. At best, Egypt will face a tight foreign exchange situation necessitating additional Eurodollar borrowings. Cairo will continue measures to limit nonessential imports and may adjust its multiple exchange rate system. Should oil prices tumble or disruptions in international financial markets impede access to foreign loans, Egypt would be forced to impose much tougher and politically risky austerity measures. Potentially these economic problems could combine with adverse foreign policy developments and a further deterioration in the quality of life in Cairo to cause an upswing in domestic turmoil. 25X1

Faced with growing criticism of the US connection, Mubarak will use his forthcoming Washington visit to seek changes in the economic aid program that will more clearly demonstrate the wisdom of close US-Egyptian relations. He will seek American help to begin a major overhaul of sewage and water facilities in Cairo that will publicly underscore his—and US—resolve to help urban Egyptians. He may also appeal for a share of aid as cash transfers. Such transfers would not only demonstrate movement toward the aid parity with Israel that Mubarak and many Egyptians believe was promised to the late President Sadat, but also would be particularly helpful should oil prices fall in the months ahead.

Egypt: Comparison of Egyptian and Saudi Arabian Oil Prices[a]



[a] For comparison, Egyptian oil prices in 1981 and 1982 have been adjusted downward to approximate the 30-day credit terms of Saudi Arabian Light. This adjustment is $0.50 per barrel for 60-day credits and $1.00 per barrel for 90-day credits. Data are for the end of the month for the first plot and the first of each month for all others.
[b] 34° API, 1.7% sulphur.
[c] 34° API, 1.4% sulphur.

25X1

588579 1-83

1982 Economic Performance

We estimate that Egypt's current account deficit increased only about $100 million to $2.3 billion last year. Export earnings declined $300 million, primarily because of the soft oil market. Larger oil revenue declines were avoided by frequent price adjustments that enabled Egypt to boost oil production to a historic high of 700,000 b/d in the fourth quarter. Suez Canal revenues barely grew because of the soft oil market and lower global trade. Tourist earnings were affected by the war in Lebanon and the global recession. Remittances from workers abroad continued to decline because of Egypt's unrealistic interest and exchange rate policies. 25X1

25X1

The decline in foreign earnings was nearly balanced by a fall in imports of goods and services. Egypt benefited significantly from lower world commodity prices, particularly for foodgrains and sugar that comprise nearly a quarter of total imports. In addition, the government took steps to restrict imports:

- The Central Bank of Egypt selectively tightened domestic credit controls to reduce demand for "nonessential" imports.
- The public sector's access to foreign exchange was restricted.
- Private-sector importers were confronted with increased administrative red tape that impeded foreign purchases. [redacted]

Continuing large aid inflows from the United States and other donors enabled Egypt to cover its current account deficit. The Central Bank of Egypt was able to limit its Eurodollar borrowings in 1982 to a $200 million syndicated loan. In addition, public-sector banks borrowed another $75 million. As a result, Egypt was able to avoid turning to the IMF for loans that would be conditioned on politically risky policy adjustments. [redacted]

Economic growth probably slowed to around 6 percent in 1982, largely because of the tight foreign exchange situation. While good compared to most countries, growth was down from the 8- to 9-percent levels of previous years. Fueled by continuing rapid monetary expansion generated by government deficits equivalent to 20-percent of GDP, inflation edged up to 13 percent in 1982. Most low- and middle-income consumers are effectively sheltered by extensive government price controls and subsidies, but prices of uncontrolled goods have been rising at a rate of 30 percent or more. [redacted]

Egypt's reasonably good overall economic situation is often masked by the difficulties of urban life, particularly in Cairo. Rapid population growth since World War II has combined with insufficient investment and maintenance to create serious urban problems. Inadequate public transportation, jammed streets, periodic water shortages, and overloaded sewers all try the patience of Cairenes. [redacted]

Minimal Policy Changes

Officials are unwilling to undertake the policy reforms needed to deal with the country's broad economic problems. The maintenance of low food and energy prices—bread at 5 cents a pound and domestic petroleum prices that average 20 percent of world market values—are prime examples of policies that stimulate consumption and enlarge the budget and current account deficits. Although top economic officials are aware that pervasive cost/price distortions skew investment decisions and encourage waste, the major price adjustments needed to address these problems are judged politically unacceptable. Furthermore, Egypt lacks both the necessary data and the administrative flexibility to carry through effective reforms and policy adjustments. [redacted]

25X1

25X1

The notion is widespread that the government must "do something," but there is little agreement as to what. Mubarak has been unsuccessful in defining new policies to deal with Egypt's economic problems. His reliance on staff advice is proving ineffective since Egyptian politicians, economists, and bureaucrats cannot agree on policies or even goals. Moreover, Prime Minister Mohieddin—a key civilian adviser to Mubarak—is extremely wary of policy reforms that might upset domestic stability.

25X1

[redacted]

25X1

Lacking a consensus on bold moves, the government is pursuing only minor policy changes. The steps taken so far by Mubarak include:

- Consumer electricity price hikes of 5 to 20 percent.
- A rise in controlled interest rates of 1.5 percentage points.
- A public-sector wage increase of $6 per worker per month, far less than previous raises by Sadat.
- An increase in the number of items subject to the consumption tax, coupled with tax rate hikes of 5 to 100 percent. [redacted]

25X1

25X1

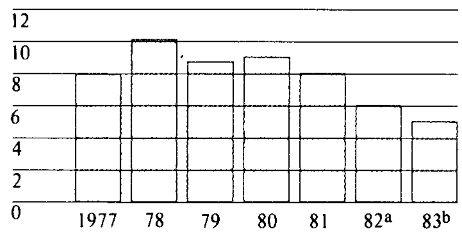
25X1

Egypt: Economic Indicators

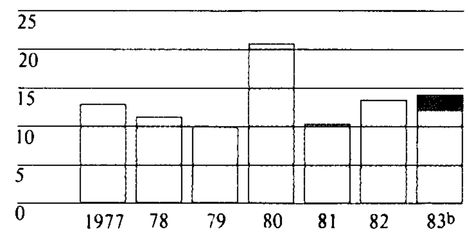
Note change in scales

Shaded portions indicate range

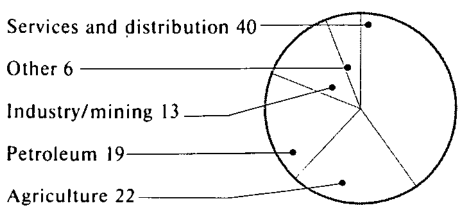
Real GDP Growth
Percent



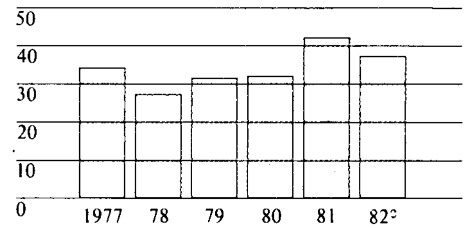
Consumer Price Growth
Percent



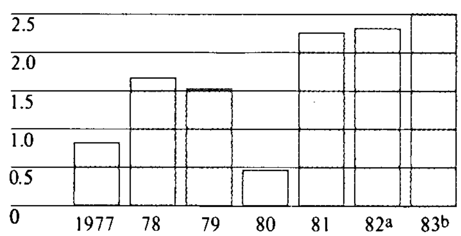
Composition of GDP, 1980/81
Percent



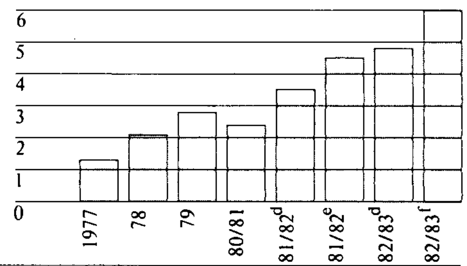
Money Supply Growth
Percent



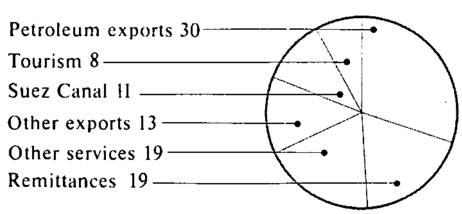
Current Account Deficit
Billion US $



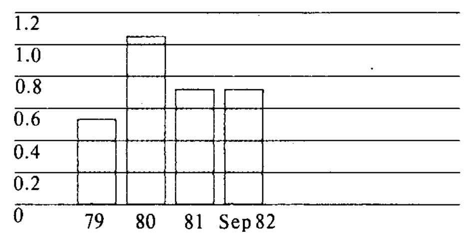
Government Budget Deficit
Billion Egyptian Pounds



Composition of Foreign Earnings in Jan-Jun 1982
Percent



Foreign Exchange Reserves[g]
Billion US $



[a] Estimated.
[b] Projected.
[c] Sep 1982 over Sep 1981.
[d] Initial estimate.
[e] Actual estimate.
[f] IMF estimate.
[g] End of period. Excluding gold.

25X1

588580 1-83

With memories of the riots over bread price increases in January 1977 still strong, even these gradual changes were made with little public fanfare, and the public reaction was closely monitored by Egypt's domestic security services. So far, the changes have caused grumbling but no unrest. [redacted]

25X1

We believe Egypt is unlikely to take bold reforms until it faces much more serious foreign payments problems. Until then, Cairo will make only small adjustments designed to persuade aid donors, particularly the United States, that it is attempting to deal with its longer term problems. In recent discussions with US officials, for example, Prime Minister Mohieddin hinted that Egypt may gradually reduce the bread subsidy, but there is a good chance that his comments were mainly an attempt to please the Americans. [redacted].

25X1

Oil Market Threatens 1983 Outlook

We project that Egypt's current account deficit will show only a slight deterioration to $2.5 billion during the current year. This projection assumes that:

- Oil prices will remain at 1 January levels—down 5 percent from the 1982 average—and Egyptian earnings will remain flat as additional production offsets the price decline.
- Egypt continues to limit nonessential imports.
- Wheat and sugar prices fall slightly and overall OECD export prices in US dollars rise less than 2 percent.
- Worker remittances and earnings from the Suez Canal and tourism grow slightly. [redacted]

Egypt can—with difficulty—finance a current account deficit in the range of $2.5 billion through foreign assistance, the possible use of some IMF compensatory financing, and Eurodollar loans. Although most US banks are wary of providing balance-of-payments loans to Egypt, Arab-owned banks appear more amenable, according to a recent survey by the US Embassy in Cairo. Egypt currently is discussing a $200 million syndicated Eurodollar loan with the Trans-Arabian Bank of Bahrain.

[redacted]

Egypt: Current Account Balance *Billion US $*

	1980	1981	1982 [a]	1983 [b]
Current account balance	**−0.5**	**−2.2**	**−2.3**	**−2.5**
Trade balance	−3.7	−4.8	−4.8	−5.3
Exports	3.9	4.0	3.7	3.7
Oil	2.5	2.8	2.6	2.6
Nonoil	1.3	1.2	1.1	1.1
Imports	7.6	8.8	8.5	9.0
Net services	3.2	2.6	2.4	2.7
Receipts	5.3	5.1	4.8	5.2
Remittances	2.7	2.2	1.6	1.9
Suez Canal	0.7	0.9	1.0	1.0
Tourism	0.8	0.6	0.6	0.7
Other	1.2	1.4	1.6	1.6
Payments	2.2	2.5	2.4	2.5
Unrequited transfers	0.1	0.1	0.1	0.1

[a] Estimated.
[b] Projected. Assuming oil prices in 1983 remain at 1 January levels through yearend.

[redacted]

25X1

Economic growth in 1983—barring a fall in oil prices—is likely to be about 5 percent. Senior Egyptian officials are increasingly aware that they cannot repeat the rapid growth of the late 1970s given global economic conditions. Inflation is unlikely to slow; the budget deficits will remain large and government energy price hikes could occur in the second half of the year. [redacted]

25X1
25X1

If oil prices decline sharply in 1983, as some observers believe they could, Egypt would face significant difficulties. We estimate that for each $1 per barrel decline in the price of oil, Egypt stands to lose close to $200 million in foreign earnings from oil exports, Suez Canal tolls, and worker remittances. A sharp decline might even reduce job opportunities abroad and force some Egyptians home. With foreign exchange reserves equivalent to only one month of imports, a steep oil price decline would leave Egypt scrambling for

25X1

alternative financing. Commercial funding, however, would be increasingly difficult to obtain. Egypt might be tempted to seek official aid from other Arab states, but this would force Cairo to take the initiative in relations with these states. Egypt would do this only reluctantly since it would not want to accept the sort of political conditions that might be placed on such aid, conditions that could harm relations with the United States and reduce the chance of improving relations with Israel.

The Political Context

Foreign exchange difficulties caused by a sharp drop in oil prices could be used by the government to justify tough reforms, but this argument probably would not be well received. Mubarak's efforts to educate the public about the hard economic facts of life so far have met little success. The Egyptian public and the opposition could well blame the increased hardships on inept or corrupt leadership. The appeal of Islamic fundamentalism probably would grow during a period of austerity.

Egypt faces the possibility in 1983 that the US peace initiative may not produce significant progress. This would generate additional domestic questioning about the value of close ties with the United States. Further Israeli provocations in the region, moreover, would make Egypt's relations with Israel an increasing liability. Such problems would work together to foster additional criticism and doubt about Mubarak's leadership.

Implications for the United States

President Mubarak will seek gains from his visit to Washington that demonstrate the wisdom of continuing close ties with the United States. On the economic side, Egypt is hoping to obtain:

- A significant commitment of US aid funds—approximately $1 billion over the next five years—to help build new sewage and water facilities in Cairo.
- Further progress in moving toward aid parity with Israel, through cash transfers.
- Further shifts of unspent aid to new uses. 25X1

The Egyptians continue to believe that the United States has failed to provide economic aid to Egypt on terms equal to those given Israel, and they do not like the conditions sometimes attached to US aid—for example, the insistence on future domestic energy price hikes as a condition for financing energy projects. The Egyptians are clearly aware 25X1
that Washington places no such conditions on its economic aid to Israel. Furthermore, the Egyptians believe they have been more supportive than Israel of US interests in the Middle East. Prime Minister Mohieddin's recent jocular aside to a visiting US official that Egypt might receive cash transfer aid if it invaded Libya reflects Egyptian resentment over perceived unequal treatment. Improvements in the US aid program that enable Mubarak to demonstrate more clearly the benefits of close relations with the United States would help both Mubarak and the US image in Egypt. 25X1

Although Egyptian officials want to achieve a sense 25X1
of increased flexibility in the aid relationship, they may not be clear on specifics while in Washington. Mubarak's appeal for funding of visible projects is somewhat at variance with requests for cash transfers. Any cash transfers almost certainly would be used to finance the balance-of-payments deficit rather than specific projects. In any case, what is most important for Egyptian officials is that Mubarak's trip be seen by Egyptians as producing significant gains; the symbolism will prove as im- 25X1
portant as the details. 25X1

If an oil price decline in the coming months leads to an Egyptian financial crisis, the US response will have an important influence on overall relations. A financial crisis would increase Egypt's need for balance-of-payments support and would spur Egyptian requests for cash transfers. If Egypt is forced eventually to initiate serious negotiations with the IMF, it will hope for US help in limiting the Fund's conditions. 25X1

25X1

Japan: NTT Boosts Domestic Memory Chip Producers [redacted]

25X1

Nippon Telegraph and Telephone (NTT) Corporation, a Japanese Government entity, is giving a boost to the Japanese integrated circuit industry by becoming the first purchaser of the next generation random access memory (RAM) chip—the 256K (K=1024 bits) RAM. NTT will purchase sample quantities in the fiscal year beginning 1 April 1983 and is scheduled to begin regular procurement one year later. US firms already lag Japanese companies in developing the 256K RAM; NTT's purchase and technical assistance will give the Japanese companies an additional competitive edge over their US rivals, bolstering Japanese efforts to perpetuate their lead in the high volume memory chip market. Japanese companies already have more than half of worldwide sales of the latest-generation commercial memory device, the 64K RAM. Continued Japanese dominance of the advanced memory sector will directly affect the US merchant semiconductor market. [redacted]

NTT Moves In

NTT has announced it will incorporate 256K RAMs to be produced by Nippon Electric Company (NEC), Hitachi, and Fujitsu, into its computers and telephone exchanges beginning in 1983. According to the trade press, NTT concluded that the three Japanese firms are the most capable of meeting its requirements after an extensive survey of the world's semiconductor producers. This is not surprising; NTT involvement with the companies in the development of the 256K RAM began at least as early as 1980—as confirmed by NTT's coauthorship of technical papers on the device with NEC/Toshiba and with Hitachi. The trade press also indicated NTT will continue to provide free design and manufacturing assistance from its research laboratory. [redacted]

NTT has had a long history of involvement with the major Japanese semiconductor companies in the development of advanced RAMs. Since the mid-1970s NTT has had two very large-scale integrated circuit (VLSI) research and development projects with industry, which, according to the Japanese press, had among their accomplishments the development of 64K and 256K RAM devices. NTT is now into its third VLSI project that has as one of its goals the development of a one megabit (1,000K) RAM. NEC, Fujitsu, and Hitachi were the commercial members of the first two NTT VLSI projects. Toshiba has recently been added to the third VLSI project. [redacted] According to the US trade press, NTT also developed a 64K RAM device with Oki Electric in 1978 for NTT's in-house use. [redacted]

25X1

25X1

25X1

[redacted]

25X1

[redacted]

25X1

[redacted]

25X1

25X1

25X1

Impact of NTT's Help

Technical assistance from NTT will augment the companies' efforts to develop a first-generation 256K RAM for the commercial market even if the design of RAMs for NTT differs from the ultimately accepted standard for widespread application. Know-how from the NTT Electrical Communications Laboratories, perhaps the leading semiconductor research facility in Japan, has helped the companies refine their 256K RAM designs and production processes for mass manufacturing.

25X1
25X1

US companies wishing to sell 256K RAMs to NTT will be at a severe disadvantage. First, they will lack the established working relationship with NTT that the Japanese firms have acquired as the result of joint development efforts in the past. Second, under the provisions of the NTT Procurement Agreement that took effect 1 January 1981, US firms must submit proposals (which NTT can reject) and then must become qualified by NTT as suppliers for the 256K RAM. The three Japanese firms are already qualified since they were working on development of 256K RAMs designed to NTT's specifications before the NTT Procurement Agreement. 25X1

Furthermore, the impact of NTT's involvement with the Japanese companies on the 256K RAM will extend beyond the semiconductor industry. NTT will require its prospective suppliers of computer and switching equipment to incorporate into their products 256K RAMs meeting NTT specifications. Thus, US suppliers of computers and switching equipment will be locked out of the NTT market—at least in the short term—unless they use 256K RAMs produced by Hitachi, Fujitsu, and NEC, who also make competitive end products.

25X1

25X1

Sanitized Copy Approved for Release 2011/01/25 : CIA-RDP84-00898R000100030009-4

South Korea: Economic Decisionmaking in Transition

25X1

25X1

South Korea's highly efficient economic decisionmaking process has come under increasing strains in recent years as Seoul attempts to devise new approaches to manage a large and complex economy. President Chun Doo Hwan's corps of competent economic planners is divided between those who believe decisionmaking must evolve beyond the authoritarian economic command and control system established by President Park Chung Hee in the early 1960s and those who favor the traditional management style. This struggle, combined with less decisive top leadership, has resulted in increased disarray, especially in implementing new policies. Routine decisions and macroeconomic policy continue to be handled efficiently, but Chun must define lines of authority more clearly if the country is to achieve its relatively bright long-term growth prospects.

Decisionmaking Under Park

Efficient economic decisionmaking has been a key to South Korea's spectacular economic success over the past two decades. International bankers and businessmen have consistently ranked South Korea's planning process and its ability to implement policy among the most effective in the world. Several factors contributed to this efficiency. Park had a strong personal commitment to economic development. He initiated a highly structured, well-defined decisionmaking process in the early 1960s and ensured that economic policy was controlled by highly competent professional technocrats, most of whom had advanced degrees from US universities. While his authoritarian system was criticized for its restrictions on political rights, it had economic advantages; the government could mobilize resources for key projects and plan for the long term without being overly affected by day-to-day pressures for consumer and special interest benefits.

The Economic Planning Board (EPB), established in 1961, was the dominant force in economic policymaking. It prepared formal development plans, drafted the annual budgets, coordinated positions on policy issues within the ministries, and implemented policy. Policy implementation benefited from a close business-government relationship. A well-defined, mutually satisfactory relationship developed between the Park government and the business leaders who built South Korea's major corporations. Speed, flexibility, and pragmatism generally characterized South Korean economic decisionmaking throughout the 18 years of Park's 25X1
rule. 25X1

Decisionmaking Under Chun

In many respects the positive traits that characterized economic planning under Park are still present. Chun has maintained a strong government commitment to and emphasis on economic development, and he relies on a cadre of talented, largely US-trained economists. For the most part, sound economic principles, not political expediency, are the bases for economic decisions. 25X1

Chun's economic planners have implemented prudent macroeconomic policies. Kim Jae Ik, an internationally respected economist with a doctorate from Stanford, has been the chief architect of South Korean economic policy since Chun came to power in 1980. Kim, from his position as senior 25X1 secretary for economic affairs in the Blue House, convinced Chun that government overstimulation of the economy in the late 1970s was largely responsible for the problems of 1979-80 and that fiscal austerity was the best prescription. Chun gave Kim wide latitude in formulating policy, and Seoul enacted the politically unpopular measures needed to cool the overheated economy. As a result South Korea's economic fortunes improved greatly. The inflation rate (wholesale prices) has been reduced from 40 percent to 5 percent over the past two years, the current account deficit has been more than halved, and real GNP growth—at about 6 percent in 1982—is once again among the highest in the world. The austerity measures have enabled South Korea to avoid the balance-of-payments difficulties faced by so many other LDCs and to retain the confidence of international bankers. [redacted]

Developing Problems

South Korea's very success in managing economic development and the resulting expansion of the economy have put increasing strains on the decisionmaking machinery in recent years. Extensive, day-to-day government management has become increasingly difficult. The investment decisions required by the $67 billion economy of today are far more numerous and complex than those that arose when the GNP was only $2 billion in the early 1960s. [redacted]

Policy mistakes have convinced many observers that South Korea needs to reduce government intervention in the economy and to rely more on market forces in allocating resources. Most Korean observers believe, for example, that the Park government pushed investment in heavy industry too fast in the late 1970s. The issue of a new role for the government in managing the economy has led to increased debate among South Korean economic decisionmakers. [redacted]

Liberalizers Versus Traditionalists

Economic policymaking has been disrupted by the struggle between government liberalizers—those who espouse greater reliance on market mechanisms—and the traditionalists—those who favor a continuation of state-led economic development. Several top government officials, including Secretary Kim, have pressed for reducing import restrictions, easing foreign investment regulations, turning control of the banking system over to the private sector, easing regulations on foreign exchange flows, and reducing subsidies. These efforts have run into strong resistance, especially in the Ministry of Commerce and Industry (MCI) and at the middle levels of the economic bureaucracy. The traditionalists point to the success of government-led economic development in the past and cite the Japanese model to bolster their argument. [redacted]

25X1
25X1

The liberalizers initially swayed Chun, and his public and private comments echoed the need to open the economy. Over the past year, however, the traditionalists appear to have gained ground by stressing to Chun that domestic businessmen would be subjected to increased foreign competition. As a result, the pace of liberalization has been slow. Chun, in fact, may not be aware of the extent to which the struggle between the two camps has caused disarray and confusion in South Korean decisionmaking. The President, in any event, has been less decisive than Park in dealing with such conflicts. [redacted]

25X1
25X1

The economic impact of liberal reforms is difficult to predict. In such industrial areas as steel, ships, and autos, heavy government involvement is probably beneficial because the domestic market is small and the industries lack maturity. In other areas, textiles and footwear for example, more reliance on market forces may strengthen the country's competitiveness. Liberalization of the South Korean import and foreign investment regime would also be beneficial to the country [redacted]

25X1
25X1

Business-Government Relationship

Although we believe movement toward greater reliance on market forces will benefit the economy in the long term, this transition has inevitably resulted in a less-than-smooth response by business to government policy in the near term and has contributed to a weakening in business confidence. Prices are gradually replacing government directives as signals for business investment. The business community, however, is not fully in favor of the liberalization trend. Although businessmen want more say in making investment decisions and greater freedom from government regulation, they do not want to lose their traditional advantages, particularly subsidized credit and protection from foreign competition. [redacted]

Other factors have made businesses less responsive to government policy direction. Businessmen were burned by following Seoul's advice and overinvesting in heavy industry in the late 1970s, and as a result they have lost some confidence in government planners. The turnover of senior personnel in the economic ministries has also shaken business confidence and slowed decisionmaking. Chun, hoping to raise confidence, replaced his economic ministers last January in an effort to inject more business experience into the Cabinet. He shuffled economic ministers again in May and in June, this time in response to a major financial scandal. Rumors indicate another major Cabinet shuffle will take place within the next two or three months. [redacted]

A reorganization of the economic ministries in November 1981, which sought to reduce national-level economic decisionmaking, appears actually to have further hampered the overall effectiveness of the decisionmaking process. Besides cutting personnel throughout the government, Chun shifted all international financial responsibilities from the EPB to the Ministry of Finance. The EPB has thus been stripped of much of its authority over other ministries and now functions more as a budget bureau than as an economic policy coordinator. [redacted]

The business community is concerned about Chun's basic attitude toward private enterprise. The President got off to a bad start with business because of a hastily designed industrial restructuring program that mandated mergers in six industries; this was followed by orders to divest real estate holdings and sell subsidiaries. Although Chun has been courting business over the past year, he has yet to reestablish the close working ties to the business community that existed previously. [redacted] 25X1

Foreign Investment Policy

The various strains and problems that have developed in decisionmaking are perhaps most apparent in Seoul's foreign investment policies. South Korea's foreign investment image has been tarnished by problems foreign investors have had in dealing with Seoul. Several US firms, including IBM and Signetics, considered investments in South Korea but went elsewhere because of difficulties in dealing with the government. [redacted] 25X1

25X1

Foreign investment policymaking has suffered as a result of both the struggle between government liberalizers and traditionalists and the November 1981 reorganization. Struggles among the ministries for authority over foreign investment slows decisionmaking. Moreover, attitudes toward foreign investment among the various ministries differ significantly. [redacted] Without one ministry clearly in charge, these conflicts are time consuming and convey mixed signals to foreign investors. Dow Chemical's withdrawal and General Motors' decision to give up management control of its joint venture were caused, in part, by delays in South Korean decisionmaking. [redacted] 25X1

25X1

25X1

25X1

Prospects

We believe the overall efficiency of South Korea's economic decisionmaking structure and the policies in place will enable the country to achieve a fairly good growth rate in the coming year. The country's growth potential over the longer term, however, will not be realized unless the problems in the decisionmaking process are resolved. Perhaps most important, we believe Chun will need to lessen the disruptions caused by the struggle between the liberalizers and traditionalists and more clearly define authority lines. We believe Seoul would do best by retaining many of its traditional management techniques and strong involvement in the economy while at the same time selectively and gradually implementing some liberalization reforms, especially in opening the economy to greater foreign investment. South Korea needs the technology embodied in foreign investment to broaden its industrial base. We believe the country's top economic planners—and Chun himself—are committed to creating a more favorable foreign investment environment. A committee headed by Kim Chang-jin in the Prime Minister's office has been set up to handle foreign investment disputes, and Kim appears to be pushing hard to improve the investment climate. [redacted]

Most observers agree that economic decisionmaking was more efficient when the EPB was the dominant ministry, and recent reporting indicates many Korean officials are attempting to restore the EPB to its former position. The director of the EPB recently obtained President Chun's concurrence to return the powers the EPB lost in the 1981 reorganization on a gradual, step-by-step basis. Other elements of the government, however, are trying to block these efforts. [redacted]

Chun will have to avoid bowing to political pressures, such as those from the National Assembly and business to provide more government stimulus and larger wage increases. Such short-term political expediency would be costly to the country's long-term economic performance. A stimulus package announced last summer went further than many economists thought prudent and was dictated in part by political considerations and pressure from business. [redacted] 25X1

Failure to come to grips with these issues would increase the possibility of both economic and political instability. The public has high expectations for a return to rapid growth and improvement in living standards. The economy's growth potential, however, has been reduced because it has reached a more mature stage of development and faces a less favorable international economic environment.

[redacted] 25X1

Implications for the United States

The outcome of the struggle between the liberalizers and traditionalists will have an important impact on US economic interests and US-Korean economic relations. The longer South Korea takes to open up its markets to imports and foreign investment the more likely are troublesome disputes with the United States. In the near term, US firms seeking to invest in South Korea will continue to have difficulty in dealing with the Korean Government because traditionalists at the working level will seek to protect domestic interests. The liberalizers in the government, however, are likely to succeed in opening the Korean import market gradually, and US exporters should find fewer restrictions by the mid-1980s. In broader terms, a well-managed, high-growth economy will buy more imports from the United States and will be able to spend more on defense. [redacted]

25X1

25X1

[redacted]

25X1

25X1

Cameroon: Tough Times Ahead [redacted]

25X1

Cameroon has been a model of economic progress and political stability since it gained independence in 1960, thanks to the country's careful use of its resources and the effective leadership of former President Ahmadou Ahidjo. Despite this strong past performance, we believe the country will face significant economic challenges over the next few years as a result of less favorable international economic conditions and an overly ambitious domestic development program. The newly installed President, Paul Biya, will be required to make and impose tough economic decisions to keep the country on a strong development track. [redacted]

Oil Underpins the Economy

Cameroon began pumping oil in late 1977; by the end of 1978 it was a net oil exporter. The US Embassy reports that while many other LDC economies began to sputter in the late 1970s in the face of a global commodities slump, Cameroon easily weathered the decline as it began to benefit from oil revenues. [redacted] we believe the prospect of a coming oil boom made Cameroon attractive to foreign bankers just when international financial markets were overflowing with recycled OPEC money. [redacted]

We believe Cameroon has been more successful than West Africa's two other major oil producers—Nigeria and Gabon—in managing its oil windfall. US Embassy reporting indicates the government has used oil money to build up the industrial and agricultural sectors. By the end of 1981 economic growth had topped 6 percent for the third year in a row, oil production was up more than 25 percent from the 1980 level to 88,000 b/d, and agriculture was benefiting from favorable pricing policies and good weather conditions. Food processing activities led to strong industrial performance. [redacted] 25X1

[redacted]

In addition, Cameroon's foreign payments position continued to improve, as more than $1 billion in 1981 oil revenues again made up for depressed cocoa and coffee receipts. Yaounde's fiscal policies held nominal import growth to little more than 10 percent. As a result, we estimate that Yaounde held its current account deficit under $200 million, the lowest since 1977 and an amount easily financed by foreign donors and bankers. Although the external debt climbed to $2.4 billion by the end of 1981, the 15-percent debt service ratio was still fairly low. Typical of many LDCs in the throes of an oil boom, however, Cameroon began to experience increased demand-generated inflationary pressure as public expectations rose sharply. [redacted] 25X1

25X1

We believe that economic growth continued in the 6- to 7-percent range during 1982, but at some cost to the international accounts. The slack world oil market and increased domestic consumption reduced oil export earnings to about $850 million. This downturn, along with still depressed sales of cocoa and coffee, cut total export earnings to about $1.5 billion, down nearly $400 million from 1981 and the lowest since 1979. With foreign exchange outlays on the rise as Yaounde accelerated its FY 1981-85 development program, we believe the current account deficit expanded to $650 million, the largest since independence. [redacted] 25X1

25X1

Cameroon: Selected Financial Indicators

	1977	1978	1979	1980	1981 [a]	1982 [b]
	Million US $					
Trade balance	40.5	31.2	−12.1	69.6	145.0	−300.0
Exports (f.o.b.)	828.1	1,078.5	1,302.6	1,620.0	1,880.0	1,500.0
Of which:						
Cocoa	330.2	326.2	331.2	277.9	215.0	210.0
Coffee	400.4	320.1	356.1	299.4	235.0	220.0
Oil		25.0	265.0	720.0	1,100.0	850.0
Imports (f.o.b.)	787.6	1,047.3	1,314.7	1,550.4	1,735.0	1,800.0
Services and transfers	−149.9	−218.2	−268.5	−287.1	−325.0	−350.0
Current account balance	**−109.4**	**−187.0**	**−280.6**	**−217.5**	**−180.0**	**−650.0**
Foreign exchange reserves	42.4	52.3	125.7	173.5	70.9	NA
External public debt	861.0	1,182.8	1,663.7	2,000.0	2,400.0	2,800.0
	Percent					
Real GDP growth	4.0	5.0	6.1	6.2	6.5	6.0-7.0
Inflation rate	14.0	12.5	10.0	12.0	15.0	16.0
Debt service ratio	6.0	8.0	8.0	13.0	15.0	20.0

[a] Estimated.
[b] Projected.

[redacted]

[redacted] we estimate that Cameroon has borrowed about $400 million from various international lenders. The remaining $250 million will come from an estimated $900 million in overseas investments that the government has been accumulating as a financial cushion since the startup of oil production. [redacted]

Looking Ahead

The Financial Picture. Cameroon, unlike most of its West African neighbors, has an opportunity to regain and maintain a strong financial position over the next several years. We believe, however, that this will require the Cameroonian Government to make extensive and politically risky adjustments in the development program. Such changes could probably be carried out fairly easily if Ahidjo were still at the helm. President Biya does not have Ahidjo's prestige, however, and in our view will be less able to resist pressure from the country's various interest groups to maintain those parts of the plan of benefit to them. [redacted]

The current $8 billion development plan (FY 1981-85)—the most sophisticated to date in preparation and the most democratic in terms of participation—is targeted at consolidating the gains of previous plans, meeting more of the economic and social demands of the Cameroonian people, and further diversifying the economy. To reach these

Cameroon: Projected Current Account Balance and Debt Position *Million US $*

	1982	1983	1984	1985	1986
Trade balance	−300	−333	−541	−535	−638
Exports (f.o.b.)	1,500	1,693	1,740	2,033	2,253
Cocoa	210	210	210	210	210
Coffee	220	220	220	220	220
Oil	850	1,043	1,090	1,383	1,603
Other	220	220	220	220	220
Imports (f.o.b.)	1,800	2,026	2,281	2,568	2,891
Services and transfers	−350	−394	−444	−500	−563
Current account balance	**−650**	**−727**	**−985**	**−1,035**	**−1,201**
External public debt	2,800	2,882	3,867	4,902	6,103
Investments abroad	650				

[redacted] 25X1

goals, the government seeks to exploit more fully Cameroon's abundant natural resources—particularly oil and natural gas. In addition to developing its petroleum industry, Yaounde wants to move ahead on several other major programs in order to:

- Accelerate regional economic development.
- Maintain self-sufficiency in food.
- Expand the production of traditional export crops.
- Increase utilization of domestic raw materials in industrial production. [redacted]

Should Cameroon manage to implement the fifth development plan as it now stands, we estimate that the country will face a cumulative current account deficit of $4-5 billion over the period 1982-86 and will have a total debt by the end of 1986 in excess of $6 billion. In addition, we believe Yaounde will be forced to draw down its remaining $650 million of overseas investments—perhaps as early as this year—just to make ends meet. Cameroon could, as a result, be forced to turn to the IMF for balance-of-payments assistance or perhaps to the London Club or Paris Club for debt rescheduling by the end of the decade. [redacted]

[redacted] 25X1

25X1

In carrying out its proposed development program, the Cameroonian Government is counting heavily on loans. There is little inclination to finance

25X1

development through increased taxation. According to the plan, Cameroon expects to garner $3.2 billion in project-related financing from international banks and private Cameroonian interests. Because Cameroon's domestic banking sector is still underdeveloped, most of this must come from foreign banks. Even though Cameroon currently has a solid credit rating, we believe the government will be unable to borrow anywhere near this amount. [redacted]

[redacted]

Implementation of the plan will also be affected by manpower and transport deficiencies. With less than 5 percent of the population possessing any technical skills, the country has a severe shortage of qualified labor and must depend on foreign expatriates, mainly French, to fill most of the technical and managerial positions. The transport network is grossly inadequate, with most roads impassable during much of the year. [redacted]

The Political Scene

Prospects now clearly depend on newly installed President Biya's ability to consolidate his power and handle the economy. Cameroonian officials and international development experts agree that major investments in agriculture are needed to maintain Cameroon's ability, rare among African states, to feed itself. This, however, would be possible only at the expense of more popular projects in industry—such as the Kribi LNG project—and social programs involving education, health, and housing. The Cameroonian populace has come to expect high-visibility projects such as the proposed LNG venture as well as increases in the standard of living. [redacted]

We are concerned how Biya will implement any needed program cuts to minimize popular disaffection. Particularly worrisome, in our opinion, will be the reaction of residents in English-speaking western Cameroon, who have long resented what they believe is second-class treatment by a French-dominated bureaucracy in Yaounde. Biya is from French-speaking southern Cameroon, and we assume that he is well aware of the potential for local unrest if he does not appear sympathetic to the concerns of his western constituents. His task will be more difficult because all of the country's current oil production is off the western coast, and we believe that regional politicians are carefully noting the extent to which oil money is being used to improve local living standards. [redacted]

Biya's track record since he assumed office in November is encouraging. US Embassy sources indicate that he has been accepted calmly by Cameroonians. In addition, Biya has used his administrative talents to make some politically adroit moves and to consolidate his position. In our view, his selection of cabinet ministers from the country's principal tribes and his choice of a Muslim northerner as Prime Minister—his constitutional successor—reflect his awareness of the political need to balance his heritage as a non-Muslim, southern minority tribesman. [redacted]

We view Cameroon's military and internal security forces as generally apolitical and able at least for now to keep any antigovernment movements from taking root. According to US Defense attache reporting, these forces are disciplined and well trained. Should domestic unrest develop, Biya, like his predecessor, will probably rely on the national police and gendarmerie—which receive better pay and allowances than the Army—to maintain internal order. Biya almost certainly will emulate Ahidjo's threats of force and promises of shares in the political spoils—such as cabinet posts and development projects—to keep Cameroon's many disparate tribes working together. [redacted]

Still, we cannot rule out domestic unrest based—at least in part—on economic grievances. We believe, in particular, that the military could become more troublesome if cuts in government spending prompt a sharp decline in economic activity and members of the lower ranks are forced to support an increasing number of family members. The military no doubt will be watching to ensure that it is not required to bear an excessive share of the cost of any economic slowdown. 25X1

25X1

Page Denied

Sanitized Copy Approved for Release 2011/01/25 : CIA-RDP84-00898R000100030009-4