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International Economic & Energy Weekly [redacted]

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3 June 1983

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Synopsis

Perspective—*Difficult Choices for Nakasone* [redacted] 25X1

Japanese Prime Minister Nakasone, even more than his predecessors, probably hopes to use his recent foreign trips to bolster his domestic political standing. [redacted] 25X1

World Grain Markets in the 1980s [redacted] 25X1

During the 1980s, the international grain market will be affected more by agricultural policies in the key producing countries than by any other factor. With large grain surpluses and weak demand, pressures on exporters to protect their markets are mounting. The main beneficiary of the buyer's market will be the Soviet Union [redacted] 25X1

Mexico: The New Wave of Illegal Migration [redacted] 25X1

We expect as many as 1.5 million Mexicans to enter the United States illegally during 1983 in a search of jobs, compared with an estimated 800,000 to 1.1 million annually in recent years. We see almost no chance that the current wave of Mexicans coming the United States will soon slow. Moreover, further deterioration in Mexico's economy this year would cause migration to pick up. [redacted] 25X1

South Africa: Economic and Social Impact of Drought [redacted] 25X1

A second successive year of severe drought is creating serious problems in South Africa. The country's black population—already bearing the brunt of inflation and unemployment—may become increasingly restless under additional, drought-related burdens. [redacted] 25X1

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Iran: Five-Year Plan Prospects

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The resurgence of oil exports during 1982 has helped fuel a modest economic recovery in Iran and has allowed the regime to draw up its first five-year development plan. Tehran, however, will not be able to reach its targets unless it substantially increases oil exports beyond the recent level of 1.6-1.9 million b/d. Moreover, political infighting, shortages of trained manpower, and reluctance to sharply expand foreign trade will impede development efforts.

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Liberia: Living on a Float

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Weak demand for Liberia's iron ore and rubber exports, coupled with mismanagement and rising corruption, have accelerated economic decline since Head of State Doe seized power in April 1980.

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[redacted] 25X1

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3 June 1983

Perspective

Difficult Choices for Nakasone

Japanese Prime Minister Nakasone, even more than his predecessors, probably hopes to use his recent foreign trips to bolster his domestic political standing. In the short run he may be successful. [redacted] 25X1

The Japanese media played up his early May tour of ASEAN and highlighted his visit to Washington. Nakasone also got favorable press at the Williamsburg summit, although the media were critical of his support for the arms control statement. This relatively good press comes on top of signs that Nakasone's popularity has rebounded from a low point earlier this year, at least according to one poll by a major Japanese newspaper. Nonetheless, he faces several difficult decisions on economic and political issues in the next few months, any one of which could affect his popularity. [redacted] 25X1

On the domestic front, we see little evidence of a resurgence in economic growth. Politicians—with an eye toward elections later this month and possibly again this fall—are pushing for a tax cut. At the same time, Nakasone is under pressure from the powerful Finance Ministry to raise taxes to trim Japan's fiscal deficit. On the spending side, the Prime Minister has said that even more austerity than is currently in place will be needed next year. [redacted] 25X1

US-Japan issues may prove even more troublesome:
- All forecasters are projecting an expanding Japanese current account and bilateral trade surplus this year.
- Japanese officials are increasingly concerned over US criticism of Japanese industrial policy.
- Nakasone will have a tough time selling the public on budgeting more money for defense at the same time he is holding down spending on everything else.

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Briefs

Energy

OPEC Production Climbs

Preliminary figures show that OPEC's crude oil production rose in May to 16.8 million b/d, an increase of more than 1 million b/d from April levels. An 800,000-b/d jump in Saudi Arabian production to 4.6 million b/d—part of which was sold to Iraq's customers with the proceeds going to Baghdad for war assistance—accounted for most of the increase. Nigeria's oil production climbed to 1.6 million b/d in May, 300,000 b/d above its OPEC-mandated ceiling. [redacted] Iranian production fell 200,000 b/d [redacted] Other producers—including Libya and Venezuela—continued to produce within their allocation levels in a show of support for the OPEC agreement. [redacted]

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OPEC: Crude Oil Production *Million b/d*

	1982	1983 Quota	1983 [a] January	February	March	First Quarter	April	May
Total	**18.8**	**17.5**	**17.0**	**14.9**	**15.9**	**15.9**	**15.6**	**16.7**
Algeria	0.6	0.725	0.7	0.6	0.7	0.7	0.7	0.7
Ecuador	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gabon	0.2	0.15	0.2	0.1	0.1	0.2	0.2	0.2
Indonesia	1.3	1.3	1.2	1.0	1.1	1.1	1.3	1.3
Iran	2.3	2.4	2.7	2.5	2.6	2.6	2.3	2.1
Iraq	1.0	1.2	0.8	0.8	0.8	0.8	0.8	0.8
Kuwait	0.7	1.05	0.6	0.8	0.9	0.8	0.7	0.6
Libya	1.2	1.1	1.4	1.2	1.3	1.3	1.1	1.1
Neutral Zone	0.3	[b]	0.3	0.2	0.2	0.2	0.4	0.3
Nigeria	1.3	1.3	0.8	0.7	0.9	0.8	1.2	1.6
Qatar	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.3
Saudi Arabia	6.3	[c]	4.6	3.6	3.6	3.9	3.8	4.6
United Arab Emirates	1.2	1.1	1.2	1.1	1.1	1.2	1.1	1.2
Venezuela	1.9	1.675	2.1	1.8	2.1	2.0	1.7	1.7

[a] Preliminary.
[b] Neutral Zone production is shared about equally between Saudi Arabia and Kuwait and is included in each country's production quota.
[c] Saudi Arabia has no formal quota; it will act as swing producer to meet market requirements.

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Alberta Aids Drilling Industry

To promote oil and gas drilling activity in the province, the Alberta government has introduced an $80 million incentives grant package for the oil service industry. The four-month program begun in mid-May will provide as much as $56 million for development drilling. The remaining $24 million will go to well maintenance and related production facilities. The incentives package is essentially an expansion of earlier programs to keep the Canadian drilling industry afloat. [redacted] 25X1

Drilling activity has plummeted over the past two years; low world oil prices, the lack of natural gas markets, and the National Energy Program have cut back severely on the industry's exploration plans. Even with the incentives, drilling activity this year is expected only to match the depressed levels in 1982. Oil industry officials have acknowledged the short-term aid but have expresed concern that the grant programs do nothing to eliminate the root problems of finding markets and inducing long-term exploration investment. [redacted] 25X1

Ivory Coast Petroleum Outlook

Prospects for the Espoir field now appear brighter following Phillips Petroleum's decision to drill a sixth production well there. [redacted] 25X1 Esso has finished installation of secondary recovery facilities at its Belier field, where the company estimates 1983 production will average almost 7,000 b/d. Combined production from Belier and Espoir probably will average between 25,000 and 30,000 b/d this year, making Ivory Coast petroleum self-sufficient. Although other firms have exploration programs scheduled, Phillips is the only company currently drilling. Activity has been steady at the company's Golf field, which was discovered in late 1982 with a wildcat that flowed about 7,000 b/d of 35.5° API crude. Further drilling and testing must be conducted before preliminary reserve estimates can be made. [redacted] 25X1

International Trade, Technology, and Finance

[redacted] 25X1

National Developments

Developed Countries

New Israeli Economic Measures

According to press reports, Israel has imposed a 0.3 percent levy on withdrawals from checking accounts to help finance the cost of keeping troops in Lebanon. The fee is designed to replace revenues from compulsory loans levied on salaries beginning last summer and allowed to lapse last month. Although the new revenues will cover only a third of the cost of the troops in Lebanon, Finance Minister Aridor will probably stop pressing the Defense Ministry to make cuts in other defense expenditures for now. Nevertheless, unless Aridor finds additional revenue sources or makes cuts elsewhere, the budget deficit will be increased. 25X1

The government will also require importers to deposit 15 percent of the value of imports into special accounts. We believe Aridor adopted the import deposit scheme to mitigate criticism from the Manufacturers' Association of the exchange rate policy that has made imported goods cheaper than those produced domestically. Reducing imports will also help hold the line on the trade deficit—already $275 million higher in the first four months of the year compared with the same period in 1982. Both measures will further fuel inflationary pressures at a time when prices are already rising at record rates. 25X1

Canadian Automotive Task Force Calls for Protectionist Measures

A federal task force composed of industry and labor leaders has recommended that the 1965 US-Canadian Auto Pact be extended to all firms selling automobiles in Canada. In its report released last month the group proposed that automobiles sold in Canada have a 60-percent Canadian content by 1987. Prime Minister Trudeau has questioned the task force's most far-reaching recommendation that foreign firms invest in Canada in return for access to the domestic sales market. Although Trade Ministers Regan and Lumley have been more receptive to the task force's proposals, Regan cautions that implementation of the recommendations will leave Canadian exports vulnerable to retaliatory actions. 25X1

The task force wants to protect Canada's automotive industry from rapidly rising non–North American imports, which accounted for 30 percent of the Canadian market in 1982. As a short-term measure the report calls for the strengthening of present import restrictions on Japanese automobiles. Imports for the first six months of 1983 were limited to 79,000 vehicles. Negotiations with the Japanese are now under way to set an import level for the remainder of 1983. Although Ottawa probably will press for more stringent restrictions and additional Japanese investment in Canada, it is likely to retreat from its demands in the face of Japanese opposition. Canada enjoys an overall trade surplus with Japan and does not want to jeopardize its export market by being inflexible on auto trade issues. 25X1

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Less Developed Countries

Brazil in Precarious Cash Position

The IMF decision to postpone a $410 million payment to Brazil that was scheduled for this week is leading bankers to take stopgap measures to avoid a Brazilian suspension of payments. [redacted] 25X1

Commercial banks appear willing to allow Brazil's arrearages to rise because the IMF decision will delay their loan disbursements as well. In the next several weeks Brasilia probably will resolve its differences with the IMF over its failure to meet quarterly performance targets. The IMF decision to postpone the scheduled payments, however, will make it more difficult for Brazil to gain the short-term loans necessary to handle its daily cash problems. If commercial bankers fail to honor their commitments to the support package, a financial crisis is likely this summer. [redacted] 25X1

Communist

Increased Orders for Imports at China's Spring Trade Fair

Although the Guangzhou fair traditionally serves as an export market for China, Chinese import orders this year were 24 percent above figures registered during the fall fair last year; exports rose by only 1 percent. Total trade reportedly exceeded $2 billion. Chemicals—particularly agricultural—from the United States and Japan accounted for most of the growth in import orders. Buyers from the provinces also sought instruments, machinery, and equipment—particularly from US manufacturers, who offered lower prices and higher quality than did the Japanese. Hong Kong and Macau purchasers accounted for 45 percent of China's export sales; Chinese foodstuffs were in greater demand than textiles, probably as a result of good harvests and tighter restrictions on textiles. [redacted] 25X1

Deals concluded at the spring and fall fairs—accounting for about one-fourth of China's annual trade—serve as an indicator of trade for the year. The surge of Chinese imports indicates that Beijing, with $11 billion in foreign exchange reserves, is committed to a planned 40-percent increase in imports for 1983. The failure to boost exports at the fair reinforces China's own estimate that this year's overseas sales will probably remain at about last year's level. [redacted] 25X1

Manpower Shortages in Siberia

Shortages in Siberia of skilled manpower—particularly in energy resources and forest products—are being filled by technicians rather than specialists with higher education and with workers without formal training. Siberian higher educational institutions (VUZes) provide insufficient training in the specialties required by local industries and train only about 20 percent of the country's graduates in these specialties, even though work in these fields is concentrated in Siberia. [redacted] 25X1

To compensate, the authorities annually assign about 20,000 engineers from the European USSR to Siberia, but few stay permanently. Turnover rates for VUZ graduates run as high as 30 to 50 percent during the first three years. Moreover, there is a high rate of permanent outmigration among Siberian young people sent for training to other parts of the USSR. Recognizing the problem, Soviet planners have called for expansion of existing VUZ training programs there, but chronic construction lags and difficulties in attracting teaching personnel to these remote areas present formidable obstacles to fulfilling the plans. [redacted] 25X1

World Grain Markets in the 1980s [redacted] 25X1

During the 1980s, the international grain market will be affected more by agricultural policies in the key producing countries than by any other factors.[2] Except for the United States, the major exporters have production expansion programs under way. With large grain surpluses and weak demand, pressures on exporters to protect their markets are mounting. [redacted]

The main beneficiary of the buyer's market will be the Soviet Union. Moscow will be in a strong position to bargain for advantageous terms on both the economic and, at times, the political front. Beyond this, the grain market glut means that, barring a serious crop failure, the USSR will be able to meet the lion's share of its grain import requirements from non-US suppliers, should Moscow so choose. In the coming months Moscow will probably try to use the current world grain glut as leverage in negotiating a new US-USSR long-term grain agreement (LTA). [redacted]

Impact of Government Policies

World grain markets were characterized by tight supplies and high prices during most of the 1970s. Poor crops in marketing years[3] (MY) 1973 and 1975 stimulated an all-out production effort by most grain growers. Increases in production were reflected in the international grain markets, with world grain trade nearly doubling in the 1970s. The rise in grain production and trade was underpinned by government policies and generally favorable weather. [redacted]

Policy initiatives were directed in two areas—direct support to farmers and measures facilitating exports. In Canada and the United States, acreage restrictions were lifted. To further encourage production, exporting countries took steps to insulate farmers from risk and to ensure incomes:

- Canada adjusted its Agricultural Stabilization Act in 1975, shifting away from strict market price stability toward guaranteeing a margin between revenues and costs. 25X1
- Australia, through its Wheat Board, guaranteed that any cuts in annual prices paid growers would be limited to 15 percent, thereby reducing income uncertainty.
- EC support prices promoted grain production by guaranteeing farmers that production costs would be covered. Currently, wheat target prices are nearly twice the world market price. [redacted] 25X1

Governments also took steps to ease shipping bottlenecks and intensify traditional marketing efforts. 25X1 The Canadian Wheat Board, for example, bought 10,000 hopper cars between 1973 and 1979 to move grain to the ports. Buenos Aires invited international trading firms to invest in storage and handling facilities. In most countries agricultural attaches, official trade promotion tours, and export-enhancing legislation—such as US provisions for concessionary sales under PL480—provided strong government support for exports. Through these efforts Canada, Australia, Argentina, and the United States have been able to export roughly one-half of their production. [redacted] 25X1

The expansionary production policies of US competitors are being maintained, even though demand has slackened because of the recession. As a result, a massive buildup in stocks has occurred. We anticipate that record stocks of some 250 million tons will accumulate this year (MY 1983), equal to more than one year's world exports. [redacted]

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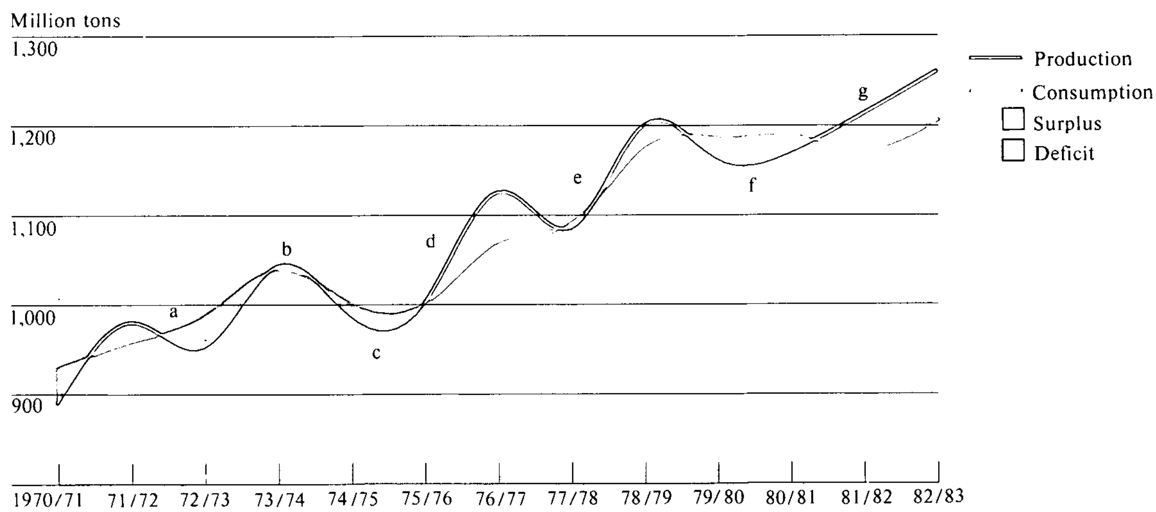
[2] In this article, grain refers to wheat and coarse grains, including barley, rye, oats, corn, sorghum, millet, and mixed grains. [redacted]

[3] Marketing years refer to the July/June period ending in the year designated. For example, MY 1973 refers to 1 July 1972 through 30 June 1973. [redacted]

World Grain Production and Consumption



a. January 1972, Soviets purchased record amounts of grain.
b. 1973/74, US corn output decreases by 17.1 percent (36 million tons).
c. 1975, Soviet output fell by 50 million tons, imports rose 26 million tons.
d. 1975/76, Soviet grain production increased by 80 million tons–65 percent of the total increase that year.
e. 1977/78, China and the USSR accounted for 55 percent of the increased production.
f. January 1980, US partial embargo on grain to the USSR.
g. 1981, grain production increased 42 million tons, US up 62 million, others down by 20 million tons.

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Competition Intensifies

With large stocks and weak demand, pressures on exporters to step up sales campaigns are mounting. World exports, according to USDA estimates, are expected to fall this year by 6 percent or about 15 million tons. Most of the decline stems from the slack demand for feed grains. The United States, as the world's largest feed grain supplier, will be hardest hit. More than one-half of the 10-million-ton drop in US exports will result from lower grain sales to the Soviet Union. Despite an anticipated loss of 4 percentage points in market share, the United States will still account for one-half of the world's grain exports in volume terms.

In an attempt to gain larger market shares, governments are opting for greater use of attractive sales and finance packages. Record quantities of EC wheat have been sold to the USSR and China; to help promote the sale to China, the EC introduced a special $6-per-ton freight subsidy. Canada entered the East German market for the first time this year, selling 1 million tons of grain on the basis of two-year commercial credits guaranteed by Ottawa.

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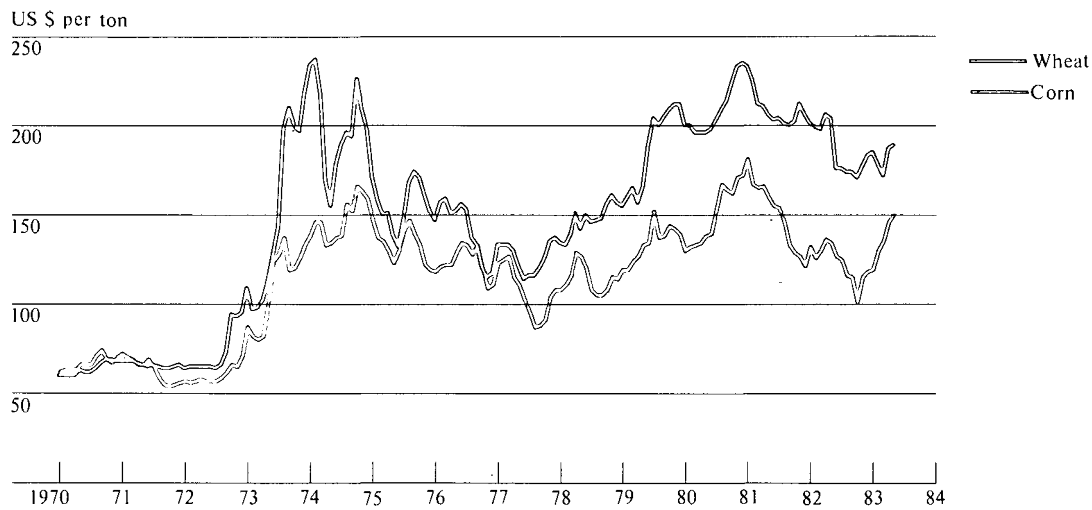
US Grain Export Prices, c.i.f. Rotterdam[a]



[a]Monthly averages through May 1983.

[redacted] 25X1

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These measures are paying off. With the exception of Australia, the major competitors of the United States will register increases in their export volume and market shares this year. According to USDA estimates:

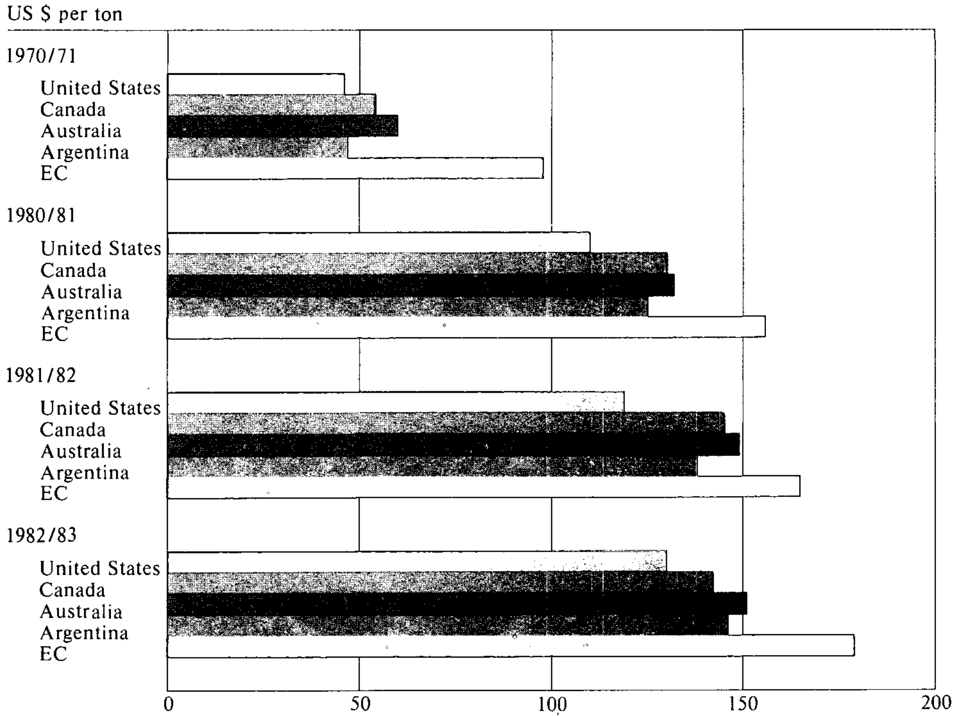
- Canada's exports will rise by 2 million tons, and its market share will increase from 12 to 14 percent.
- Argentina's exports will be up by 1.5 million tons, and its market share will increase from 9 to 10 percent.
- The EC, with about 10 percent of the market, will post a small gain in both exports and market share.
- Australia, hit hard by drought, will show a 6-million-ton decline in exports, and its share of world grain trade will fall from 7 percent to less than 5 percent. [redacted]

The intense competition for grain sales is generating acrimony among exporters. According to press reports, the EC is once again taking a hard look at imposing restrictions on imports of US soybeans and corn gluten (a feedgrain substitute), which now total about $6 billion annually. [redacted] 25X1 Canada, at the World Grains Outlook Conference in March, criticized the use of subsidies by both the EC and the United States as examples of unfair competition. [redacted] 25X1

Production in the 1980s

Even with production at record levels, key producing countries have the ability to raise output further. Production growth is likely to be slower, 25X1

Basic Support Prices for Wheat



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however, than the 3-percent annual rate of the late 1970s, given tight budgets, the shortage of investment funds, and low world grain prices. Still, a number of techniques to boost production—improved cropping practices, hybrid seed, and greater use of fertilizers—are available and will be employed, given sufficient price incentives. With the exception of the United States, the major exporters plan to expand production:

- Canada plans to increase grain production in the Prairie provinces, its main grain region, about 20 percent by 1990.
- During the 1980s we expect output in the EC to expand by a million tons per year, and perhaps even faster, in response to domestic support prices well above market levels.
- Argentina plans to raise grain production by 50 percent to 45 million tons in 1990. We think, however, only about one-half of this gain can be reasonably expected.
- Australia plans to double wheat production in the next 20 years, but increasing use of marginal land will mean larger annual fluctuations in output.

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While production policies will in large part determine the trend in output for the 1980s, weather will be the most important factor affecting annual swings in world grain production. Declines in world output in a given year because of bad weather have generally been less than 50 million tons. It is unlikely, therefore, that weather alone will cause the current surplus situation to end. This year's drought in Australia's primary wheat regions, for example, reduced that country's harvest by nearly 50 percent, but the 10.5-million-ton shortfall has had little impact on the world market.

Demand in the 1980s

We believe slower economic growth and international debt problems will cause grain demand to grow more slowly than the 2.5- to 3-percent rate of the 1970s. Most private and public forecasters expect a weak recovery in OECD economic growth during the next year or two and relatively slow growth thereafter. Moreover, growth of grain demand in the developed countries may be slowing as a result of cutbacks in red meat consumption. For example, USDA presently estimates that per capita red meat consumption in the United States fell 4 percent in 1982 and will fall again in 1983. According to recent market surveys, grain producers are concerned that the shift from beef to poultry, which conserves grain use, could be permanent, reflecting changing tastes. The failure of beef demand to recover would significantly dampen overall grain consumption growth rates during the remainder of the 1980s.

Grain import demand in the LDCs is likely to be constrained by their weak financial positions. Many have had to implement austerity programs in response to IMF mandates, thus limiting their imports. Improvements in LDC export earnings can be expected to lag behind OECD growth.

The Stock Overhang: Implications for the United States

To date, the United States has been the only major grain producer willing to adjust its production to market conditions. Unless other countries take similar actions, the current grain glut is likely to continue for some time, and competition for export markets will intensify. While an all-out agricultural trade war (for example, dumping of surpluses, import embargoes, and prohibitive tariffs) is unlikely because most exporters generally realize it would produce no winners, aggressive marketing tactics will be widespread. Moreover, production-cutting policies in one country are likely to discourage similar actions in competing export countries. 25X1

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The Soviet Union—the world's largest grain importer—stands to gain considerably from the current grain glut. From MY 1980 to the present, Moscow has bought nearly 150 million tons of grain, reflecting four consecutive poor grain crops. Moreover, concern over grain availability after the US partial grain embargo of 1980 led Moscow to sign five-year grain agreements with Canada and Argentina for yearly average minimums of 5 and 4 million tons, respectively.[4] So far, shipments have well exceeded the minimum amounts. In contrast, US sales to the Soviet Union this year will be at their lowest level since MY 1975, only slightly above the minimum 6 million tons specified in the US-Soviet LTA. 25X1

The ready availability of cheap grain greatly reduces the economic costs to Moscow of a poor domestic grain crop. In a buyer's market the Soviet Union can play suppliers off against each other. Barring crop failure, the Soviet Union probably would be able to meet its medium-term grain import needs entirely from non-US suppliers. It is unlikely to do so, however, for several reasons: 25X1

- Buying grain from the United States gives Moscow leverage in negotiating grain purchases with the other major suppliers.
- The United States is able to supply grain during the winter months when logistical problems limit supplies from other countries. 25X1
- Moscow may wish to keep supply lines from the United States open in the event of a tightening in the market. 25X1

[4] More precisely, the Canadian-Soviet LTA called for a minimum of 4 million tons in 1981, increasing by 0.5 million tons each year to reach 6 million tons by 1985. 25X1

Nonetheless, Moscow will probably try to use the current oversupply situation as leverage in the coming months in negotiating a new US-Soviet grain agreement; the current agreement expires on 30 September. In mid-May, Moscow formally agreed to the US proposal of 7 April to negotiate a new LTA. [redacted] Moscow will most likely resist raising the minimum above the current 6-million-ton level but will push hard for a higher maximum, perhaps as high as 15 million tons. Moscow also wants delivery guarantees. It may use the US-Soviet grain trade consultations scheduled for 1-2 June to clarify its position. In any case, we believe Soviet negotiators will want to hammer out a new agreement to assure multiyear access to US grain while market conditions are in their favor. [redacted] 25X1

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Mexico: The New Wave of Illegal Migration

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We expect as many as 1.5 million Mexicans to enter the United States illegally during 1983 in search of jobs, compared with an estimated 800,000 to 1.1 million annually in recent years. Most of the new arrivals will return to Mexico within six months, but some 300,000 will probably remain. They will join the 1.5 to 2.5 million Mexican illegals that we believe resided here on a semipermanent basis at the end of 1982. Remittances from Mexicans working illegally in the United States will total an estimated $1.5-3.5 billion this year. We see almost no chance that the current wave of Mexicans coming to the United States will soon slow. Moreover, further deterioration in Mexico's economy this year would cause migration to pick up.

Dynamics of Illegal Migration

The current illegal flow of Mexicans to the United States is an intensification of a long-term response to the attractions of high US wages and the problems of poverty and lack of opportunity in Mexico. Survey data continue to indicate that the majority of illegals are landless rural laborers or *ejidatarios*,[1] although a growing number of urban Mexicans—primarily from depressed shantytowns ringing larger cities—are beginning to cross the border. The primary sending states include the six agricultural states of Mexico's central north and the two northern border states with the largest populations—Chihuahua and Nuevo Leon. Farm output per worker in the sending states is much lower, and rural population density is much higher than in the five other states of northern Mexico.

Other areas of Mexico are not yet major sources of illegals. People from southern states have tended to remain outside the illegal flow because of the distance to the United States and the traditional culture that ties the largely Indian population to their villages. In the central region, Mexico City until now has exerted a stronger pull than the United States.

High past population growth provides a continuing pool of illegal immigrants. Although the rate of population increase has declined somewhat since 1970, we expect the rate of growth of the labor force to stay at about 4 percent (excluding immigrants to Mexico from Central America) at least throughout the 1980s.

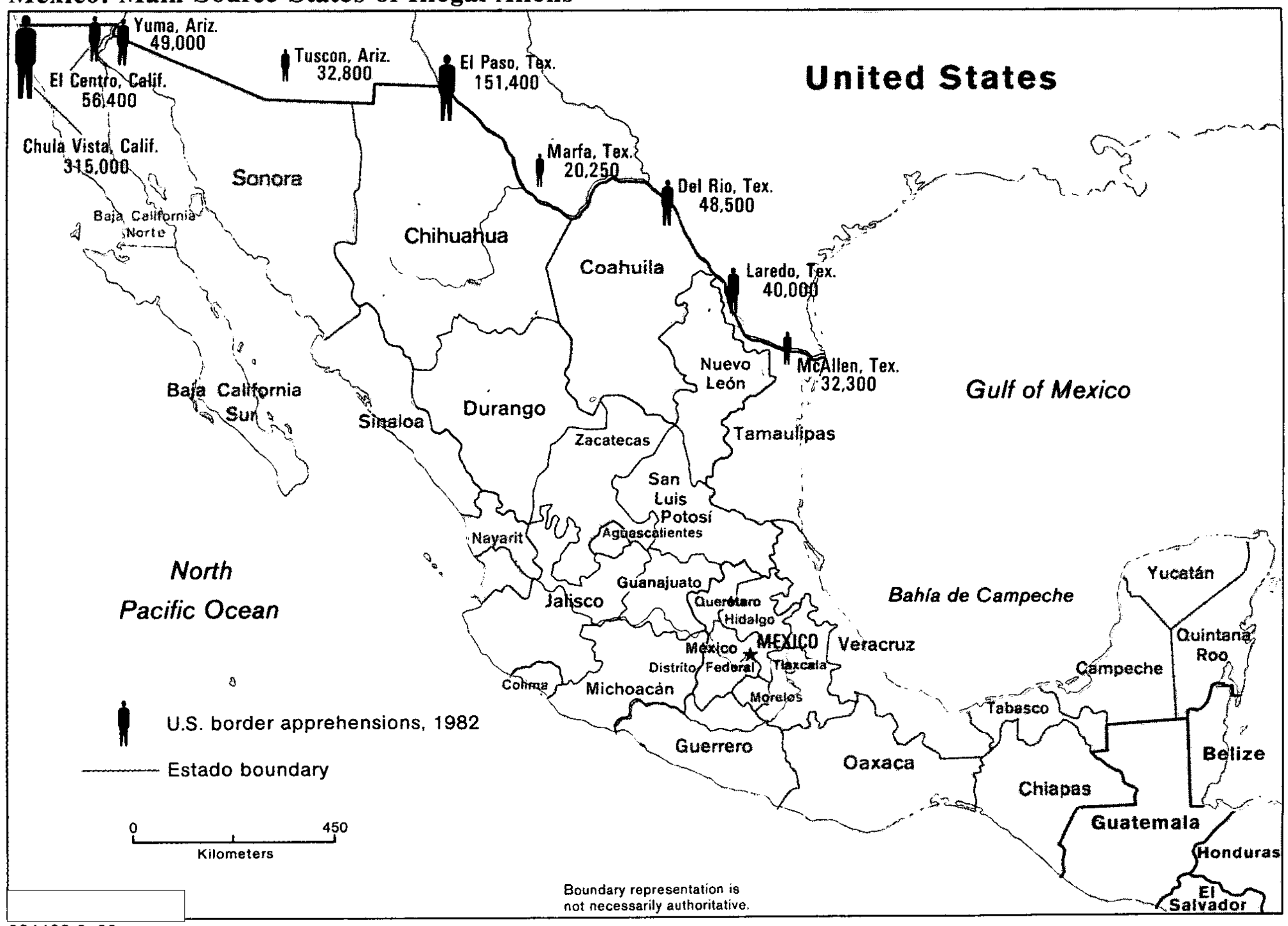
Characteristics of the Mexican Migrant

Most Mexican illegal immigrants fit into one of two groups: those who have been in the United States illegally for a year or more, and those who enter periodically for a few months. According to academic studies, members of both groups want to use savings from US earnings to supplement consumption and provide for upward mobility at home. Men with longer continuous experience in the United States tend to earn higher wages than the temporary migrant; women earn the least, on average.

While the majority of Mexican illegals continue to work in agriculture, more and more are finding their niche in services, industry, construction, and commerce. Large numbers now work in restaurants and hotels as dishwashers, kitchen helpers, busboys, waiters, and clerks. Women largely find work in hotels, domestic service, or in light assembly operations.

[1] Those with the right to use property belonging to the state.

Mexico: Main Source States of Illegal Aliens



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Repeat Migrants. Illegals making annual trips to the United States are overwhelmingly young and male; the average illegal immigrant is a male in his late teens when making his first of as many as five to 10 trips. The average age at initial entry has dropped by several years over the past decade. At time of first entry, the illegal generally has some education, is unmarried, and has had little experience outside of agriculture. Of those who have made several trips, perhaps half are married and support four or five dependents. Most migrants have been recently employed and, considering such migrating costs as smuggling fees of $300 to $500, cannot be among the poorest.

A sizable but unknown number of small landowners, commercial farm laborers, and shopkeepers tend to travel to the United States during slack periods in their regular occupations or during recessions at home. Recent studies indicate that temporary workers earn $500 to $1,000 monthly, stay an average of four to six months, and send home about one-third of their earnings. We estimate the repeaters will remit to their families in Mexico or take home between $1 billion and $3 billion this year.

Long-Term Migrants. Mexicans who remain in the United States on a semipermanent basis have higher levels of education and in most cases either take their families along or plan to send for them. Recent work at the US Census Bureau suggests that slightly more than 40 percent of semipermanent immigrants—estimated at 1.5-2.5 million in 1983—are women, and just over 20 percent are children under 15 years of age. Because of the costs of supporting their families who are in the United States, we estimate that this group remits a smaller income share. Nevertheless, we expect these remittances to total about $500 million this year.

The economic incentives for migration are substantial. Today, the average rural wage in Mexico remains about one-tenth that of US migratory farmworkers. Urban minimum wages in Mexico, although about 40 percent above the rural wage, are only a fraction of what an illegal immigrant can earn here.

Factors in the Recent Surge

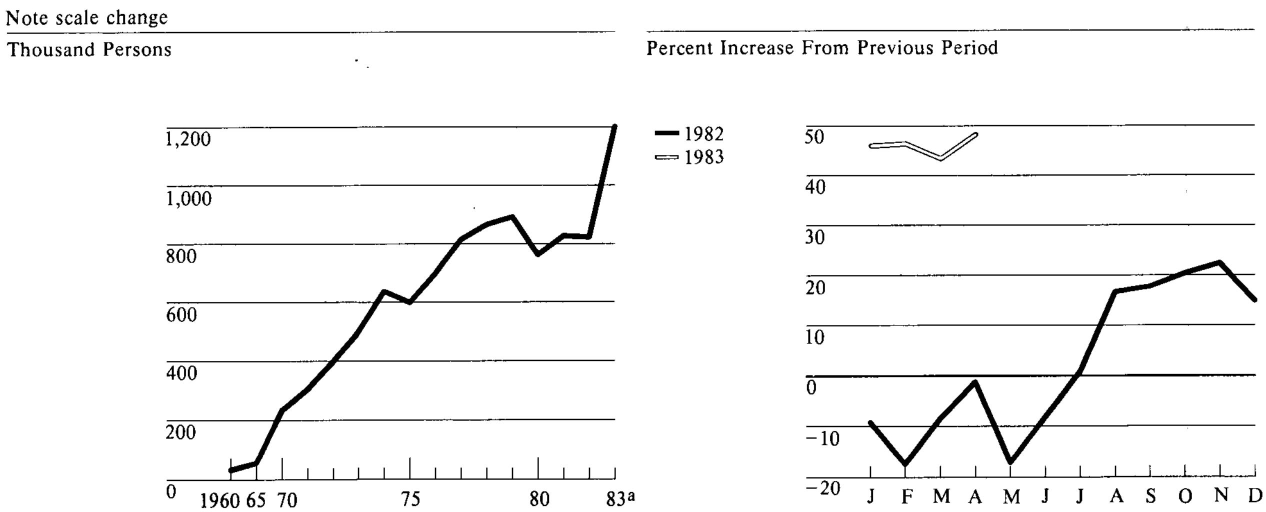
The dramatic upturn in illegal migration over the past months is widely acknowledged. Recently, a Mexican congressional deputy reported to the legislature's Foreign Relations Committee that the flow had increased considerably and that professionals, technicians, skilled workers, and craftsmen were now among the migrants.

We recognize that there is no one-to-one relationship between border apprehensions by the US Immigration and Naturalization Service (INS) and the flow of illegals, but the substantial increase in apprehensions following Mexico's sharp devaluation and financial crisis in August 1982 suggests that the numbers crossing the border quickly began to surge. During August-December last year, border apprehensions were almost 20 percent above the same period a year earlier. During January through March 1983, apprehensions soared, up more than 45 percent above the same period a year earlier. In May the Border Patrol apprehended 104,000 border crossers, 58.2 percent above a year earlier. May's record apprehensions marked the tenth consecutive time that border arrests set all-time highs for a given month.

Several new economic pressures spurred the current bulge. Sharp devaluations substantially raised the peso value of the dollars that the illegals earn in the United States. Even after allowing for higher inflation in Mexico since the devaluations, the dollar today buys nearly three times as much in Mexico as it did in January of last year.

In addition, recent layoffs and falling real wages are now becoming important inducements to seek work outside the country. Private-sector economists in Mexico estimate that more than 2 million jobs have been lost since mid-1982 and that unemployment is now in the 20- to 30-percent range. At the same time, underemployment—which typically stands at near 40 percent of the work force—is expected to surpass 50 percent this year. Moreover,

Mexico-United States: Border Apprehensions



[a] Estimated.

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Mexican Government statistics and our calculations show that real wages fell more than 10 percent in 1982 and are likely to fall another 10 to 20 percent this year. Because of lower wages and falling imports and production, we estimate personal consumption will fall by 7 to 15 percent this year.

Problems in the agricultural sector last year added to the flow of migrants. Production was cut deeply by poor weather and sharply lower farm prices. Rainfall was 75 percent below normal during the crucial months of June, July, August, and September. The fall harvest of corn, the peasants' principal staple and cash crop, fell 40 percent, while all grains and oilseed production declined 25 percent. As rural incomes plunged, incentives to supplement incomes increased. The concurrent Mexican industrial recession has also encouraged peasants to turn to the US labor market.

No End in Sight

We see almost no chance that the current wave of Mexican migration will slow dramatically any time soon. Because of the economic slide thus far in 1983, we believe even a mild recovery later this year would not be enough to slow the exodus. If, on the other hand, the drop in economic activity were to become even more pronounced, migration would speed up.

Moreover, we expect Mexico's economy to stay depressed for the next two to three years. Demographic trends will continue to add to the pool of potential migrants. These factors are likely to keep the flow of migrants above the "normal trend" during the period.

Even if the economy recovers in the mid-to-late 1980s, we estimate employment in the United States will remain attractive because the absolute gap between wages in Mexico and the United States will almost surely increase through the rest of this century. As a result, the numbers of Mexican migrants will remain high. Should there be widespread political instability in Mexico, a dramatic increase in those crossing the border would follow.

Mexican Government Perspectives

According to reports from the US Embassy and academics, Mexico City believes that there is little Washington can or will do to alter the pattern of Mexican migration. Officials in Mexico feel that the growing political influence of Mexican-Americans in the United States will prevent massive deportations of long-term illegals. At the same time, we believe Mexican policymakers are unlikely to do much about illegal migration. Although government officials have not publicly stated the crucial importance of this safety valve, the US Embassy reports that Mexican policymakers view continuing access to the US labor market as critical to the country's economic and social well-being. Worker remittances are seen as being important in relieving both current and long-term balance-of-payments pressures.

[redacted] 25X1

South Africa: Economic and Social Impact of Drought [redacted]

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A second successive year of severe drought is creating serious problems in South Africa. Crop failures, as well as water shortages and related power brownouts, threaten to retard economic recovery. Costly relief measures could aggravate Pretoria's budget deficit. Moreover, the country's black population—already bearing the brunt of inflation and unemployment—may become increasingly restless under additional, drought-related burdens. [redacted]

Agriculture

The agricultural sector is bearing the brunt of the drought. Corn—the dietary staple of South Africa's blacks and a principal export crop—has been hardest hit. According to press reports, this year's crop will only amount to about 4.7 million tons, down from 8.3 million tons last year and well below the annual domestic consumption rate of about 7 million tons. Wheat—most of which relies on irrigation—is also hard hit. [redacted]

Stocks of corn will not cover the shortfall, and for the first time in 20 years South Africa will import corn for domestic consumption. [redacted] Pretoria, moreover, doubts that it can meet its corn and wheat export commitments to some traditional customers such as Zambia and Zaire, although it will reportedly continue sales to Botswana, Lesotho, and Swaziland. Corn sales to Zaire and Taiwan have already been suspended. The losses in export earnings—placed at more than $800 million in press reports—coupled with the cost of food imports will offset much of the expected gain in foreign exchange earnings from higher gold prices and projected improvements in mineral sales this year. [redacted]

Government officials also are concerned about the drought's long-term impact on white commercial farming in major grain producing areas—the Orange Free State and Transvaal—where the ruling National Party fears a loss of Afrikaner support to the rival Conservative Party. Farmers resent the government's policy of protecting high-cost domestic fertilizer producers and its slow response to their financial plight. According to press reports, white farmers have borrowed more than $1 billion to finance the latest crop even though they are having difficulty repaying the estimated $370 million borrowed last year. Pretoria has recently taken steps to provide emergency credit and extend the terms of existing loans. [redacted]

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Widening Impact of Drought

Black Homelands. Conditions in South Africa's rural black homelands—squalid and poverty-stricken regions under the best of conditions—are deteriorating further from drought. Peasant subsistence crops have failed and livestock losses are massive; malnutrition and disease are already on the rise. Drought has deprived many rural blacks of their usual source of cash income from casual labor on white farms. In addition, high unemployment among blacks in the current recession has forced many to return to the homelands, further curtailing cash remittances needed for the purchase of basic necessities and adding to the pressure on food supplies. [redacted]

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Pretoria announced recently that $18.5 million in emergency relief funds would be appropriated to cope with the crisis in nonindependent black homelands, but most of these funds will be used for water projects rather than food relief. South African aid is also being given to the so-called independent black homelands such as Ciskei, where drought is in its third year. [redacted]

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Mining and Manufacturing. Costly stopgap measures are also being undertaken by Pretoria to forestall serious cuts in the supply of water and electric power to the economically vital mining and manufacturing sectors, but failure of the rains due this fall would bring on a crisis. Mining is the largest consumer of electricity, drawing almost 30 percent of the total supply last year. The Chamber of Mines estimates monthly losses to gold mines—the major source of both foreign exchange earnings and government revenue—of $83 million if electricity is cut back by 10 percent. Moreover, without sufficient power to run pumps, some mines could be abandoned because of flooding. [redacted]

Current efforts to bolster power supplies include a $30 million scheme to reverse the flow of a segment of the Vaal River, which feeds stations in eastern Transvaal Province that supply about 75 percent of the country's electricity. If completed on time, the project could avert the possibility of prolonged rationing. The US Embassy reports that about 8 percent of generating capacity has already been shut down, however, and brownouts beginning in August appear unavoidable. [redacted]

Costly water conservation equipment is also being installed in some locales and water rationing has been imposed in other areas. Some mines and other industrial facilities—especially in Natal—have been asked to reduce water consumption by 20 to 30 percent. SASOL, the parastatal oil, coal, and gas corporation, is installing a pipeline from the Vaal River at Ermelo to convey water to SASOL's coal synfuels plants. [redacted]

Prospects

Even before the full impact of the drought was known, South African economists projected a decline in real output this year. Drought-related setbacks will now undoubtedly worsen the outlook, and food shortages are beginning to aggravate inflation—already running at a rate of 14 percent. The total loss in nonagricultural production resulting from the drought may amount to $1.8 billion, according to press reporting. Increased unemployment among blacks—whose jobless rate ranges between 25 and 30 percent—and the exodus of greater numbers of urban blacks to homeland areas will pose even greater budgetary and social problems for Pretoria. Moreover, the potential for urban unrest and violent protests, already high because of the recession, will grow as the result of drought-related food shortages and rising unemployment. [redacted]

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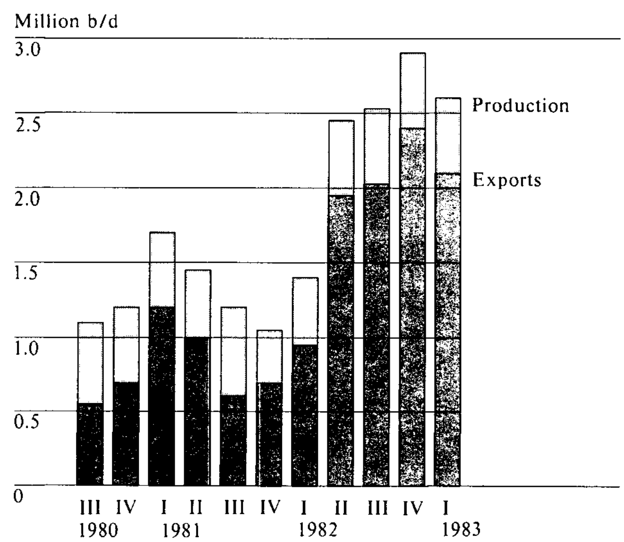
Iran: Five-Year Plan Prospects [redacted] 25X1

The resurgence of oil exports during 1982 has helped fuel a modest economic recovery in Iran. Encouraged by this progress and by increased internal stability, Iran has embarked on its first five-year development plan. Tehran, however, will not be able to reach its targets unless it substantially increases oil production beyond the recent level of about 2.6 million b/d. Moreover, political infighting, shortages of trained manpower, and reluctance to sharply expand foreign trade will impede development efforts. Still, in our judgment, popular dissatisfaction with the economy is not likely to grow enough to threaten the regime's hold on power. [redacted] 25X1

Iran: Crude Oil Production and Exports



[redacted] 25X1

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The Economy in 1982

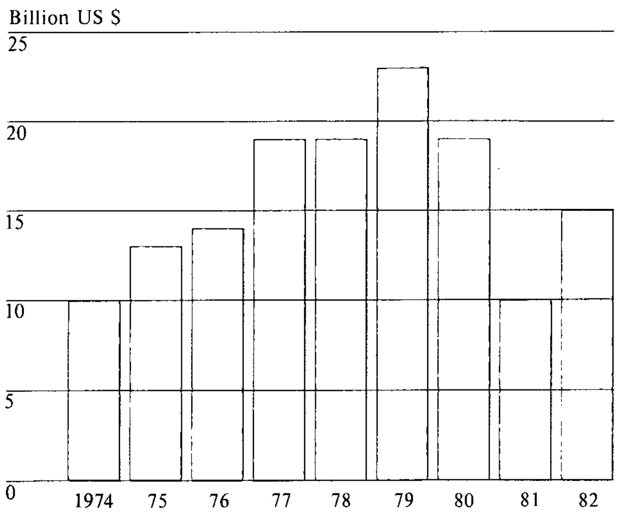
During 1982 Iran's economic fortunes were dominated by an impressive growth in oil production. Iranian price discounts facilitated a dramatic rise in oil exports to an average of 2 million b/d, double the 1981 level. Discounts averaging $3 per barrel below the OPEC benchmark price of $34 more than offset the premium on war zone shipping and insurance charges of $1 to $2 per barrel. [redacted] 25X1

The $1.6 billion in monthly oil earnings enabled Tehran to sustain the war and to rebuild foreign exchange holdings. We estimate official assets at the end of 1982 were $15 billion, compared with roughly $10 billion in December 1981. [redacted] 25X1

Oil earnings also allowed the economy to slowly recover from some of the effects of the revolution and the war with Iraq. Tehran began to ease import restrictions imposed at the end of 1981. The resulting improvement in the availability of fuel, materials, and spare parts led to a 12-percent increase in industrial production during 1982, according to Iranian data. Despite recent gains, however, industry is still operating well below capacity. The construction sector, a key indicator of growth, remains severely depressed. [redacted] 25X1

Increased imports of farm equipment and fertilizers, together with favorable weather, boosted agricultural production in 1982. The wheat harvest [redacted] 25X1 was approximately 5.3 million tons, about the same as the 1981 level and roughly comparable to production during the Shah's regime. Iran still needed,

Iran: Official Foreign Assets[a]



[a] End of year.

[redacted]

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however, to import about 3 million tons of wheat in 1982 as well as large quantities of other foodstuffs to satisfy domestic requirements. [redacted]

Economic conditions for the population have improved. In late 1982 Western observers in Iran noted increased quantities of better quality consumer goods, and rationing of some items ended. Iranian statistics indicate the inflation rate dropped to 30 percent, half our estimate for the previous year. The urban lower classes remain relatively immune from rising prices because the bulk of their food requirements is subsidized. The unemployment rate was 26 percent, according to Iranian statistics, not much different from our estimate for the previous year. Large numbers of unemployed, however, earn income in black-market activities. [redacted]

The overall level of economic activity, by our estimates, still remained low, perhaps only two-thirds that of prerevolutionary Iran. The economic progress that has been made in the past year represents only a limited recovery from the negative growth of 1979-81, when we estimate GNP declined by more than one-half. [redacted] 25X1

The Debate Over Economic Policy

Major differences between two political factions have hampered implementation of an economic policy capable of producing sustained growth. Economic activists—clerics who stress social change rather than Islamic law—advocate accelerated government investment in industry and sweeping land reform. They also favor government control over foreign trade and most industrial enterprises. Opposing the activists are conservative clerics who support a more gradual approach to development that will not threaten the "Islamic" character of Iran. Many within this group have extensive rural land holdings and are opposed to land reform measures. With strong links to the bazaari merchant class, the conservatives also favor a larger role for private enterprise. [redacted] 25X1 25X1

The clash between these factions has stymied policy in a number of areas. An extensive land reform bill passed in 1982 was returned to parliament (Majles) as "un-Islamic" by the conservative-dominated Council of Guardians, whose task is to ensure that legislation complies with Islamic law. A foreign trade bill passed by the Majles was also returned to the legislature by the Council. [redacted] 25X1 25X1

The economic activists have, nevertheless, made significant progress toward implementing their goals. Iran's foreign trade is dominated by government agencies, and the activists have proceeded with limited land distribution schemes and other rural sector development without reference to the Majles and the Council. [redacted] 25X1

The Activist Agenda

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The primary goal of the economic activists, as outlined in the 1983-87 Development Plan, is to achieve economic independence in both agriculture and industry. Food self-sufficiency is to be the center of the investment effort; the plan projects a 7-percent average annual growth rate for agricultural production. Key investment areas are rural roads, water, power, and communications facilities. The government is to provide technical assistance, credit, and price supports to stimulate agricultural production. A limited program of land reform, involving distribution to farmers of land not presently being cultivated, is also included within the plan. [redacted] 25X1

In the industrial sector, development plans focus on petroleum. Highlighting the 30 petroleum-related projects are:

- The Kangan Gas Gathering and Treatment Facility designed to produce 40 million cubic meters of gas per day for oilfield reinjection and for domestic consumption.
- Construction of a new oil refinery, probably at Arak.
- Completion of the $3.5 billion petrochemical complex at Bandar Khomeini.
- Construction of the Domestic and Industrial Gas Distribution System, comprising seven distribution networks designed to cover all regions in Iran. [redacted]

In addition, Iran is expanding the Soviet-built Isfahan steel plant and is completing the Ahwaz steel complex. Other projects include construction of the Kavian pipe plant, completion of the Sar Chesmeh copper complex, and commissioning of the Arak aluminium plant. To alleviate an acute shortage of electricity, at least seven large thermal power plants are to be built in Tehran, Shiraz, and other cities. [redacted]

Iran: Government Finances [a] *Billion US $*

	1978	1983	1984
Expenditures (budgeted)	34.3	41.7	42.6
Current	17.3	22.9	23.2
Development	13.1	10.8	14.1
War	0	6.4	4.1
Reconstruction	0	1.6	1.2
Other	3.9	0	0
Revenues (budgeted)	28.8	31.7	43.5
Oil and gas	21.2	17.5	26.5
Taxes	6.3	8.0	10.0 [b]
Other	1.3	6.2	7.0 [b]
Balance	**−5.5**	**−10.0**	**0.9**

[a] Fiscal years ending 20 March for the years indicated.
[b] Estimated.

This table is Secret Noforn.

Weaknesses of the Plan

We believe Iran has overestimated the revenue that will be available to fund the development plan. We calculate the cost of the petroleum projects alone at $15-20 billion. Activating just the Bandar Khomeini petrochemical complex will cost about $1 billion. Funding for the remaining industrial projects, as well as ambitious agricultural development plans, could easily bring total hard currency costs of the five-year plan to $50-60 billion. [redacted] 25X1

The Iranian Government has budgeted $14 billion for development projects in FY 1984, most of which will be highly dependent on imports. If nondevelopment imports hold steady at last year's $11 billion, total import requirements could approach $25 billion. [redacted] 25X1

Iran has budgeted $26.5 billion in oil revenues to finance these ambitious spending levels. Oil revenues for FY 1984, however, are more likely to be in the $20 billion range. Iran's lower OPEC production quota, along with the subsequent decline in oil prices, will mean a 30-percent cut in projected Iranian oil earnings. Revenues at this level are only adequate to support recurring government expenditures, continuation of the war, and a moderate increase in development. We doubt the regime, given its opposition to dependence on the West, will 25X1

Iran: Current Account Balance *Billion US $*

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Trade balance	14.3	7.1	7.3	8.4	5.5	13.1	2.7	2.0	9.4	11.7
Exports (f.o.b.)	21.6	20.0	23.3	24.2	21.7	21.1	13.5	11.8	19.4	23.0
Oil	20.8	19.3	22.5	23.5	21.2	20.3	12.9	11.3	18.7	22.3
Nonoil	0.8	0.8	0.9	0.7	0.4	0.8	0.6	0.5	0.7	0.7
Imports (f.o.b.)	7.3	12.9	16.0	15.8	16.2	8.0	10.8	9.8	10.0	11.2
Net services and private transfers	−1.3	−2.4	−2.8	−2.8	−3.2	−1.0	−2.3	−3.1	−3.3	−4.2
Freight and insurance	−0.9	−1.7	−2.2	−1.9	−2.2	−1.1	−2.7	−2.9	−2.5	−2.2
Investment income receipts	0.5	0.6	0.8	1.0	1.3	2.1	2.4	1.8	1.1	1.4
Other	−0.9	−1.3	−1.4	−1.9	−2.4	−2.0	−2.0	−1.9	−1.9	4
Grants	−0.1	0	0	0	0	0	0	0	0	0
Current account balance	**12.9**	**4.6**	**4.5**	**5.6**	**2.3**	**12.0**	**0.4**	**−1.1**	**6.1**	**7.5**

[redacted] 25X1

be willing to borrow on the international credit markets to make up the difference. In any event, Western banks are not likely to extend large loans to a regime still regarded as a major political and economic risk. [redacted]

Even if adequate financing were available, the Iranians will encounter formidable problems in implementing the plan. The flight of professional Iranians has created a chronic shortage of trained personnel. As a consequence, Iranian companies tasked with overseeing oil, gas, and petrochemical contracts with the West are reportedly already asking Western companies to help solve production and refining problems. Shortages of trained manpower also will affect rural development efforts because large numbers of agro-engineers, health care workers, and teachers would be needed to assure the plan's success. [redacted]

The shortage of skilled workers promises to get worse. [redacted] significant numbers of the middle class continue to flee the country despite the regime's promise of amnesty and return of property confiscated during the revolution. We estimate the development plan would require a minimum increase of 20,000 skilled workers. We believe that anything approaching such a large influx of labor would probably spark a political backlash among conservative elements, especially if this immigration were heavily Western in origin. [redacted] 25X1 25X1

Prospects for Economic Growth

Oil. Iranian oil pricing and production policy will remain the critical determinant of growth. Despite the revenue shortfall Tehran probably will abide by OPEC production guidelines so long as the oil market remains soft. The Iranians recognize the risks of a downward price spiral if OPEC members fail to adhere to the agreement. [redacted] 25X1

The regime, more than most other OPEC producers, will be hard pressed to maintain its current price. Following the OPEC accord, Tehran cut its official crude price $1 below the Arab light benchmark to $28 per barrel for Iranian light. Because of 25X1 25X1 its refusal to offer additional discounts, Iran has so far been able to sell Japanese customers only 60,000 b/d compared to anticipated contracts for 450,000 b/d. Tehran may be forced to offer discounts of as much as $1 to its customers to prevent any further slide in exports. [redacted] 25X1

A firming of the market during the latter half of the year, as most industry analysts expect, will tempt Tehran to exceed its production quota of 2.4 million b/d. Iranian officials have already stated [redacted] 25X1 they will reassess Iran's commitment to the OPEC guidelines in a few months and, if conditions permit, raise production to 2.7 million b/d. A precipitous drop in oil revenues because of a renewed weakening of the oil market could also push Iran to increase production, but Iranian options over the near term are limited; its production capacity is currently about 3 million b/d. [redacted] 25X1

To improve its revenue potential, NIOC plans to increase capacity to about 4 million b/d by 1984. The major constraint to expanding production is the required reopening of shut-in wells. Because Iran has only a few operable rigs, we estimate it will take up to two years to increase production capacity by 1 million b/d without foreign assistance. With substantial foreign participation, such a program could be largely completed within one year, according to oil company estimates. If Iran were to produce at a level of 4-5 million b/d, it could, depending upon market conditions, again undermine world oil price stability. [redacted] 25X1

Agriculture. We believe the regime will be forced to move slowly in the agricultural sector. Iran lacks the administrative talents to implement a program that will require not only sizable investment in infrastructure but skill in coordinating the technical assistance, credit, and price supports needed to stimulate production. In addition, large subsidies provided to urban lower classes will continue to frustrate government objectives as rural residents leave the countryside for the benefits of urban life. [redacted] 25X1

Despite recently improved performances, we do not believe agricultural output will keep pace with domestic demand over the plan period—let alone allow Iran to reach self-sufficiency. A major stumblingblock is the conservative clerics' unwillingness to adopt a comprehensive and equitable land reform package to entice farmers to stay on the land. Without a clear national agricultural policy, uncertainty over land ownership and lack of significant financial incentives will continue to encourage rural migration. Government spending for agricultural projects and infrastructure is unlikely to increase productivity rapidly enough to offset the declining agricultural workforce. [redacted] 25X1

Industry. Development of the petroleum sector, is likely to show the strongest growth. The rehabilitation and upgrading of oil facilities is a priority for the regime. In mid-March NIOC requested formal tenders from West European companies for at least six projects, and contract awards are likely to be announced with growing frequency. In addition, the government is making a major effort to settle outstanding claims of international corporations it hopes to do business with in the future. Recently, Tehran settled with Shell and Compagnie Francaise des Petroles (CFP) for $42 million and $333 million, respectively. [redacted] 25X1

In the nonoil industrial sector, attempts to build an industrial base will lead to increasing requirements for imports. Moreover, the completion of showcase projects, such as the Isfahan Steel Works, probably will not generate substantial production and employment opportunities in other industries. Iran cannot use substantial quantities of the steel domestically, and export markets are limited. Moreover, a coordinated program will be difficult to implement because decisionmaking remains in the hands of clerics with little administrative or technical expertise. [redacted] 25X1

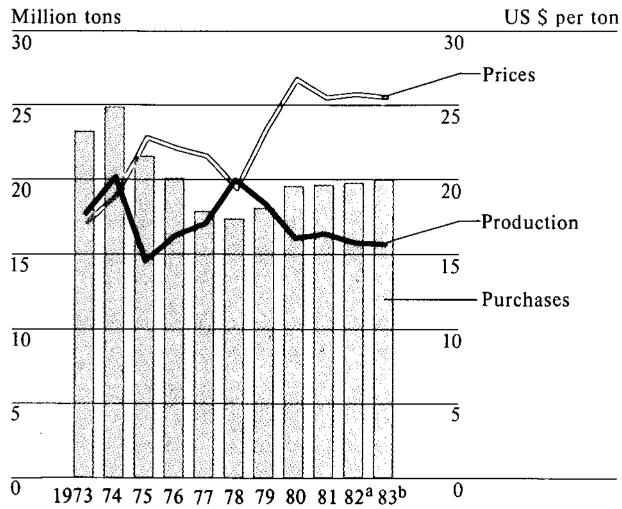
[redacted] 25X1

Liberia: Living on a Float [redacted] 25X1

Weak demand for Liberia's iron ore and rubber exports, coupled with mismanagement and rising corruption, have accelerated economic decline since Head of State Doe seized power in April 1980. Although Doe has consolidated his position and imposed relative stability since his takeover, he has been unable to deliver on promises to improve living conditions. Indeed, his most immediate problem is finding a way to reverse three years of economic decline during which national output has dropped 15 percent. [redacted] 25X1

Prospects for improvement depend on a substantial firming of the market for Liberian exports, something we do not anticipate soon. In the meantime, Doe will come under increasing pressure from Liberia's creditors for more severe austerity measures. He will be looking to Washington to persuade Western donors, particularly the IMF, to be more accommodating in their demands. [redacted] 25X1

Liberia: Iron Ore Production, World Prices, and Western Purchases



[a] Estimated.
[b] Projected.

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The Economy Under Doe

When he came to power in 1980, Doe pledged to improve living standards and to revive Liberia's economy. His government's actions and policies—exacerbated by continuing global recession—have had the opposite effect. US Embassy reporting and official Liberian statistics indicate that national output declined by 10 percent during 1980-81 and probably slipped at least an additional 5 percent last year. Embassy sources claim the country's financial position is weaker now than at any time since the 1960s, that the modern economy is slowly grinding to a halt, and that only international assistance is preventing even greater damage. [redacted] 25X1

[redacted] 25X1

One of the Doe government's first acts was to execute a number of prominent Americo-Liberians, including President Tolbert, most of his family, and nearly all of his cabinet. The executions prompted an exodus of Americo-Liberians, depleting the country's skilled labor pool. Large-scale capital flight accompanied the elite's departure. According to the US Embassy, currency withdrawals jumped over 25 percent within weeks of the coup, leaving a big dent in the government's access to funds.

Liberia, unlike most other African states, cannot turn on the printing presses to solve its liquidity crises, as the US dollar is Liberia's legal tender. [redacted]

The coup brought to power a group of undereducated, inexperienced soldiers whose lack of expertise in dealing with economic issues quickly became apparent. In support of his objective to redistribute the country's wealth, Doe doubled salaries for civilian government employees and tripled military pay. He also increased subsidies for rice, fuel, and other necessities. In addition, US Embassy officials report that the new regime tacitly supported wildcat strikes against the iron ore and rubber companies, resulting in a further souring of the investment climate. Even more worrisome, in our judgment, was Doe's willingness to let his colleagues on the ruling military council spend as they pleased. Taken together, these moves boosted expenditures for 1980 by more than 25 percent. [redacted]

Doe did not anticipate that the increase in government spending would be accompanied by a falloff in revenues:

- Customs receipts—an important revenue source—declined as a result of a 45-percent plunge in the monthly volume of imports shortly after the coup.
- The departure of Americo-Liberians hurt business profits and reduced related taxes.
- Ship registrations and associated fees and taxes from the operation of the world's largest flag-of-convenience fleet fell off as the world waited to see how the new government would conduct itself. [redacted]

On the international side, export volume declined and prices were starting to drop by the end of 1980 as a result of the international recession. Service payments reached a record level because of rising interest charges on foreign debt and huge transfers abroad to the exiled Americo-Liberian community. Monrovia had to resort to international loans just to cover its monthly operating expenses. Only six months after seizing power, the regime was forced to go to the IMF for help and to secure an agreement with Paris Club members to reschedule payments on part of its nearly $600 million in outstanding loans. [redacted]

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The Doe regime showed during 1981 and early 1982 little evidence that it had learned any lessons in dealing realistically with the country's economic problems. US Embassy reporting indicates that Western creditors were particularly disturbed by Doe's dismissal of Planning Minister Tarr and the Bank of Liberia's president, both of whom were viewed by international bankers as the only senior officials left with any appreciation of what had to be done to keep the economy going. Monrovia also interfered in day-to-day operations of foreign and local businesses and demanded exorbitant fees and taxes in return for immunity from physical violence and arrest. Spending remained out of control; by the end of 1981, according to official Liberian statistics, operating expenses were up more than half from just before the coup and net claims on the government had more than doubled. [redacted]

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Admitting his ignorance of economic issues, Doe decided to call on Washington to help sort out the country's problems. By the spring of 1982, the Embassy assumed an instrumental role in orchestrating efforts of the Liberian Government, the country's major creditors, and the IMF to head off one crisis after another. In addition to the role of financial coordinator, Monrovia looked to Washington to provide monetary assistance. Throughout most of 1982, US advice and injection of funds were the only barriers standing between Liberia and financial default. [redacted]

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Growing Pressure for Reform

According to US Embassy reporting, Liberia's creditors decided in late 1982 on a much tougher approach in their dealings with Monrovia:

- Private banks, particularly in the United States, refused to extend new loans unless they were

Liberia: Balance of Payments *Million US $*

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 [a]	1983 [b]
Trade balance	130.5	111.9	63.2	57.8	−16.1	5.5	30.0	66.5	54.0	50.0	50.0
Exports (f.o.b.)	324.0	400.3	394.4	457.0	447.4	486.4	536.6	600.4	531.4	480.0	450.0
Iron ore	196.7	262.2	293.6	328.7	273.5	274.4	290.0	310.2	331.4	300.0	295.0
Rubber	42.9	64.5	46.2	53.3	59.1	69.2	87.8	102.2	89.2	60.0	55.0
Diamonds	49.3	29.9	18.4	16.6	21.4	30.3	39.6	33.5	23.4	32.0	30.0
Timber	16.6	17.1	12.8	34.6	29.3	46.7	50.1	65.3	36.8	NA	NA
Coffee	5.1	4.0	4.5	6.6	43.0	25.3	27.1	33.0	19.4	NA	NA
Other	13.4	22.5	18.9	17.2	21.1	40.5	42.0	56.2	31.2	NA	NA
Imports (c.i.f.)	193.5	288.4	331.2	399.2	463.5	480.9	506.6	533.9	477.4	430.0	400.0
Services and transfers	−135.0	−141.9	−144.4	−103.6	−95.0	−146.0	−148.0	−164.6	−186.0	−200.0	−215.0
Current account balance	**−4.5**	**−30.0**	**−81.2**	**−45.8**	**−111.1**	**−140.5**	**−118.0**	**−98.1**	**−132.0**	**−150.0**	**−165.0**
Capital account balance	NA	**27.9**	**76.2**	**80.2**	**47.0**	**40.3**	**102.6**	**80.1**	**40.0**	**19.0**	NA
Official capital	NA	NA	NA	21.4	38.9	64.6	102.6	80.1	50.0	32.0	NA
Private capital	NA	NA	NA	58.8	8.1	−24.3			−10.0	−13.0	NA
Balance on current and capital accounts	NA	−2.1	−5.0	34.4	−64.1	−100.2	−15.4	−18.0	−92.0	−131.0	NA
Net borrowing	NA	−2.4	−5.0	−28.7	15.8	9.5	22.6	4.6	22.5	NA	NA
Change in central government deposits abroad	NA	−4.5	−10.0	7.2	9.1	−12.5	−29.4	−69.7	−106.0	NA	NA
Errors and omissions	NA			1.5	57.4	78.2	−36.6	−56.3	−36.5	NA	NA

[a] Estimated.
[b] Projected.

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guaranteed by the US Government. In November 1982, the banks decided not to continue a $50 million oil facility that had financed Liberia's petroleum imports for several years. Government efforts to replace the facility with spot market purchases have been only partially successful because of the lack of funds.

- In November 1982, the IMF expressed its displeasure with Liberia's performance, particularly the lack of a 15-percent budget cut requested by the Fund in mid-1982, by suspending a $10 million disbursement until budgetary reforms were in place. The Fund's position was enhanced substantially when the US Congress linked continued official aid to Doe's ability to satisfy the IMF.

Doe got the message and announced in December a number of budgetary reforms based on IMF guidelines. These included across-the-board civil service and military salary cuts of between 16 and 25 percent, immediate retirement for government workers aged 65 or above, restrictions on government travel, and reduced gasoline subsidies for government employees. Although Monrovia narrowly missed meeting IMF guidelines on the budget deficit in April 1983, Embassy sources indicate the problem was that revenues were substantially lower than anticipated, reflecting, in our judgment, the continued slump in both export receipts and local business activity and government reluctance

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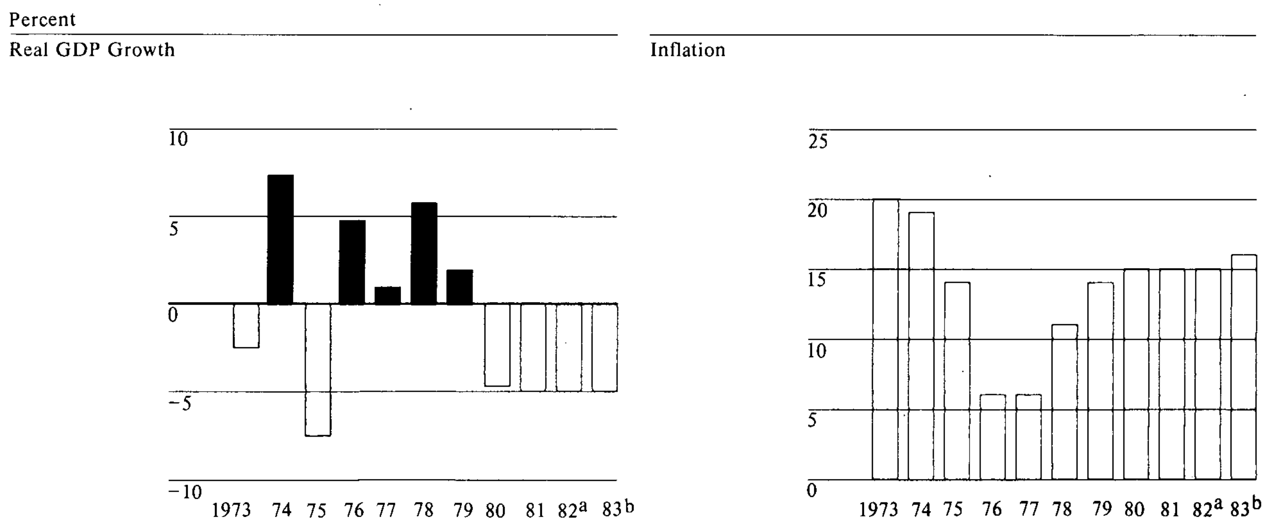
Liberia: Real GDP Growth and Inflation



[a] Estimated.
[b] Projected.

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to pursue a more vigorous collection effort. In addition, we believe that an increasing amount of money is being siphoned off by government officials to offset the reduction in salaries.

Outlook: Few Options for Doe

We see nothing on the horizon to suggest that the Liberian economy will turn around any time soon, and certainly not during 1983. We believe Monrovia will experience the fourth consecutive year of declining output, perhaps again around 5 percent. Projections of slow growth this year for the Western economies indicate, in our opinion, no meaningful improvement in international demand for Liberian exports, particularly iron ore. Without a sharp increase in export earnings, Monrovia will not be able to increase imports needed to expand production of local industries. Neither can the Doe regime count on sizable increases in capital inflows. Doe has indicated to US Embassy officials that last December's austerity program is all he can do politically, and we anticipate that he will resist efforts by Washington or other Western creditors to adopt a more stringent program.

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In our opinion, these developments point to the continuation of periodic domestic financial crises that have plagued the Doe regime. An important element in popular acceptance of last December's budget cutbacks was Doe's statement that he would start paying salaries on time. Liberian officials have indicated to US Embassy representatives, however, that they are not averse to delaying paychecks if that is necessary to meet other obligations. Public tolerance of such tactics, in our opinion, could wear thin as urban workers try to cope with already high rates of unemployment and inflation.

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Doe will continue to rely on Washington for both advice and financial assistance to bail him out of his economic dilemma. He expects this because of Liberia's "special relationship" with the United States and Doe's support of US positions on southern Africa and other international issues. Doe's concern about Washington's commitment to his own survival is certain to rise if popular discontent over last year's austerity measures, which he claims were implemented in response to pressure from the US Government, becomes widespread. He will be particularly mindful of Washington's attitude when Liberia begins negotiations this summer for another IMF standby agreement. [redacted] 25X1

In our judgment, Washington's failure to respond to what the Doe government believes are reasonable bailout requests could prompt Monrovia to explore more actively means of applying pressure on the United States. One possibility is to threaten to impose sizable rental fees on strategically important US communications and navigation facilities in the country. In addition, Monrovia could once again publicly declare its willingness to establish better relations with the Soviets, Libyans, and other radical states. Moscow and Tripoli, while welcoming Doe's overtures, probably would not respond positively to requests for money. They almost certainly believe that they could not successfully compete with high US aid levels and that any aid would only help bolster a pro-Western regime. [redacted] 25X1

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