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International Economic & Energy Weekly [redacted]

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12 August 1983

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International Economic & Energy Weekly [redacted]

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Synopsis

Perspective—*Japanese Concern Over Current Account Surplus* [redacted] 25X1

Japanese officials are concerned that they will be unable to show much progress in holding down the massive current account surplus before President Reagan's visit in November. Consequently, Tokyo has been discussing a number of measures to boost imports or strengthen the yen. [redacted] 25X1

Japan-USSR: Restricting Access to Technology [redacted] 25X1

Tokyo is taking well-publicized measures to stop illegal acquisitions of technology in Japan, apparently in response to US complaints. [redacted] 25X1

Jamaica: Economic Troubles Undermine Seaga's Popularity [redacted] 25X1

Slack demand for the country's key mineral exports, depressed agricultural production, and the failure of foreign bankers and investors to provide sufficient funds forced Kingston to adopt painful austerity measures this year in an attempt to meet the targets of its IMF program. As a result, we expect the economy will contract slightly this year, making it difficult for Seaga to cut the nation's 30-percent unemployment rate. [redacted] 25X1

Near East: Employment of Foreign Workers [redacted] 25X1

Reduced oil revenues have slowed the growth of foreign worker employment in the oil-exporting countries of the Near East and have even led to reductions in the number of expatriate workers in Qatar, the UAE, and Iraq. Any further cutbacks in oil revenues could severely curtail the foreign remittances of the labor-exporting countries—which we currently estimate at $12 billion annually. [redacted] 25X1

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Perspective

Japanese Concern Over Current Account Surplus [redacted] 25X1

Japanese officials are concerned that they will be unable to show much progress in holding down the massive current account surplus before President Reagan's visit in November. Through May the surplus was running at a record annual rate of almost $20 billion; we believe it will at least triple the 1982 surplus of $6.9 billion by yearend. Moreover, because of the weakness of the yen and the expected strength of recovery in key trading partners, the surplus is likely to expand further next year. [redacted] 25X1

Tokyo has been discussing a number of steps to boost imports or strengthen the yen:

- One measure that enjoys widespread support is some control of capital outflows that would help the yen appreciate. Nakasone's principal rivals—Komoto and Fukuda—have been pressing for such controls, but we believe that opposition by the Ministry of Finance makes direct controls unlikely in the near future. The government is also considering relaxation of barriers to capital inflows.

- Nakasone ordered the Liberal Democratic Party to devise policies to boost imports. According to press reports, the package will include expansion of agricultural imports, an increase in Nippon Telegraph and Telephone's overseas purchases, and financial and tax incentives for importers.

We, like most Japanese officials, are skeptical that any of these moves would have much impact on the current account. Because of its sheer size, the trade surplus would be little affected by somewhat higher imports or a slight appreciation of the yen. [redacted] 25X1

Tokyo's concern will undoubtedly increase as President Reagan's visit approaches. Nakasone's political opponents may try to use his inability to do anything about the surplus to undermine his position. Nakasone will be especially sensitive to this issue because of the importance of managing the US relationship. Nakasone will want the President to appear successful in gaining a wider market in Japan to help contain protectionism in the United States, especially as the US Presidential election season gets under way. [redacted] 25X1

One initiative Tokyo may opt for is a signal that they are more willing to negotiate continued restraints on automobile exports to the United States. We believe that Japan is likely to extend the restraints because of the threat that the US Congress may pass local content legislation. In addition, the Japanese will probably offer the President increases in agricultural imports, including a boost in beef and orange quotas, and also may offer to continue tightening controls on technology exports to the Soviet Union. [redacted] 25X1

[redacted] 25X1

Briefs

Energy

OPEC Oil Production Tops Ceiling

OPEC production in July rose to 18.0 million b/d—exceeding for the first time the cartel's 17.5-million-b/d ceiling established in March. Since the individual quotas are applied on a quarterly basis, countries producing above their ceilings can comply with the letter of the agreement by reducing output in August and September. Nigeria continued to be the worst offender, exceeding its quota by about 400,000 b/d last month. Lagos—after being called to task twice by OPEC's Monitoring Committee—reportedly has placed a ceiling on output of all equity producers to bring third-quarter production in line with its OPEC-mandated quota. Saudi output topped 5 million b/d as liftings by the former Aramco partners increased. Riyadh's commitment to provide war assistance to Baghdad in the form of oil deliveries to Iraq's

OPEC: Crude Oil Production, 1983 *Million b/d*

	Quota	1st Qtr	2nd Qtr	June [a]	July [a]
Total	**17.5**	**15.9**	**16.7**	**17.3**	**18.0**
Algeria	0.725	0.7	0.6	0.6	0.6
Ecuador	0.2	0.2	0.2	0.2	0.2
Gabon	0.15	0.2	0.2	0.2	0.2
Indonesia	1.3	1.1	1.4	1.3	1.3
Iran	2.4	2.6	2.3	2.3	2.4
Iraq	1.2	0.8	0.8	0.8	0.9
Kuwait	1.05	0.8	0.7	0.7	0.7
Libya	1.1	1.3	1.1	1.1	1.1
Neutral Zone	[b]	0.2	0.4	0.4	0.5
Nigeria	1.3	0.8	1.4	1.5	1.7
Qatar	0.3	0.2	0.3	0.3	0.3
Saudi Arabia	5.0 [c]	3.9	4.4	4.9	5.1
United Arab Emirates	1.1	1.2	1.2	1.2	1.2
Venezuela	1.675	2.0	1.7	1.7	1.7

[a] Preliminary.
[b] Neutral Zone production is shared 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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customers has also played a role in boosting output levels in both Saudi Arabia and the Neutral Zone. Crude sold to Iraqi customers by both Saudi Arabia and Kuwait totaling at least 300,000 b/d is being charged by OPEC against Iraq's quota. Iraq was able to increase its own output in July by adding chemicals to enhance the oil flow in its export pipeline through Turkey. OPEC's Monitoring Committee has scheduled a meeting in September to assess the demand for OPEC oil and consider calling a special ministerial session to raise production quotas. [redacted] 25X1

Oil Consumption Trends

The rate of decline in oil consumption apparently has slowed in recent months in the major developed countries. Partial data indicate oil sales in the second quarter registered a 4-percent drop from year-earlier levels compared with a 6-percent decline in the first quarter. Oil sales in the United States have firmed in recent months in response to the economic recovery, with sales in June above year-earlier levels. Oil use in Western Europe remains weak, however, with no clear signs that the consumption decline has abated. So far this year heavy and light fuel oil sales in the major developed countries are down 20 percent and 7 percent, respectively, while gasoline sales approximated year-earlier levels. [redacted] 25X1

Selected Developed Countries: 1983 Oil Consumption Trends *Percent* [a]

	1st Qtr	April	May	June	2nd Qtr	July [b]
United States	−5.5	−7.9	−3.7	2.2	−3.2	−1.2
Japan	−3.6	−4.1	−1.1	NA	NA	NA
Canada	−15.6	−12.7	−1.9	NA	NA	NA
West Germany	−5.4	−6.8	NA	NA	NA	NA
France	−3.1	1.0	−1.3	−8.6	−2.7	NA
United Kingdom	−9.4	−2.2	2.1	NA	NA	NA
Italy	−4.3	−13.3	8.3	−10.8	−5.8	NA

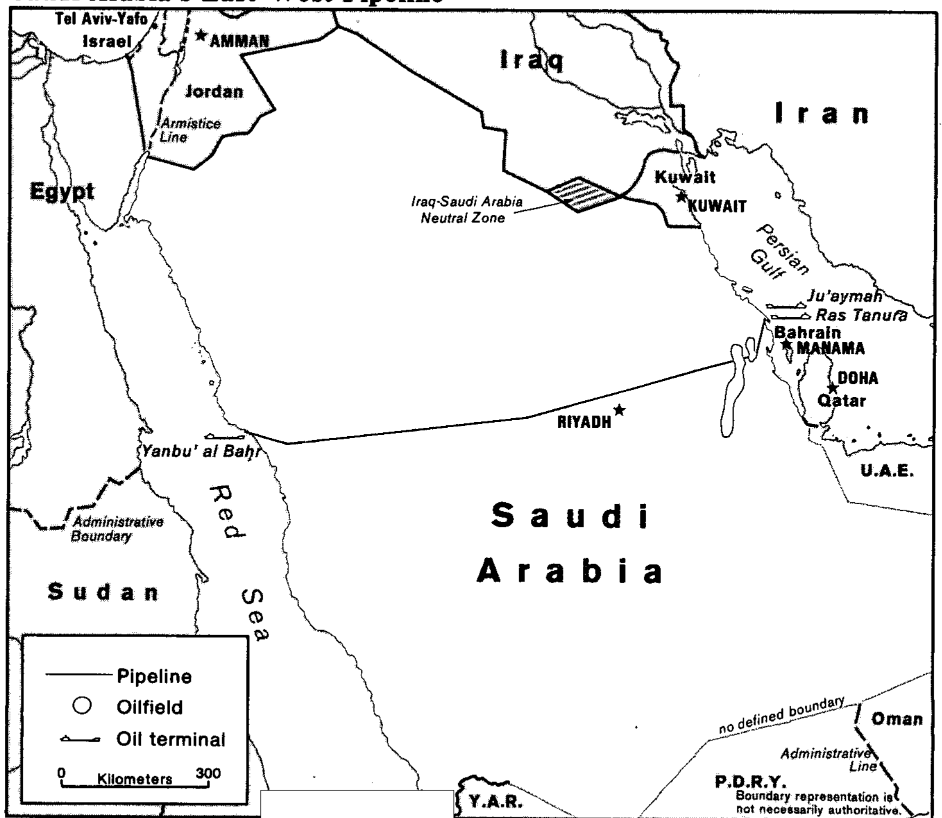
[a] Change from year earlier levels.
[b] Estimated.

[redacted] 25X1

Saudi Red Sea Oil Exports Slump

Crude oil liftings from Yanbu Al Bahr, the Red Sea port for Saudi Arabia's 1,100-km-long east-west oil pipeline, are currently estimated [redacted] 25X1
[redacted] at only about 150,000 b/d. With approximately 100,000 b/d of crude 25X1
also going to Yanbu's domestic oil refinery, the 250,00 b/d throughput for the pipeline is approximately 1.6 million b/d below capacity. Because the mini-

Saudi Arabia's East-West Pipeline



[redacted] 25X1

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mum flow rate is about 450,000 b/d, the Saudis have been operating the line only about every other week. Even halving the line's transit fee to 25 cents per barrel in March has done little to attract new customers. If the threat of floating mines in the Persian Gulf causes insurance premiums to rise, however, oil liftings from Yanbu Al Bahr could become more competitive. We estimate that Saudi Arabia is currently exporting about 4.4 million b/d from the Persian Gulf terminals of Ras Tanura and Ju'aymah. [redacted] 25X1

Oil Terms for Nicaragua Stiffened

Nicaragua reportedly has reached agreements with Mexico City and Caracas that will put it on the same aid terms as other beneficiaries of the Mexican-Venezuelan oil facility. A new agreement reported by the US Embassy will end full Mexican financing of Nicaraguan oil purchases, and Nicaragua will begin paying Mexico 80 percent of the oil bill on shipment. Managua also has agreed to repay the roughly $300 million in accumulated oil debt beginning in 1985. [redacted] 25X1 25X1

The new payment requirements probably will end Mexico's role as Nicaragua's largest individual bilateral lender and will magnify Managua's financial difficulties. Mexico may eventually back off the new requirements, however, if they threaten the Sandinista regime's survival. Unless other lenders step in, Nicaragua this year will be forced to cut already low import volume by up to 30 percent, a move that would substantially depress economic activity. Managua's commitment to begin repayment in 1985 of past Mexican oil debt and about $1 billion in rescheduled foreign commercial debt could plunge the economy into a prolonged tailspin. 25X1

Cutbacks in French Nuclear Power Program

Continuing reductions in the growth rate for electricity demand and reduced forecasts for economic growth have forced France to reassess its nuclear power program. At the end of July, the Council of Ministers approved plans calling for a cutback in nuclear power plant orders from three per year to two per year in 1983 and 1984. Although only one nuclear plant order is planned for 1985, a second order could be placed if electricity demand grows more rapidly than presently forecast by the French Government. 25X1

Despite these cutbacks, the Council's decision is viewed as a victory for Electricite de France (EDF) and the nuclear power program. A recent government study on long-term energy supply and demand concluded that no nuclear power plant orders were necessary until 1987. A minimum order rate of two units per year is considered necessary to maintain France's nuclear industrial base without major cutbacks by nuclear component manufacturers and the loss of many smaller nuclear-qualified suppliers. To encourage electricity growth, the Council's decision also allows EDF to advertise and use special promotional rate structures. Exports of electricity will be encouraged, and loans for industrial electrification will be liberalized. In addition, France is expected to continue its vigorous pursuit of sales in the international nuclear reactor market. 25X1

Big Seven Electricity Consumption Falls

Electricity demand during the first quarter of 1983 in the Big Seven declined 3.2 percent—about 630,000 b/d oil equivalent—compared to the same period a year ago. Consumption in the United States and Canada fell 5 percent, largely as a result of a mild winter that reduced demand for electric space heating. Most European countries registered small to modest declines, while France and Japan registered modest increases in electricity consumption of 3.0 and 1.7 percent, respectively. The recent heat wave in the United States, however, is causing a surge in electricity demand, with utilities setting new generating records to meet the increased air conditioning loads. Most analysts now expect electricity demand to rebound to previous growth rates as the economic recovery gains momentum. 25X1

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Japanese Coal Imports Tumble

Foreign coal purchases by Japan—the world's largest coal buyer—are down 16 percent in the first half of 1983, as compared with year-earlier levels. All of the decline occurred in coking coal imports because of sluggish steel production and high coal stocks. The brunt of the cutback has been borne by US suppliers, with Japanese imports of US coking coal down nearly 50 percent this year; imports of US steam coal declined by 40 percent. The drop in US coal sales to Japan is due in large part to the absence of supply disruptions in Australia this year and the high price of US coal. The average prices of US coking and steam coal delivered to Japan are roughly 28 percent and 22 percent above the average price of coal from other suppliers. 25X1

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International Finance

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New Mexican Scheme for Repayment of Supplier Credits

Mexico City last week announced a new program to pay off supplier credits, after previous efforts failed to attract many participants. This scheme is for short-term credits overdue as of 30 June 1983 and medium- and long-term credits falling due between 30 June and 31 December 1983. This time, a firm can deposit pesos at the controlled exchange rate in one of six designated banks. The accounts will be denominated in dollars and will pay interest at the six-month London interbank offer rate. 25X1

Until Mexico City resolves supplier credits issues, private-sector imports will remain depressed. Earlier measures attracted only about 10 percent of the funds necessary to meet the $4 billion in outstanding supplier credits. We believe participation in the current scheme will also be low because of the illiquidity of many Mexican firms, doubts about the government's ability to make foreign exchange available in the future, and some direct payments to foreign creditors by firms with access to foreign exchange. [redacted] 25X1

Portugal Completes Negotiations for IMF Loan

Lisbon has reached agreement with the IMF on the terms for a $480 million standby loan. According to press reports, the Soares administration is obliged to curtail the growth of the money supply, reduce the budget deficit to 6 percent of GDP by 1984, lower real wages, narrow the current account deficit to $2 billion this year and $1.2 billion next year, and limit external debt to $14.6 billion in 1983 and $16 billion in 1984. In addition, Lisbon intends to halt selected investment projects and dismantle some public-sector enterprises. Realizing that these measures will add to unemployment, Portuguese officials are formulating a comprehensive compensation plan to soften the impact. Meanwhile, the Communist trade unions appear ready to increase strike activity this fall, but the coalition government almost certainly has the political will to resist pressure to back down [redacted] 25X1

In our view, Lisbon cannot realistically expect to narrow last year's $3.2 billion current account deficit by more than $800 million. Tourism revenues and worker remittances probably were still weak in the first half of this year, as market expectations of a large devaluation were not realized until June. Consequently, we estimate that, even with the receipt of the first $160 million IMF tranche this fall, Portugal faces a financing gap of at least $260 million. Lisbon is hoping that the receipt of IMF assistance will renew bankers' willingness to extend loans and help narrow the gap. [redacted] 25X1

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[redacted]

Possible Philippine Debt Rescheduling

Manila is considering ways to reschedule its short-term foreign debt, but the government is divided over its financial options. [redacted] 25X1

[redacted] 25X1

Rescheduling the debts of various government financial institutions would ease pressures on the Central Bank, which for several years has kept them afloat with its own funds. However, private creditors would probably insist that the burden be slowed by other government institutions. Manila will have to decide on a course of action quickly, in any case, if it expects to protect the Central Bank from the government's broader financial problems. The government almost certainly wants the Central Bank to retain its good international credit rating so it can continue foreign borrowing operations. [redacted] 25X1

[redacted] 25X1

[redacted] The extent of recent foreign exchange leakage from the official market suggests that the Central Bank cannot defend the current exchange rate for long. Manila's 8-percent devaluation in June apparently was too limited to ease strains on the Central Bank's reserves. The government may hope that financial assistance from Washington will enable it to avoid a large devaluation and the ensuing disruption to the economy. [redacted] 25X1

Financial Relief for Ghana

The US Embassy reports that Ghana has concluded a one-year agreement with Libya for 24,000 barrels per day of crude and that Tripoli has agreed to refinance the $95 million oil credit it granted in 1982. Accra has used the agreement to demonstrate to the IMF that enough financing of oil imports is available. The IMF then approved two loans for Ghana that will give the government access to roughly $380 million over the next year and allow it immediately to arrange for much-needed imports. According to the Embassy, the IMF agreement also will enable Ghana to qualify for $60 million in commercial financing. The Libyan crude oil will not meet all of Ghana's petroleum needs. The economically hard-pressed regime will have to spend an estimated $8-10 million a month of the IMF and bank loans on spot market purchases. [redacted] 25X1

Japanese Extension of Credit to Iraq

Tokyo has agreed in principle to extend for five years the deadline on Iraq's use of a $2.5 billion credit package, according to the US Embassy in Tokyo. The loan offer originally was to expire on 15 August. Differences still have to be resolved over the interest rate for the loans, which originally were offered during the 1970s. Iraq had used only a small portion of the funds before the war with Iran started, and Japan soon froze further disbursements. [redacted] 25X1

Iraq needs all possible financial assistance in order to ease its foreign exchange shortage. Several Japanese companies already have deferred Iraqi payments or are receiving oil from Saudi Arabia on Iraq's behalf to help cover Iraq's $1.8 billion debt to Japan. In 1982 Japanese companies reportedly were involved in projects in Iraq worth an estimated $4.7 billion. Japan wants to maintain good economic relations with Iraq, but it will offer no new credits until the existing loans are fully disbursed. [redacted] 25X1

Negotiations Between Madagascar and the IMF

Madagascar's negotiations with the IMF for another badly needed standby agreement have been stalled [redacted] 25X1

[redacted] 25X1 25X1

[redacted] In June the IMF suspended the last tranche—$12 million—of the 1982 standby agreement because the government failed to reduce external arrears and to furnish complete reporting of the country's external debt. Without IMF funds Madagascar will be forced to cut import spending by over 20 percent, probably on spare parts and industrial equipment, which will limit prospects for longer term economic improvement. [redacted] 25X1

Madagascar's economic picture also has been clouded recently by other aid and trade developments. According to the US Embassy in Antananarivo, government officials predict that 1983 export earnings will decline by about 25 percent if Indonesia, the principal buyer of Madagascar's cloves, does not make its usual purchase of about 90 percent of the crop. Indonesia is upset with Madagascar's lack of support on the East Timor issue in the United Nations. [redacted] 25X1 25X1

Global and Regional Developments

Specialty Steel Dispute

Major foreign specialty steel exporters have strongly criticized the US decision on 5 July to increase tariffs and impose quotas on specialty steel imports for four years, but most are also maneuvering to maximize their shares of the newly established quotas. Supplier governments have been invited to negotiate

Selected Exporters: Share of Stainless Steel Exports Going to the United States *Percent*

	1979	1980	1981	1982	1983 1st Qtr
Japan	19.9	19.2	15.2	12.9	13.8
West Germany	1.3	1.2	5.3	6.4	3.2
France	3.0	4.0	8.7	11.0	9.2
Italy	1.7	1.7	2.6	NA	NA
Sweden	11.8	8.3	10.7	NA	NA
South Korea	12.3	9.9	23.2	16.6	NA

[redacted] 25X1

orderly marketing agreements (OMAs) on products—alloy tool steel and stainless bars and rods—subject to global quotas. State Department sources indicate that Japan, Sweden, Spain, Canada, Austria, and Brazil are interested in OMAs in order to preserve their share of the US market. The Brazilian press reports that some Brazilian steel industry officials even view OMAs as a way to increase their share of the US market. [redacted] 25X1

The European Community, the harshest critic of the new controls, has initially rejected OMAs, choosing instead to seek compensation under GATT Article XIX. Although French officials have expressed interest in a separate OMA, Paris for the moment is acquiescing to the wishes of the EC Commission, which wants to present a united front to the United States. EC demands for compensation and threats of retaliation may also be a negotiating tactic to extract concessions from the United States on carbon steel, which might more than offset potential specialty steel export losses. The Commission's case before the GATT would be weakened considerably if EC member states negotiate separate OMAs with the United States. [redacted] 25X1

French-Quebec Economic Agreement May Harm US Interests

The agreement between the separatist government of Quebec and the nationalized French aluminum company Pechiney-Ugine-Kuhlman (PUK) to construct a $1 billion highly automated smelter in the province may cause PUK to curtail operations or close its older facilities in the United States. Quebec apparently secured PUK's commitment by offering to provide electricity, through its crown corporation Hydro-Quebec, at a 60-percent discount during the period 1986-89 and at a significantly reduced rate thereafter. The initial four-year discount is estimated to be worth $120 million. In addition, the project will create 800 permanent jobs in Quebec and provide a market for a portion of Hydro-Quebec's surplus electricity. According to US officials, Quebec's actions in subsidizing electricity rates may be inconsistent with

Canada's obligations under the OECD's Declaration on International Investment and Multinational Enterprises issued in 1976. [redacted] 25X1

The importance of the project to Levesque's government, the provincial economy, and, in turn, the separatist cause, probably will force him to resist modifications to the agreement—even if it is found to contravene Canada's OECD commitments. The provincial government apparently recognizes the potentially discriminatory aspects of the subsidy and has therefore offered similar discounts to other foreign aluminum companies. If it is found to be inconsistent with OECD regulations, the Quebec-PUK agreement will not only prompt a controversy between Canada and the United States but will promote a confrontation between the federal government and Quebec should Ottawa attempt to bring the project under international guidelines. [redacted] 25X1

National Developments

Developed Countries

Belgian Budget Deficit

The 1984 budget announced by the Martens government on 1 August fails to trim expenditures or add significantly to revenues and calls for a deficit of $10.4 billion, nearly 11.5 percent of GNP. Even at this level the deficit may be substantially underestimated if real economic growth continues to stagnate. The $9.1 billion deficit originally called for this year by the government has grown to an estimated $10.9 billion—over 13 percent of GNP. The budget reflects, in part, a compromise on regional financing and the need to restructure troubled steelmaker Cockerill-Sambre in late July. In addition, falling real GNP and rising unemployment over the past three years have added to the budgetary problems by boosting social welfare transfers and cutting tax revenues. [redacted] 25X1

Unable to finance large deficits domestically, the government has been forced to rely on foreign borrowing. The resulting 6.4-percent increase in debt service payments, coupled with a 10-percent rise in regional capital investment expenditures, will increase external financing requirements. Belgium's huge deficit probably will limit the government's ability to borrow in foreign markets without paying a higher risk premium and could result in an eventual default if credit conditions deteriorate significantly. [redacted] 25X1

West German Economic Indicators Improving

West German industrial production and new orders for capital and consumer goods both rose 2 percent from May to June and business sentiment improved accordingly, further evidence of a mild rebound in economic activity. The turnaround is due largely to an improving domestic market for capital goods and consumer durables, especially autos, but the weakness in new orders from the foreign sector suggests export demand will remain sluggish through the summer. First-half 1983 exports were down 2 percent in value from the 1982 level, heightening concerns that slack export trade could slow economic recovery. Exports equal nearly one-third of West German GNP, and the foreign sector historically has provided the stimulus for upturns in the business cycle. We believe that exports should pick up later this year because of recovery in the OECD, the weakening deutsche mark, and higher raw material prices that should enable many LDCs to boost imports. [redacted] 25X1

Record New Zealand Budget Deficit

The 1983/84 budget Prime Minister Muldoon presented to Parliament last week has raised serious concerns in the financial community about the projected $2.1 billion deficit, a record 9.5 percent of GDP. Higher social welfare costs and a 37-percent increase in debt servicing payments would push up spending while the 1982 tax cut, flat economic growth, and the wage-price freeze will combine to hold down projected tax revenues. Wellington will find it difficult to finance the deficit without forcing interest rates up or intensifying inflation, which slowed to a 3.4-percent annual rate in the first quarter of 1983. [redacted] 25X1

Less Developed Countries

Brazilian Austerity Measures Causing Strains in Private Sector

The austerity policies implemented this summer by Brasilia to reduce triple-digit inflation are creating additional financial difficulties and are depressing investment in the private industrial sector. According to the US Embassy, recent steps by monetary authorities limiting interest rates that banks may charge—and thus the commercial deposit rates that the banks can profitably pay—have caused a paralysis of bank lending, thereby exacerbating the severe liquidity shortage for the business community. Also, Brasilia is squeezing profits in private industry by holding price increases to no more than 80 percent of the general rise in inflation for some 300 manufactured goods. Businessmen indicate that the central banks' new controls over the allocation of all foreign exchange are likely to create additional problems for private industrial firms, particularly those that depend heavily on imported raw materials and intermediate goods. [redacted] 25X1

These recent measures, combined with the prolonged Brazilian recession, have caused the private sector to lobby for changes in the government's economic strategy. Most businessmen blame the country's economic misfortunes on an excessively large public sector and harmful government policies and are calling for increased incentives to private activities, such as more credit and lower taxes. Business leaders are especially critical of Planning Minister Delfim and other members of the economic policy team and may yet exert enough political pressure to force their removal. [redacted] 25X1

[redacted] 25X1

Ethnic Riots a Setback to Sri Lankan Economy

Although few basic production facilities were damaged during the late July–early August riots, Tamil shops, warehouses, homes, and a major part of the textile industry were destroyed. The vital trading network was disrupted as almost 130,000 Tamils fled to refugee camps. Essential economic operations are being restored quickly, but the cost of reconstruction combined with reduced government revenues and lost private incomes will curtail resources available for export promotion and development efforts. Increased government controls and subsidies may be introduced to avoid rekindling ethnic conflicts. We believe there is a better than even chance that Sri Lanka will need to seek rescheduling of part of its debt service obligations within the next two years as a result of additional strains on a balance-of-payments situation that the World Bank had already characterized as worrisome. [redacted] 25X1

New Moroccan Austerity Measures

Rabat's announcement last week of stiff austerity policies has cleared the way for a new IMF standby loan and raised the prospect of additional support from traditional benefactors—primarily Saudi Arabia. Criticism of the new program has been limited because of careful advance preparation of the public by the government and linkage by King Hassan of Morocco's economic plight to the Saharan war effort. In addition, the impact on the nation's poor has been cushioned by a 20-percent increase in minimum wage levels. The new program includes sharp reductions in government hiring and investment, a 25-percent average increase in basic food prices, a gradual devaluation of the dirham, and continuation of restrictive import policies. Discontent with these measures could escalate later this fall, however, when students return to class and the full impact of the food price increases are realized. [redacted] 25X1

Pakistan Seeks Changes in Economic Policy

President Zia may soon be forced to define lines of authority more clearly between Minister of Finance and Economic Affairs Ishaq Khan and Minister for Economic Planning Haq. The dispute between the two ministers is complicating efforts to ensure new debt relief and continued high aid inflows from important Western sources. While Ishaq Khan, who controls the country's purse strings, favors established policies and management practices, Haq believes that decisionmaking must evolve beyond the authoritarian economic command and control system established in the 1960s. The World Bank, the IMF, and major Western aid donors, upon whom Zia is counting to help finance the country's ambitious new five-year development plan, favor the more liberalized approach advocated by Haq. [redacted] 25X1

Communist

Moscow Launches New Labor Discipline Campaign

Pravda last week announced a new decree to improve labor discipline that called for "tougher measures" against absentees, drunks, and other offenders. It provides for loss of pay and vacation privileges, demotion, or even dismissal for those guilty of such offenses. On the other hand, it promises to reward good workers with increased vacation time and greater opportunities for apartments and other benefits. *Pravda* last week also published an article calling for a crackdown on "parasites"—individuals who manage to avoid work. The article claimed that forcing such people to work could ease the labor shortage [redacted] 25X1 there was strong sentiment in the bureaucracy to deal harshly with the estimated 2-4 million such "parasites" in the USSR. [redacted] 25X1 25X1

With the new decree, General Secretary Andropov appears to have gone well beyond the limited crackdown on labor that he initiated late last year. The decree suggests, however, that he is adopting a mixture of punishments and rewards. Andropov probably hopes that a crackdown, which is popular with most citizens, will improve economic performance. Nonetheless, labor shortages throughout much of the country may cause managers to overlook many abuses. [redacted] 25X1

New Soviet Economic Experiment

The regime recently unveiled a new experiment to relax some central planning restrictions on enterprises in several industrial and consumer sector ministries. The experiment is intended to give these enterprises greater autonomy in controlling some decisions on investment and to expand their role in the planning process. In April, longtime Defense Industry Minister Afanas'yev was transferred to head one of the two all-union ministries that is now participating in the experiment. Afanas'yev's involvement in the experiment supports other indications that, to help reinvigorate the economy, the regime wants to capitalize on the effectiveness of the defense industry sector. Afanas'yev, a protege of Defense Minister Ustinov, was a proponent of efforts to increase enterprise autonomy in the 1960s. Those experiments were undermined by bureaucratic resistance, but the Politburo may hope that Afanas'yev's participation in the current undertaking will improve its chances of success. [redacted] 25X1

Soviet Economic Reform Proposal

A paper presented to an economic conference in April—copies of which were leaked to some Western newsmen in Moscow last week—declares that the 50-year-old system of centralized controls is the cause of the USSR's economic slowdown and implies that the leadership will have to engage in "conflict" with entrenched interest groups to reverse the situation. The paper was prepared by a group of economists from the Siberian Division of the Academy of Sciences in Novosibirsk. The mentor of this group is academician Abel Aganbegyan, whose incisive criticism of the USSR's economic failings has agitated Soviet officials from time to time for almost 20 years. In the 1960s one of Aganbegyan's defenders wrote in a Soviet newspaper that his critics had "practically accused him of sedition." [redacted] 25X1

Judged on available excerpts, the current paper calls for extensive decentralization of planning and decisionmaking authority in the economy. Such moves would be intended to release the "creative energies" of those groups in the lower management levels that are interested in innovation and progress. The paper also takes the unusual step of calling for "immobilizing" those higher level administrators who prefer that the current system continue. General Secretary Andropov probably does not directly support all of the paper's conclusions. Its authors are likely to have been emboldened to make them, however, by public statements by Andropov and his former rival Chernenko that the USSR should examine proposals that seem to contest long-accepted policies. [redacted] 25X1

Romanian Miners Plan Strike

[redacted] 25X1 25X1 The miners are unhappy with the regime's broken promises, and they want a reduction in the eight-hour work shift imposed by President Ceausescu earlier this year. [redacted] 25X1 25X1

Miners are the most militant of the country's workers, and the security police have closely watched them since violent protests swept some mining areas in 1981. The police presumably recognize the planned strike could cause unrest among other disgruntled workers, and they will move quickly to preempt it. The regime might make some limited economic concessions to the miners, such as slightly increasing consumer supplies. It is unlikely to reduce working hours, however, because of its high priority on increasing coal production to ease the energy shortage. [redacted] 25X1

Bulgarian Economic Reform on Hold

During last week's meeting with the US Ambassador, General Secretary Todor Zhivkov acknowledged that Bulgaria has temporarily slowed the implementation of economic reforms. He confirmed that the use of the profit motive had gone too far and caused disruptions in the economy. Zhivkov denied that East European reforms to decentralize economic decisionmaking conflict with Soviet desires for increased CEMA integration and that disagreements with Moscow delayed the CEMA summit. [redacted] 25X1

The Bulgarian leadership has been cautious about the pace and extent of economic reforms since their introduction in 1979, and hardliners are especially nervous over the emphasis on profits. The leadership may wait for Soviet leader Andropov to further clarify his position on Soviet economic reforms. Contrary to Zhivkov's denials, CEMA integration would inhibit some aspects of reforms. Moreover, a variety of reports indicate that East European opposition to Soviet plans for increased CEMA integration has delayed the summit. [redacted] 25X1

Japan-USSR: Restricting Access to Technology [redacted] 25X1

Tokyo is taking well-publicized measures to stop illegal acquisitions of technology in Japan, apparently in response to US complaints. The new actions and the publicity surrounding them are hindering Soviet collection of scientific and technical information in Japan and are forcing Japanese firms to be more cautious in exporting high technology and sponsoring scientific and technical exchanges with the USSR. [redacted]

Recent Actions

The expulsion in July of two Soviet diplomats for industrial espionage was the latest and most visible development in Japan's increasing efforts to control unwanted technology transfers to the USSR. The diplomats were involved in a scheme to acquire computer technology and design information illegally from the Japanese firm, Hitachi, Ltd. [redacted]

[redacted]

Several Soviet delegations have been forced to change their itineraries and cancel tours of plants where restricted technologies and equipment are housed. For example, a Soviet delegation from the Ministry of the Shipbuilding Industry was allowed to visit an Ishikawajima-Harima shipbuilding facility only after assurances were given that the Soviets would not be allowed to view computer-aided design technology. [redacted] 25X1

Tokyo has allocated additional manpower and funds for enforcement and improved coordination among the ministries involved in technology transfer and export control. The Foreign Ministry has 25X1 established a special group in the Soviet Division to study the problem and to coordinate activites with MITI and the security agencies. [redacted] 25X1

Domestic Impact

The Foreign Ministry has emerged as the most active proponent of these precautions, overshadowing trade officials who have viewed technology exports solely in commercial terms. Japanese offi- 25X1 cials were apparently concerned that recent crack- 25X1 downs in the United States and Western Europe left Japan open to criticism that it was not doing its part. The Foreign Ministry was convinced that failure to follow the US and West European examples would affect relations with the United States. As a result, the Foreign Ministry has succeeded in raising technology transfer from a trade administration matter to a broader foreign policy issue. [redacted] 25X1

The Ministry probably had little trouble selling its plan to Prime Minister Nakasone or Chief Cabinet Secretary Gotoda. Both are more sensitive to the 25X1 growth in Soviet military power than were their predecessors. Foreign Minister Abe recently reaffirmed Tokyo's commitment to reducing illegal outflows of technology. Using the bluntest language yet on the issue from Tokyo, he noted that Japanese technology had indeed benefited the Soviet military effort and that the United States had convincingly explained the dimensions of the threat posed by unregulated exchanges of technology. [redacted]

The Japanese business community now recognizes the government's commitment to controlling the flow of technology to the USSR. In light of the expulsions and other actions, one major industrial firm has indicated it will limit its technology exchange and trade promotion agreements with the USSR State Committee for Science and Technology. Several other firms have cited increased difficulty in getting export licenses approved for high-technology goods for the USSR as a reason for canceling or discouraging sales. Tokyo-Boeki, a trading company with well-established routes for illegal sales of high-technology goods to the USSR and PRC, recently turned down two potentially profitable Soviet requests for equipment embargoed by COCOM. Kyocera, a leader in microelectronics packaging and production technology, has also canceled a sale. Kyocera claims that it will discontinue all plant sales to the USSR, a business which has generated nearly $40 million since 1975. [redacted]

The USSR's Response

Moscow, according to Japanese officials, has reacted "rather moderately" to the new security measures and has continued to stress the need for improved relations. At the same time, the Soviets give no sign of cutting back their efforts to acquire sensitive or restricted technologies and equipment through both overt and clandestine means. The Soviets are likely to place increasing pressure on the friendly and specialized trading firms that depend on trade with the USSR. [redacted]

Continuing Efforts

Tokyo is considering even tighter review of high-technology exports, stricter interpretation of COCOM guidelines, and more thorough inspections of shipments of electronics parts to the USSR. The Foreign Ministry is preparing a campaign to acquaint the business community with the Soviet collection effort in Japan and its implications for Japan's national security and foreign relations. As a part of the effort, the Ministry plans to publish a pamphlet for general distribution containing examples of technology transfer of strategic importance. [redacted]

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For the near term, MITI is likely to follow the Foreign Ministry's lead. [redacted] the industrial bureaus in particular may become the target of political pressure from the ruling Liberal Democrats to adopt stricter COCOM guidelines. These bureaus, which represent the interests of particular industry groups, have in the past opposed US initiatives for stricter controls. Press reports state that MITI may adopt stricter procedures of its own for exports to countries in Southeast Asia that can act as transit points for restricted goods destined for the USSR. [redacted]

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The crackdown will not end the unauthorized transfer of technology to the USSR, but it will hinder Soviet collection efforts. The greater public attention being given to the problem and the increased risks of detection will tend to discourage most Japanese trading firms and manufacturers engaged in illegal activity. The firms most likely to be deterred are those for whom the Soviet market composes only a small percentage of their total trade. Additionally, Japanese business interests fear that the United States could deny trading privileges in the United States to firms suspected of illegal transfers to the Soviets. [redacted]

[redacted]

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Jamaica: Economic Troubles Undermine Seaga's Popularity [redacted] 25X1

A deteriorating economy is threatening the reelection prospects of Prime Minister Edward Seaga. Slack demand for the country's key mineral exports, depressed agricultural production, and the failure of foreign bankers and investors to provide sufficient funds forced Kingston to adopt painful austerity measures this year in an attempt to meet the targets of its IMF program. As a result, we expect the economy will contract slightly this year, making it difficult for Seaga to cut the nation's 30-percent unemployment rate. As matters now stand, we believe Seaga has only an even chance of winning the next election, which must be held before November 1985. [redacted]

Seaga's Record: 1981-82

An unprecedented inflow of foreign funds in 1981 following the election of Seaga contributed to the first real growth in GNP in eight years—3.9 percent. Moreover, the inflation rate was more than halved to 13 percent as Kingston increased supplies of producer goods and maintained tight monetary controls. Despite these achievements, popular expectations for economic recovery were largely unsatisfied. [redacted]

In 1982, real GDP growth stagnated. Despite a further cut in the inflation rate to only 7 percent, public dissatisfaction mounted over Seaga's economic record, particularly his failure to provide jobs. The major obstacle to growth was the nearly 30-percent drop in Jamaican bauxite and alumina output—which contributes 20 percent to both GDP and government revenue. In addition, agricultural production shrank by 4 percent because of the extended drought, a shortage of imported inputs, relatively tight domestic credit, and strong competition from relatively cheap food imports. [redacted]

Considering the hopes pinned on the US-sponsored Caribbean Basin Initiative, the pace of new private investment was especially disappointing. Although Kingston's goal of 100 new investment projects by yearend 1982 was met, many of the new undertakings were small and not export oriented. Investor caution stemmed from evidence of the slowing recovery in Jamaica and elsewhere, Kingston's unexpected administrative difficulties in preparing project proposals, and investor concerns about limited supplies of water and electricity. [redacted] 25X1

Jamaica's foreign payments situation matched the intractable problems in the domestic economy. The slide in bauxite/alumina sales was responsible for a 25-percent decline in nominal export earnings in 1982. Nominal imports fell only 7 percent in response to easier access to foreign exchange. Despite buoyant tourist earnings, the current account deficit ballooned to a record $427 million. [redacted] 25X1

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Seaga set out to balance this deficit by tapping every available source of foreign funds. Although foreign capital inflows fell well below Kingston's expectations, economic aid was nearly double the 1980 level. Rising foreign investment and some $150 million in new commercial bank loans to the private sector also contributed sufficient foreign exchange to eliminate external payments arrears by March 1982, nine months ahead of the IMF-targeted deadline. By yearend, Jamaica had achieved a slight foreign payments surplus. [redacted] 25X1

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The Economic Slide in 1983

Renewed foreign exchange pressures and efforts to satisfy requirements of Jamaica's current IMF Extended Fund Facility (EFF) are further narrow-

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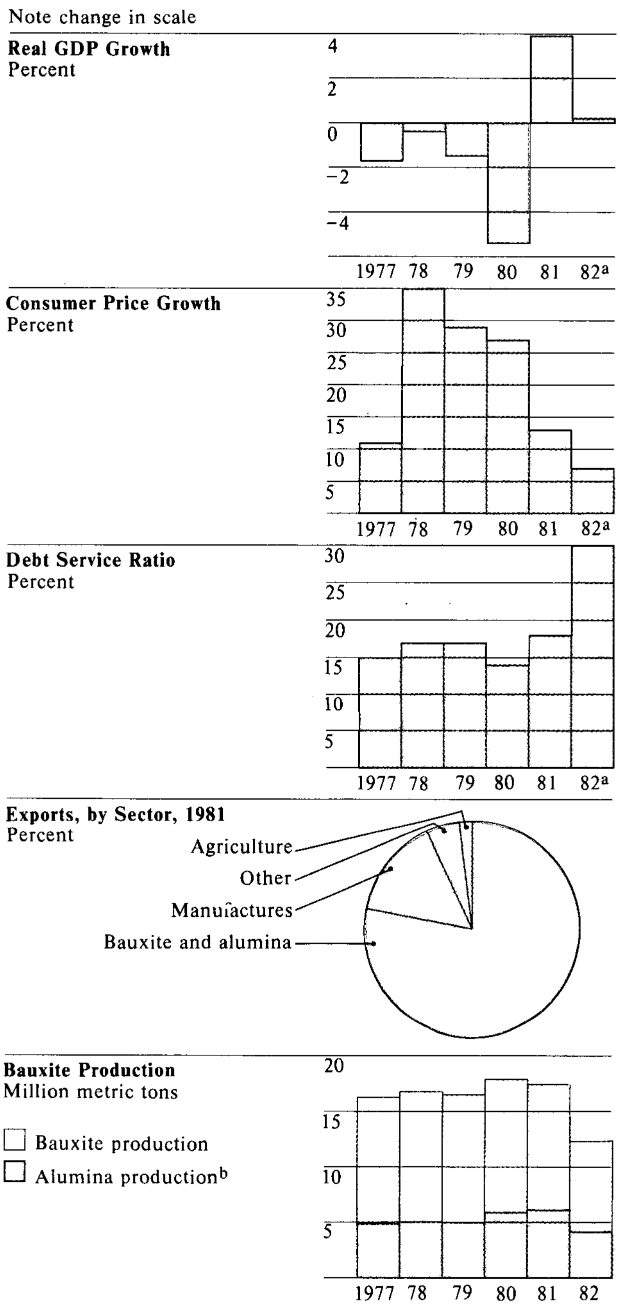
Jamaica: Economic Indicators



[a] Estimated.
[b] Bauxite equivalent of alumina production.

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ing the range of Seaga's policy options. Austerity measures instituted since January already are rippling through the economy. To free scarce foreign exchange for key producer and government imports, Kingston in January shifted some $100 million in consumer goods from the official exchange market to the costlier parallel market. Nevertheless, Jamaica missed the IMF's net foreign asset target in March by $150 million as scheduled foreign loans failed to materialize in the first quarter of 1983. This shortfall, in turn, contributed to failed targets for net domestic assets and public-sector credit. By May, gross foreign reserves had fallen to less than three weeks' imports coverage despite the buildup in arrears. To keep the IMF program on track after a last-ditch effort to obtain $150 million from Kuwaiti sources failed, Seaga instituted much harsher measures in June that included:

- A $150 million cut in imports of consumer and capital goods, 11 percent below the level originally projected through March 1984.
- A twofold increase in the value of imports shifted to the parallel market.
- An additional $82 million pared from the budget that will contribute to a 20-percent drop in real spending in the fiscal year ending 31 March 1984. 25X1

Although these actions are designed to maintain access to foreign funds, tightened austerity is likely to cause the economy to contract slightly this year. Even with steady global recovery, current inventories will preclude any sizable spurt in bauxite/alumina production until late 1984. Although new foreign exchange restrictions will encourage a shift to domestic foods, the ongoing drought probably will cause agricultural production to slip across the board. At the same time, tightened austerity could slow growth in manufacturing and construction as businessmen reevaluate investments in light of rising import costs and growing uncertainty over a possible devaluation. Only tourism, benefiting largely from the US recovery and energetic publicity, is likely to show strong growth this year. 25X1

25X1

Jamaica: Foreign Financial Gap *Million US $*

	1978	1979	1980	1981	1982 [a]	1983 [b]
Current account balance	−50	−140	−166	−337	−427	−370
Trade balance	81	−65	−75	−323	−477	−400
Merchandise exports, f.o.b.	831	818	963	974	726	750
Bauxite/alumina	438	523	734	758	483	500
Merchandise imports, f.o.b.	750	883	1,038	1,297	1,203	1,150
Net services and transfers	−131	−75	−91	−14	50	30
Debt amortization	124	113	91	140	182	340
Financial gap	**−174**	**−253**	**−257**	**−477**	**−609**	**−710**
Capital account	185	258	298	457	631	
Net direct investment	−27	−26	28	−12	20	
Medium- and long-term loans	113	138	216	210	557	
Net short-term capital, including errors and omissions	99	146	54	259	54	
Change in gross reserves	11	5	41	−20	22	

[a] Estimated.
[b] Projected. Excludes debt rescheduling now under negotiation.

[redacted] 25X1

On the inflation front, recent import curbs are likely to push the rate above 15 percent this year. [redacted] Kingston may yield within the next year to IMF pressure for a relatively modest currency devaluation in order to retain IMF funding. A formal devaluation would boost prices further because the economy is highly import dependent. [redacted]

Jamaicans already are balking at rising import costs—particularly for petroleum and food. As a result, demands for wage increases by the country's powerful labor unions seem inevitable. Contract negotiations in the key bauxite industry, scheduled to start later this month, will pose an early challenge to Seaga. Wage settlements with the militant bauxite miners, already Jamaica's highest paid industrial workers, generally are a bellwether for other labor negotiations. A rash of wage hikes could jeopardize the government's ability to keep on the IMF track. Moreover, according to Embassy reporting, recent budget cuts will be concentrated on public works programs, suggesting that Seaga will fail for the third straight year to slash unemployment. [redacted] 25X1 25X1 25X1

Jamaica's foreign exchange problems are approaching crisis proportions and could require further difficult adjustments to avert slippage of IMF targets. The targets that appear most out of reach are those calling for a buildup in international reserves and the near elimination of arrears by yearend 1983. Driven by slowly recovering bauxite/alumina sales, exports can be expected to rise less than 5 percent this year. Imports will be cut slightly for the second consecutive year by the recent austerity measures, but we still expect a $400 million trade deficit. [redacted] 25X1 25X1

Even with an almost 15-percent cut in the current account deficit, we believe soaring amortization obligations could widen the financial gap this year

"Ganja": The Hidden Economy

The export of Jamaican marijuana, principally to the US market, was estimated by the US Embassy in Kingston to total just under $1 billion last year. Although the bulk of drug income is deposited abroad and is excluded from official balance-of-payments data, the US Embassy estimated that $200-300 million remained in Jamaica, making "ganja" a key source of foreign exchange to finance essential imports, in addition to providing badly needed income for the local farmers. [redacted] 25X1

The lucrative and widespread nature of the illicit trade has bred corruption within the police force and other elements of society. Corruption and popular acceptance of "ganja"—two out of three Jamaicans oppose government efforts to stop marijuana trade, according to a 1982 poll—as well as the island's pressing need for foreign exchange, and inadequate personnel and material to police the industry have weakened past efforts to halt the trade. [redacted]

The upcoming election is likely to dampen future interdiction efforts as Jamaica's two leading parties vie for the political and financial support of marijuana growers and traders. Although Seaga is concerned by the harm to the Jamaican society from drug trafficking, he perceives it primarily as Washington's problem and he will continue to look to the United States to take a lead in enforcement. [redacted]

to over $700 million. To close the financial gap and choke capital flight that ran in excess of $100 million during the first six months of this year, Seaga in June approached major foreign banks to reschedule that portion of the public and publicly guaranteed debt due between July 1983 and March 1985. Meanwhile, Seaga's room to maneuver will continue to narrow. [redacted] although Seaga is again seeking large loans from Arab sources, few funds are available to repay some $80 million in external debt coming due mostly this month. Consequently, [redacted] least a partial default is possible soon. [redacted] 25X1 25X1

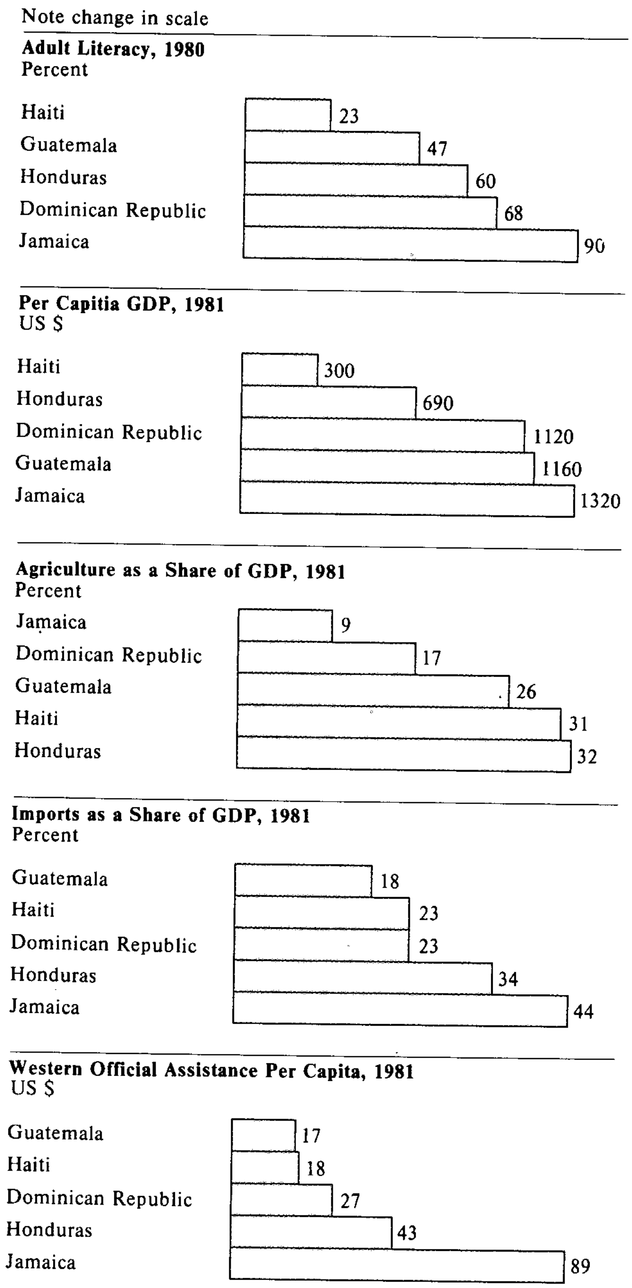
The Next Few Years 25X1

Anticipated improvement in mining and agricultural activities through 1985 could begin to rekindle the Jamaican economy. The extent of any recovery, however, will turn on Seaga's ability to maintain investor interest and to tap foreign capital markets. The current IMF program, crucial to fostering investor confidence, will end next March. Based on the IMF's already high exposure on the island, we believe another EFF program may not be forthcoming quickly. Although Jamaica could receive a shorter term standby program that would require less financial discipline, it might also yield less credit than an EFF program. The growing prospects that Jamaica will require at least a partial debt rescheduling and will fall short of meeting strict Fund performance targets increases the likelihood that Kingston might have to weather some months without a new IMF program. [redacted] 25X1 25X1 25X1

Any lapse in IMF financing before a revival of key bauxite and alumina exports would be likely to prolong Jamaica's need for substantial foreign funds. In the absence of a major debt rescheduling, we calculate that Jamaica will need foreign funding in the $600-700 million range during both 1984 and 1985 to resume modest economic growth. These funds already are proving hard to come by. Mexico and Venezuela, for example, have hardened the terms of concessional oil credits to Jamaica and other LDCs. We expect that Kingston will have limited success in signing new commercial bank loans, stemming largely from the reluctance of international bankers to increase their exposure. [redacted] 25X1 25X1

As the election nears—the constitution requires Seaga to call an election before November 1985—political factors will play a significant role in Jamaica's economy. Seaga will come under increasing pressure to boost spending on make-work jobs 25X1 25X1

Jamaica: Socioeconomic Comparisons



[redacted] 25X1

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and to maintain agricultural development projects to sustain rural support. Even if political calm can be maintained, investors will want to see increased evidence of Seaga's staying power before they commit themselves to many new undertakings. A return to the political turmoil that characterized the 1980 election not only would jeopardize private investor confidence and boost capital flight, but also could quash recent gains in the tourist industry. [redacted] 25X1

[redacted] 25X1

Near East: Employment of Foreign Workers 25X1

Reduced oil revenues have slowed the growth of foreign workers' employment in the oil-exporting countries of the Near East and have even led to reductions in the number of expatriate workers in Qatar, the United Arab Emirates, and Iraq. Any further cutbacks in oil revenues could severely curtail the foreign remittances of the labor-exporting countries—which we currently estimate at $12 billion annually.

The Changing Labor Force

On the basis of government data and Embassy reporting, we estimate that about 6 million expatriate workers, as compared with less than 2 million in 1975, currently hold jobs in the oil-exporting countries. Arabs from neighboring countries were the first to respond to the burgeoning demand for labor in the sparsely populated oil-rich countries and still constitute just over half of the expatriate work force regionwide. During the construction boom of the late 1970s and early 1980s, however, workers from South and East Asia met most of the increased demand for new recruits.

The Arabs: Stabilized Numbers

We believe that expatriate Arab workers peaked at about 3.2 million in the late 1970s:

- The easily recruited workers from neighboring countries such as Egypt, Jordan, and the Yemens had already responded to job opportunities in Libya, Saudi Arabia, and elsewhere in the Gulf.
- The supplying countries, enjoying some economic prosperity themselves and suffering shortages of skilled manpower, lost some of their enthusiasm for the labor exodus.
- The labor-importing host governments were concerned about their growing dependence on fellow Arabs, many of whom they feared held radical political views.
- Host governments were also uneasy because Arab workers who had many years of service in the Gulf were settling permanently and bringing families who required additional costly services. 25X1

25X1

A review of the balance-of-payments accounts in Arab countries for the past several years shows that remittances remain a key input to the balance of payments for Egypt, North Yemen, Lebanon, and Jordan:

- In Egypt, the largest Arab labor supplier, remittances from the approximately 1.7 million overseas workers peaked at $2.7 billion in 1980; we estimate remittances will total about $2.4 billion this year.
- In North Yemen, remittances have provided the underpinning for the economy for a decade. 25X1 Official net earnings from remittances reached about $1.1 billion in 1980 but recently have declined to about $900 million as the work force in the Gulf has declined from nearly 1 million to approximately 700,000.
- Jordan was one of the earliest beneficiaries of the oil producers' scramble to hire foreign workers. Remittances from the approximately 300,000 Jordanians working abroad—many of whom are Palestinians using Jordanian travel papers—now total about $900 million. They have grown at an annual rate of nearly 60 percent since 1972.

Estimated Expatriate Workers in Labor-Importing Countries, 1982

Thousand workers

	Arab	South Asian	East Asian	Others [a]	Total
Total	**3,034.2**	**2,155.3**	**506.1**	**325.8**	**6,021.4**
Percent of total	**50.4**	**35.8**	**8.4**	**5.4**	**100.0**
Saudi Arabia	1,230.0	787.1	372.0	106.0	2,495.1
Libya	321.7	72.3	40.9	157.3	592.2
United Arab Emirates	70.0	647.9	10.0	10.0	737.9
Kuwait	164.0	205.5	10.5	34.0	414.0
Oman	3.0	192.0	1.0	4.0	200.0
Qatar	45.0	160.0	10.0	4.0	219.0
Bahrain	0.5	63.0	6.5	10.0	80.0
Iraq	1,200.0	27.5	55.2	0.5	1,283.2

[a] Includes Europeans, North Americans, and Iranians.

[redacted] 25X1

- In Lebanon, the Central Bank estimates that one-third of the labor force—about 250,000 workers—has emigrated to the Gulf states as a result of the civil war. These workers are sending back approximately $1.5 billion yearly, covering more than 80 percent of Lebanon's trade deficit.

- In Syria, remittances peaked at $900 million in 1979 and declined to less than $600 million in the early 1980s. The decline reflects strict controls to reduce the loss of skilled workers.

- For South Yemen, remittances run at about $350 million annually. [redacted]

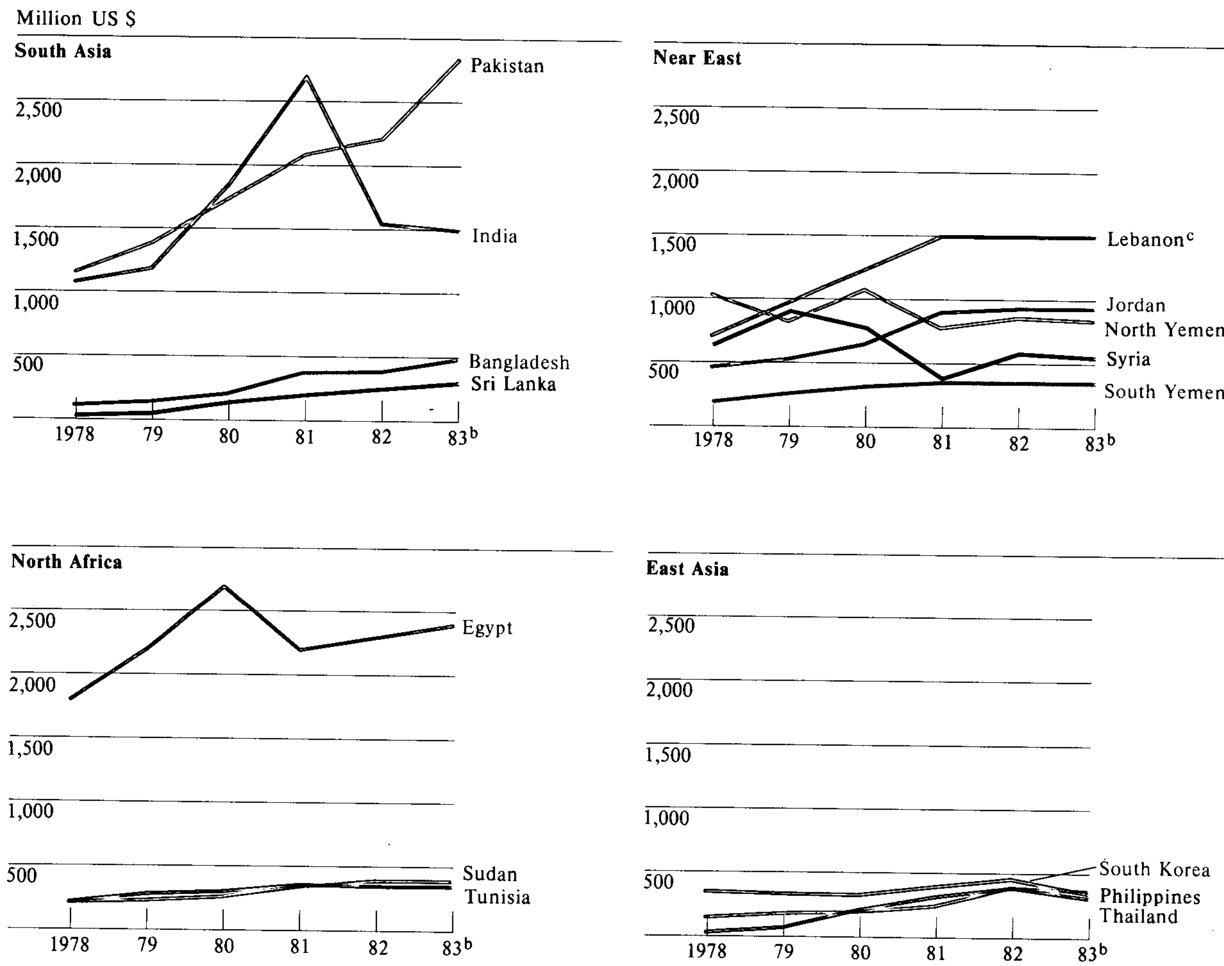
South Asians: Steady Growth Based on Strong Regional Ties

According to government statistics, the South Asians' share of the expatriate labor force in the Near East increased from 19 percent in 1975 to an estimated 36 percent in 1982. South Asian workers outnumbered Arab expatriates in Bahrain, Qatar, and the UAE as early as the mid-1970s. The number of South Asian workers in oil-exporting states grew dramatically from 350,000 to nearly 2.2 million between the mid-1970s and the present. The largest number of South Asians is in Saudi Arabia, where nearly 800,000 are now employed. [redacted] 25X1

The rapid growth in South Asian workers in the Near East has been paralleled by a dramatic growth in their remittances. On the basis of official South Asian government statistics, we estimate that remittances from the Near East totaled $3.0-3.5 billion in 1982, and that overall remittances may total $4.5-5.0 billion in 1983: 25X1

- According to estimates from the US Embassy in Islamabad, remittances of about $2.8 billion from the approximately 1.5 million Pakistani workers in the Near East will exceed Pakistan's export earnings in 1983.

Official Foreign Exchange Earnings From Worker Remittances[a]



[a] Fiscal years.
[b] Projected.
[c] Includes estimate of earnings only from other Near East countries, total remittances reached an estimated $3.0 billion in 1982.

[redacted] 25X1

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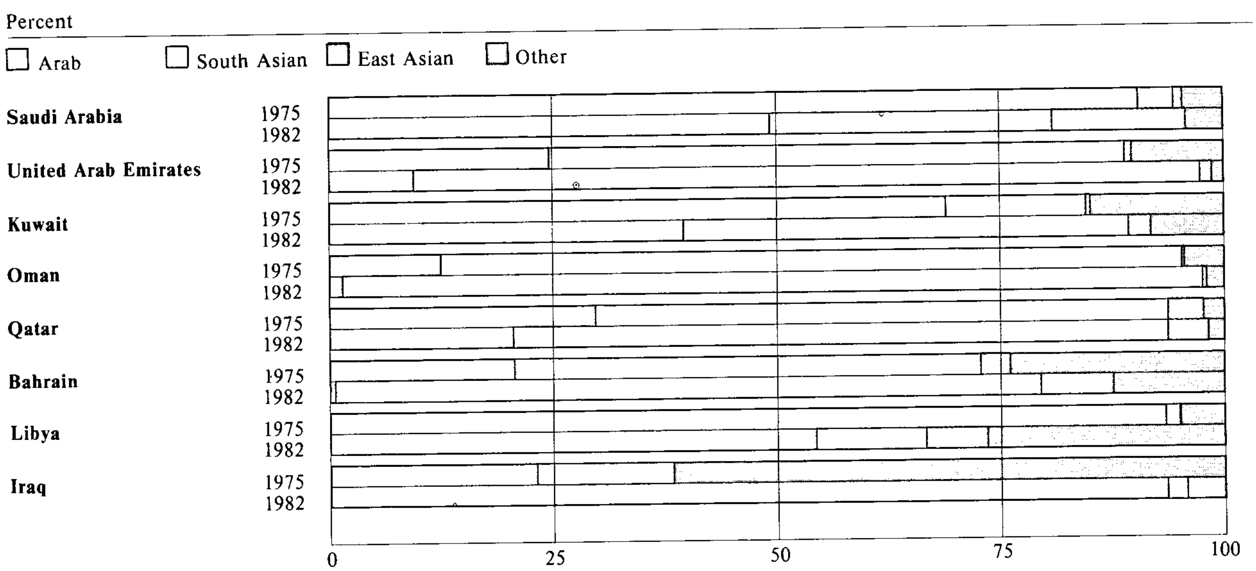
- Sri Lanka's remittances of $300 million from its 70,000 workers in the Gulf rival tea exports as its largest source of foreign exchange.

- For India, remittances from 670,000 workers in the Near East peaked at about $2.7 billion in 1981. With the return of workers from Iran and Iraq, remittances have fallen to about $1.5 billion. We expect that there may be a further drop in a year or two because the value of new contracts won by Indian firms has begun to fall. [redacted] 25X1

Expatriate Workforce by Origin in Near East and South Asia Net Labor Importers, 1975 and 1982



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East Asians: Last in, First out?

Following the Camp David Agreement in 1978 and the seizure of the Grand Mosque by Muslim fanatics (including Yemenis and Pakistanis) in 1979, Gulf state governments became increasingly uneasy with the potential for political activism among the Muslim expatriate workers. They thus welcomed East Asian efforts to break into the lucrative Gulf labor market. Even though East Asians make up only about 8 percent of the expatriate work force in the oil-exporting countries, they supply much of the more highly skilled labor needed for the industrial projects initiated in the late 1970s.

Analysis of East Asian government financial reports shows the growing importance of worker remittances:

- *Philippines.* Annual remittances from the approximately 190,000 Filipino workers in the Near East doubled between 1979 and 1982 to an estimated $400 million. In an effort to capture more foreign exchange from foreign workers, President Marcos late last year increased mandatory remittances, strengthened other regulations governing remittances, and instituted a lottery system designed to reward deposits.

- *South Korea.* In 1981 and 1982, Korean firms won more than $24 billion in new construction contracts in the Near East. They employed about 160,000 workers whose remittances in 1982 totaled $460 million. 25X1

- *Thailand.* Remittances from the approximately 150,000 Thai workers in the Near East increased from an estimated $200 million in 1980 to about $400 million in 1982.

- *Indonesia.* Remittances from the approximately 42,000 Indonesian workers in the Near East reached $100 million in 1982.

- *China.* We believe that total foreign exchange earnings from close to 30,000 Chinese workers in the Gulf amounted to about $400 million in 1982. Beijing is negotiating contracts that could increase earnings substantially over the next few years.

Outlook: Prospects for the Competitors

We believe that most of the oil-exporting countries will continue to slow the growth but not reduce the size of their foreign work forces. Consequently, competition for jobs in the Near East will intensify among the Arab and Asian labor-exporting countries.

The Arabs. Even if oil revenues stabilize or rebound somewhat, we expect little additional growth in the numbers of Arab workers. Sending-country governments will attempt to restrict the emigration of skilled nationals needed at home, and unskilled Arab labor will continue to be more costly than unskilled Asian labor. Given their growing uneasiness with the potential political activism of Palestinians, Yemenis, and Syrians, we anticipate that the host country monarchies will hesitate to increase the numbers of these Arab workers in their midst. If oil revenues and financial reserves drop precipitously or continue to decline beyond 1985, we expect a small net decline in the numbers of expatriate Arabs working in the region. As Arabic speakers, fellow Muslims, and the first workers in the region, they will be, we believe, the last to leave the Gulf.

The South Asians. If oil revenues stabilize or rebound, we anticipate additional growth in the numbers of low-cost and politically compliant South Asian workers who will take jobs in the service, operations, and maintenance sectors. We believe, however, that if the economic downturn in the Near East continues, South Asians, too, will suffer a modest net loss of jobs in the region. Large numbers of South Asians are in low-skill jobs on construction projects that will be canceled or delayed if development money is tight. 25X1

The East Asians. East Asians have the brightest prospects, in our view, if economic recovery returns to the area. Experienced and relatively skilled Koreans, Filipinos, Chinese, and Thai are poised to expand their share of the work force by emphasizing their political neutrality, productivity, and willingness to live apart from host country nationals. If economic conditions in the Near East deteriorate, however, we believe that East Asians will be most vulnerable to reductions because of their close ties to the construction industry. 25X1

25X1

Implications for the United States

For the most part, international labor migration in the Near East–South Asia serves US interests well. Egypt, Pakistan, and Jordan—major labor exporters and important friends of the United States—have used emigrant workers' remittances to ease their way through serious balance-of-payments difficulties during the late 1970s and early 1980s. The continued receipt of billions of dollars in remittances, moreover, will ease the pressure for US financial assistance. 25X1

25X1

Growing economic dependence of Asian countries on the Near East oil-producing states could present some political difficulties for the United States. Asian labor-exporting countries may distance themselves from policies advocated by the United States in order to avoid conflicts with Arab positions. For example, South Korea, which receives 80 percent of its crude oil and 90 percent of its overseas construction contracts from the Near East, has been reluctant to actively support US efforts to oppose anti-Israel resolutions introduced by Arab states in various international forums. 25X1 Late in 1982, South Korea decided not to provide troops for the Lebanese peacekeeping force despite a Lebanese request that had strong US support. 25X1

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