Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Directorate of Intelligence

~~Secret~~

25X1

International Economic & Energy Weekly

25X1

21 October 1983

~~Secret~~

DI IEEW 83-042
21 October 1983

Copy 862

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

25X1
Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Page Denied

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

25X1

International Economic & Energy Weekly

25X1

21 October 1983

25X1

iii Synopsis

1 Perspective—Fallout From the Debt Crisis: Looking Beyond the Short Run

25X1

3 Briefs
- Energy
- International Finance
- Global and Regional Developments
- National Developments

13 International Financial Situation: Noncompliance with IMF Programs by Several Major Debtors

25X1
25X1

15 International Financial Situation: Trade Surplus Widens in Key Debt-Troubled LDCs (U)
Jim Steenhagen, OGI

25X1

21 Brazil: Domestic Pressures on IMF Austerity

25X1

25 Mexico: The Course of Labor—Government Relations

25X1
25X1

25X1

31 Angola: Costs of Civil War and Soviet Dependency

25X1

25X1

25X1

Comments and queries regarding this publication are welcome. They may be directed to Directorate of Intelligence

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

25X1

International Economic & Energy Weekly

25X1

Synopsis

Perspective—*Fallout From the Debt Crisis: Looking Beyond the Short Run*

25X1

In the past few months, the international financial situation has become more tenuous. Uncertainties have grown over the future level of IMF funding, political tension has built up in key LDCs, and some debtors seem certain to fall short in meeting their IMF-mandated austerity programs.

25X1

International Financial Situation: Noncompliance with IMF Programs by Several Major Debtors

25X1

This article is part of a special series of articles on the economic and political aspects of the international financial situation. The article examines the noncompliance with IMF programs by four key LDC debtors.

25X1

International Financial Situation: Trade Surplus Widens in Key Debt-Troubled LDCs

25X1

This article is another of the special series on the economic and political aspects of the international financial situation. This article examines the trade surplus of key debt-troubled LDCs, which climbed to an estimated $13 billion in the first half of 1983 as these countries slashed imports.

25X1

Brazil: Domestic Pressures on IMF Austerity

25X1

Brazil's efforts to tighten the austerity screws have met with a rising tide of protests among nearly all sectors of society. Demands for the easing of tough economic policies and a break with the IMF are becoming increasingly strident.

25X1

Mexico: The Course of Labor-Government Relations

25X1

Despite soaring prices, declining real wages, rising unemployment, and shortages of food and consumer goods, Mexican workers show few signs of militancy, and their support has allowed President de la Madrid some flexibility in implementing the painful measures necessary to brake the overheated economy.

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Angola: Costs of Civil War and Soviet Dependency 25X1

The Angolan economy continues to suffer seven years after the disruptive independence process. In the absence of Western aid, Angola is likely to seek greater concessions in bilateral military and economic aid from the USSR. 25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

25X1

International Economic & Energy Weekly

25X1

21 October 1983

Perspective

Fallout From the Debt Crisis: Looking Beyond the Short Run

25X1

In the past few months, the international financial situation has become more tenuous. Uncertainties have grown over the future level of IMF funding, political tension has built up in key LDCs, and some debtors seem certain to fall short in meeting their IMF-mandated austerity programs. Moreover, the sharp cutback in imports, while easing balance-of-payments pressures, indicates that the seeds are being sown for more consumer-inspired unrest in the future. Even unrelated external events raise the specter of greater financial difficulties. Iran's threats to close the Strait of Hormuz is a key example.

The short-run risks of financial problems and the impact that they would have are already the subject of considerable debate. Some observers believe the odds of a financial collapse are great. A few argue that even using the word "debt" is a charade, since nothing will ever be repaid. Other observers argue that further financial crises can be avoided through sticking to the strategy already in place. They point to the hurdles the system has already overcome to bolster their case. Still others contend that the situation demands radical solutions that would change the entire makeup of the international financial system.

Regardless of which view is correct, the current debt crisis will almost certainly alter the design and texture of international politics. The only question is the pace at which change will occur. Economic forces are already feeding into the political arena:

- The pressure on governments through the IMF and others is toward more direct government control in every facet of economic life, although greater reliance on the marketplace would enhance the resilience of Third World economies. How these opposing forces feed into the political equation is uncertain.

- The relative role of the military in Third World countries is almost certain to change. As mandated budget cuts are made, national leaders will have to make some hard decisions. They can pare their military spending and in so doing risk alienating a major power center. Alternatively, they can placate the military and possibly alienate other key political interest groups.

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

The risks of major political change are underscored by a number of other factors that the Third World countries are facing. The debt crisis comes at a time when the high-technology revolution is just getting off the ground. The revolution could easily leave the LDCs with an antiquated economic structure. What will the impact be when countries discover that the linchpins of their development strategy—such as steel plants—are outmoded? How will the critical elements of society respond to such a change? This will occur at a time when Third World countries are trying to cope with rapidly increasing populations. Through the end of this decade alone, 420 million people will be added to the working-age population in the Third World.

As all of these forces converge, the social fabric in many Third World countries will be increasingly stretched. Moreover, internal domestic tensions and pressures will provide a growing number of opportunities for foreign meddling. Regardless of how events play themselves out, developments in the Third World during the next few years will play a critical role in shaping international relations for the remainder of the century.

25X1

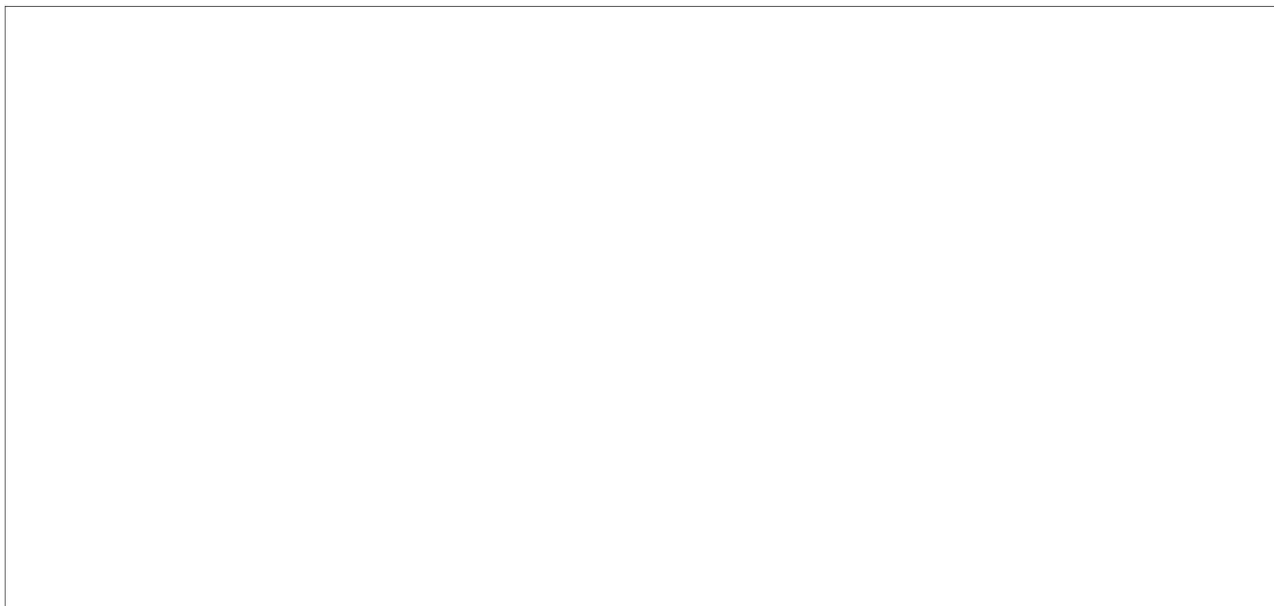
Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Briefs

25X1

Energy



Poland Regaining Western Coal Markets

Poland exported 26 million metric tons of coal in the first nine months of 1983—27 percent above the level for the same period last year—according to press reports. Exports to Western countries to earn hard currency were up over 50 percent, with a sharp rise in shipments to France, Italy, and Denmark. The Poles are regaining Western markets through price cuts and barter arrangements and appear determined to continue their efforts. According to market analysts, the Poles have offered coking coal at $51 per ton in negotiating 1984 contracts with European buyers, some 7 percent below recent prices and over 20 percent below prices early last year. At these prices, US suppliers will be hard pressed to compete and could lose further sales in the European market.

25X1

Spain's New Energy Plan

Spain will submit a new national energy plan to Parliament at the end of the month containing a lower energy demand estimate and a proposed cutback in the nuclear power program, according to press reports. The main goals of the new 1983-92 plan are reduced reliance on oil and energy imports through increased conservation and use of domestic resources. The government has reduced its energy demand forecast to a maximum 4-percent annual growth, as compared with the 7-percent rate assumed under the previous plan. The government wants to reduce oil's share of energy consumption from 60 percent to 48 percent by 1992 and reduce installed nuclear generating capacity from earlier targets of 12,500 MWe to 7,500 MWe. To offset lower oil and nuclear

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

power use, the government will push for higher domestic coal and gas production and greater use of hydropower. We believe some type of subsidy will be needed to encourage greater use of coal in the industrial sector. The government's goal is to raise the share of natural gas in total energy use from 3 percent currently to 5 percent by 1992. Given limited gas reserves, we doubt this can be achieved without greater reliance on gas imports from Algeria and Libya. 25X1

New Field Raises Gabon's Oil Production

Industry sources report that Amoco Oil Company began production in September at the West Oguendjo offshore field, considered one of the largest discovered in Gabon in recent years. Production from the field is expected to peak at 30,000 b/d by late 1984, reversing the downward trend in Gabon's oil production since 1976. Although Gabon has agreed to adhere to an OPEC production quota of 150,000 b/d, the new field boosted output to about 160,000 b/d last month. The US Embassy reports that Gabon—OPEC's smallest oil producer—could produce nearly 180,000 b/d next year. 25X1

International Finance

Philippines Rescheduling Plans

Manila's agreement last Friday with its largest commercial creditors for a 90-day moratorium on principal payments on the foreign debt was the first in a series of steps required to restore order to the Philippines' external finances. The "standstill" affects the Central Bank's short-term foreign debt, the short-term debt of private Philippine financial institutions, trade financing facilities, and medium- and long-term payments falling due before mid-January. Government-to-government debt and liabilities to the IMF, World Bank, and other multilateral financial institutions are excluded. The moratorium will defer about $230 million in medium- and long-term debt payments, freeze short-term liabilities equal to about $7 billion, and thus halt the erosion in Manila's access to capital. Manila and its creditors are now likely to turn their attention to rescheduling these obligations and possibly those payments falling due in 1984. 25X1

The "Central Bank Advisory Committee," currently comprising 10 large private banks, this week informed over 300 other private creditors of the move. It will also attempt to persuade foreign banks not to withdraw about $700 million in deposits in offshore branches of Philippine banks. In the months ahead, it is likely to manage a formal rescheduling. 25X1

The agreement is a mixed blessing for President Marcos. It will provide some financial breathing room for the Central Bank, which reportedly has run its reserves down to less than $1 billion, and stabilize the Philippines' currency after the recent devaluation. Opposition groups, however, are already making political capital out of the debt agreement by claiming that Marcos has mismanaged the country into bankruptcy. 25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

The Philippines: Foreign Debt, June 1983

Million US $

Total	**22,700**
Medium and long term	14,000
Public and publicly guaranteed	9,735
IMF	1,363
Other official sources	3,284
Multilateral [a]	2,098
Bilateral	1,186
Private banks	3,563
Bonds	1,002
Supplier credits	523
Private	4,265
Private banks	3,665
Supplier credits	600
Short term, owed by nonbanks	4,460
Revolving trade credits	4,460
Short term, owed by financial institutions [b]	4,240
Central Bank	2,157
Commercial banks [c]	2,083

[a] Including World Bank.
[b] Reserve financing.
[c] Net liabilities, $5,183 million; assets, $3,100 million.

25X1

IMF/IBRD Decisions and Delays

The directors of the IMF and the IBRD delayed decisions on all but one of the major items on their agenda at their annual meeting last month. Shelved until next year was a proposal—endorsed by the LDCs and some industrial countries—to move forward with an issue of Special Drawing Rights. No progress was made in negotiations on a general replenishment of funds for the World Bank's long-term, low-interest affiliate, the International Development Association. Meeting attendees agreed, but took no action, on the need to approve a selective capital increase for the World Bank in line with the IMF quota increases authorized earlier this year. The LDCs supported the Bank's request for a $17 billion capital increase, while the United States [25X1] [25X1] held that $3 billion was enough to readjust the positions of a few key countries and was all that could be reasonably expected during this round of increases. A compromise may form later this year around an $8 billion increase endorsed by several European nations. [25X1]

The Fund did move to conserve its critically strained resources by scaling back access ceilings. In a compromise move, the IMF adopted the United Kingdom's proposal that the IMF's current "enlarged access" policy under which a member may borrow up to 150 percent of its quota annually be scaled back to

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

102 percent. Delegates agreed, however, that, depending on the seriousness of a member's balance-of-payments needs and the strength of its adjustment effort, 125 percent of quota would be available to qualifying countries. 25X1

The quota access decision removes one of the stumblingblocks holding up European Community agreement on a $3 billion BIS loan to the IMF. A matching $3 billion Saudi loan is tied to the BIS loan. West German Finance Minister Stoltenberg is reported in the financial press to have said that final agreement on the loan is dependent upon hasty US ratification of its share of the IMF quota increase and the willingness of the United States to put up substantially more credit for Brazil. Until the United States ratifies the quota increase and the BIS steps forward with the requested $3 billion, the IMF's ban on the approval of new credit programs will likely remain in effect. 25X1

Status of Polish Debt Rescheduling

Warsaw earlier this month hosted a team of representatives of Western government creditors and met with banks to work out the last details of the agreement reached in August to reschedule debt due to banks this year. Polish authorities met with a task force of the Paris Club of government creditors, the first such meeting since the imposition of martial law. The Poles did not present a formal request, but a Polish Finance Ministry official told the task force that there is no further room to cut imports and that Poland will need $6-8 billion in new credits over the next three years. He said Warsaw will not accept a rescheduling package that does not include new credits and IMF membership. The task force requested additional information from the Poles and plans to give its findings to the Paris Club on 26 October. The Club is to decide then whether to move beyond its July consensus "in principle" to open talks. 25X1

25X1

While most Western governments want to begin negotiations soon, rescheduling talks are likely to proceed slowly. Warsaw's initial demands for debt relief, new credits, and IMF membership are certain to be more than the creditors will accept. Moreover, the expected signing next month of the agreement rescheduling bank debts for 1983—and the push for an early agreement on debts for 1984—will further complicate efforts of the Paris Club participants to receive payments. 25X1

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

25X1

Global and Regional Developments

EC Considers New Agricultural Protectionism

The EC is considering measures to boost EC finances and cut agricultural surpluses that, if implemented, could reduce US agricultural exports to the Community. In a special Council meeting on 10-12 October, EC Agricultural and Foreign Ministers debated an EC Commission proposal to put a tax of $6.50 per 100 kilograms on vegetable oils and all animal fats except butter, effective 1 January 1984. According to Commission estimates, the oils and fats tax will raise $525 million annually, encourage consumption of domestically produced butter, and inhibit imports of vegetable oils. In addition, the Community is contemplating restrictions on imports of feedgrain substitutes. The United States annually exports to the EC $4 billion in vegetable oil products, primarily soybeans, and $700 million in feedgrain substitutes, mainly corn gluten and citrus pellets. 25X1

While EC Ministers are under growing pressure to find ways to limit agricultural surpluses and to keep next year's spending within revenue limitations, reaching agreement could prove difficult. The oils and fats tax has only a slim chance of adoption; the imposition of quantitative limits on imports of feedgrain substitutes are more likely. Both measures have the strong support of the EC Commission and the French, Belgian, Irish, and Italian Governments but have drawn heavy criticism from the United Kingdom, Denmark, West Germany, and the Netherlands. Opposition to the proposals grows out of fear of US retaliation and pressure from consumer groups. The issues are unlikely to be resolved in the coming weeks and will spill over to the December EC Athens summit. 25X1

Big Six Sales to Oil-Exporting LDCs Decline

Exports by the Big Six countries to the oil-exporting LDCs dropped below the $20 billion level in the second quarter of 1983, a seasonally adjusted decline of 6 percent from the first quarter of this year. The share of total Big Six exports going to these countries has dipped from 14 percent to 12 percent over the past 18 months. Losses have been spread over all the Big Six since first-quarter 1982; West Germany and Japan suffered export declines of more than $1 billion each during the past year and a half. Japan's losses were concentrated in the second quarter of this year accounting for most of the Big Six decline in that period. 25X1

Falling oil revenues of the oil-exporting LDCs plus the debt problems of several of these countries have led them to scale back ambitious development plans. As a result, deliveries of machinery, capital equipment, and industrial

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Big Six Exports to Oil-Exporting LDCs [a] *Million US $*

	1982				1983	
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr
Big Six	**24,395**	**22,827**	**20,769**	**20,750**	**20,743**	**19,418**
Japan	7,146	6,835	6,389	6,576	6,787	5,955
West Germany	5,363	5,086	4,599	4,452	4,418	4,122
Italy	4,032	3,332	2,923	2,859	3,285	3,259
France	3,739	3,650	3,245	3,184	3,108	2,927
United Kingdom	3,337	3,116	2,866	2,981	2,622	2,533
Canada	778	808	746	699	523	621

[a] Seasonally adjusted.

25X1

supplies that account for the bulk of Big Six exports to these countries have been hurt. Exports to war-torn Iraq have dropped the most, down $2.4 billion over the past 18 months, followed by declines in three problem debtor countries—Nigeria down $1.4 billion, Venezuela almost $800 million, and Mexico over $700 million. In contrast, exports to Iran have rebounded by $1.3 billion over the period. Continued slack oil demand in the developed countries and economic austerity measures in some of the oil-exporting LDCs will probably result in further Big Six export declines to these countries through the rest of 1983, retarding Bix Six recovery.

25X1

Continuing Trade Squabbles in the Caribbean

Caribbean Community (CARICOM) finance ministers met last month in yet another—and largely unsuccessful—attempt to iron out trade disputes that have battered their common market for nearly a year:

- A tentative agreement to devalue Jamaica's CARICOM exchange rate reportedly fell apart when Trinidad insisted that Kingston place CARICOM raw material imports in a different exchange rate category.
- No apparent progress was made in reviving the Multilateral Clearing Facility, which, until major lender Barbados pulled out in April, had facilitated trade through credits and clearinghouse accounts.
- The ministers did agree to set up a surveillance committee to investigate breaches of common market rules of origin regulations that ostensibly caused Trinidad to slap on import licensing requirements earlier this year.

Problems could intensify next month when agreements—including Jamaica's special CARICOM exchange rate—reached during May's emergency heads of government meeting are set to expire. The result of these quarrels is sharply reduced trade within CARICOM this year.

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

National Developments

Developed Countries

Israeli Economic Pressures

Public doubts remain about the ability of Prime Minister Shamir's new government to handle the country's economic problems, despite agreement on a new finance minister. Israelis continue to purchase US dollars and other foreign currencies, with the black-market exchange rate continuing to exceed the official rate by at least 5 percent. The government has delayed collection of value-added taxes because many firms have their excess cash tied up in stocks; the Tel Aviv stock exchange has been closed for two weeks and is scheduled to resume share trading on Sunday. The protracted haggling in the government over the choice of the Herut Party's Yigal Cohen-Orgad as the new Finance Minister has further undercut Shamir's political position. Members of the Liberal Party had threatened to leave the government if he were chosen. They probably received assurances of an additional cabinet-level or other senior position in exchange for their support.

25X1

It will not be easy for Cohen-Orgad to get the necessary cabinet support for badly needed austerity measures. The two-hour strike last Sunday by 70 percent of the labor force demonstrates public determination to fight adjustments in the cost-of-living formula and lowering of living standards.

25X1

West German Unemployment Levels Off in September

West Germany's seasonally adjusted unemployment rate held steady at 9.4 percent in September—the first month since early 1980 that unemployment failed to increase. Although the head of the West German labor office heralded the break in the upward trend, we see this as only a temporary lull. Given the slow pace of West German economic recovery, we believe unemployment will climb this winter by another 100,000 to a total of 2.5 million persons and average about that level in 1984. As a result, the unemployment rate will move above the Big Seven average next year for the first time since the post–World War II period, according to OECD estimates.

25X1

Australian Alumina Capacity To Increase

Alcoa's recent announcement to begin operating an alumina refinery that had been mothballed since mid-1982 is part of a major expansion in Australia's alumina smelting capacity. Most of the increased production—Australia accounts for 22 percent of world output—will supply export markets. Current facilities already are operating at or above capacity in response to strong world demand, according to the US Embassy. Both Alcoa's refinery and a new plant in Western Australia are scheduled to come into full operation by early next year. A third plant in Queensland is currently undergoing an expansion to boost capacity 17 percent. These projects will increase capacity by nearly 30 percent to about 9.3 million metric tons annually.

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Good Prospects for Record Australian Wheat Crop

The Australian Wheat Board has increased its projection for the 1983/84 wheat crop to a record 18-19 million metric tons, as compared with last year's drought-stricken crop of only 8.8 million tons. Although we believe this projection may be on the high side, the crop will allow Australia to meet and probably expand export obligations. The Australians would like to secure an agreement with the USSR establishing minimum purchase levels of 1-3 million tons annually for the next five years.

25X1

Less Developed Countries

South Korea's New Economic Team

President Chun has drawn upon South Korea's pool of talented and experienced US-trained economists to form a strong new economic team in the aftermath of the Rangoon bombing. The new team is weighted toward officials who favor opening the economy to greater reliance on market forces. The US Embassy in Seoul believes this liberal cast will benefit US-Korean economic relations. The appointments also should reassure international bankers of the continued soundness of Korean economic management. We do not expect the new team to make any major changes in South Korea's austerity policies.

25X1

Former Finance Minister Kang Kyong Shik is likely to emerge as the most influential economic adviser from his new position as Secretary General in the Blue House. He will be supported by Sakong Il, who replaces Kim Jae Ik as Blue House Senior Secretary for Economic Affairs, and Kim Mahn Je, who takes over as Finance Minister.

25X1

Rains Slightly Improve Mexican Agricultural Outlook

Recent favorable rains in some drought-stricken areas of Mexico appear to have ended two years of widespread drought. Even so, we expect little overall improvement over last year's poor harvest because of lower real farm price guarantees, growing shortages of fertilizers, machinery, and other imported inputs, and poor weather during the bulk of 1983. Output from large irrigated farms producing for the domestic market is down. We expect this to be balanced by small production increases by export-oriented commercial farms and in some rainfed areas. Important rainfed crops, such as corn and sorghum, will exceed last year's low level by a fair margin; they still will be 20 percent below predrought harvests.

25X1

Nicaragua Raises Fuel Prices

In an attempt to conserve fuel and increase government revenues, Managua earlier this month announced a 40-percent hike in official prices for rationed gasoline and boosted charges for diesel fuel by 50 percent. The government also agreed to allocate about 4 percent of gasoline supplies for sale on the free market at prices that Managua expects will triple the official price. Managua announced these steps shortly before the latest round of insurgent attacks on

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

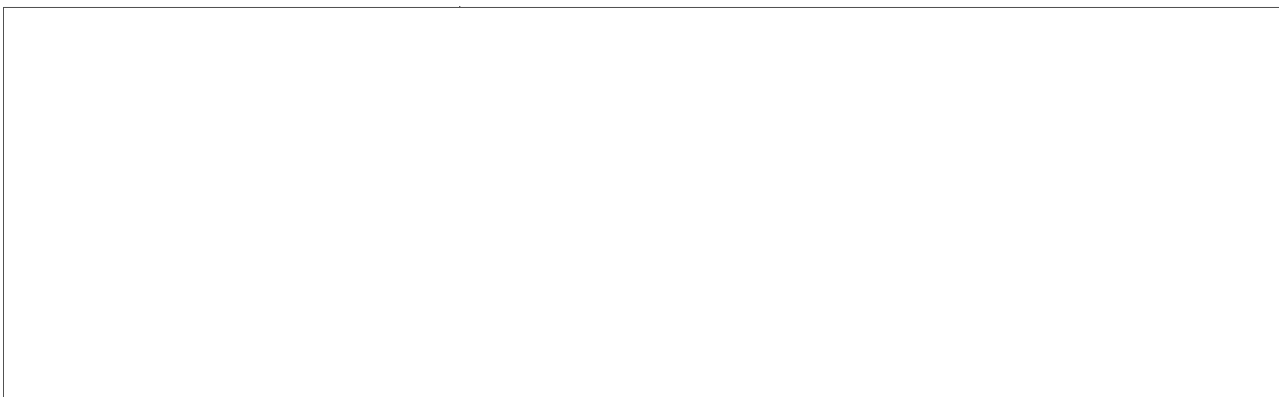
petroleum facilities at the Ports of Corinto and Sandino; stiffer rationing and further price increases probably will ensue shortly. The US Embassy believes government measures taken so far will further depress agricultural production, but revenues from higher fuel charges will somewhat ease the budgetary bind caused by increased defense spending.

25X1

Burma Scales Back Natural Gas Find

Burma's state-owned petroleum company has downgraded its estimate of natural gas reserves in a field discovered last winter in the Gulf of Martaban to less than half of the originally estimated 280 billion cubic meters. The loss of this one bright spot in the economy has caused Burmese officials to cancel plans to build an export-oriented liquefied natural gas plant. Instead, they plan to produce methanol, fertilizer, and liquefied petroleum gas for domestic consumption. Even the smaller project could run into trouble, however, because securing foreign financing is likely to be difficult.

25X1



25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

International Financial Situation: Noncompliance With IMF Programs by Several Major Debtors (U)

This article is part of a series of special articles zeroing in on the economic and political aspects of the international financial situation.

LDC compliance with IMF austerity measures is one of the critical components in the overall international debt equation. Despite the importance compliance plays in maintaining the current level of international lending, Argentina, Peru, and the Philippines are or will soon be found in violation. Brazil missed its targets last May and has not yet qualified for a new program. For the three Latin American debtors, failure to meet IMF targets prevents them from borrowing hard currency from the Fund and from drawing down commercial bank loans that were arranged in conjunction with the IMF programs. In the case of the Philippines, continued noncompliance would impede negotiations for future commercial bank debt relief. Until these countries get back on track or come to an agreement on revised IMF programs, their external financial positions will deteriorate. If financial rescue programs are seen to fail or are compromised with substantially softer conditionality, other debtors may demand better terms and banks may become even more reluctant to loan to LDCs.

Brazil has been the major concern to the international financial community throughout 1983. After Brazil missed its IMF targets on the public-sector deficit and inflation rate in late May, the IMF and commercial banks prevented the government from drawing $820 million and $1.1 billion, respectively. Although Brazil signed a new letter of intent in mid-September, the Fund and the banks indicated they would hold up further funding until Brazil reduces wage indexation. (For a more detailed discussion, see the article on Brazil in this issue.) Failure to secure a wage restraint bill would drive the country further away from compliance with its IMF program and impede progress in organizing a new credit package that commercial banks and Western governments are trying to assemble to get the country through 1984.

25X1

25X1

Argentina will fall out of IMF compliance by the end of the year. A major problem is that the central bank is failing to meet its quantitative target on net domestic assets, which is fueling an inflation rate more than double the rate targeted under the IMF program. Argentina may also face noncompliance because of principal and interest arrears, foreign exchange restrictions, and a rising fiscal deficit. The government was prevented from drawing $325 million from the IMF and the first tranche of a $1.5 billion commercial bank loan in late August because of discrimination against British firms and Argentine bankruptcy laws. Moreover, the US Embassy reports that any new government will be hard pressed to enact strong austerity measures. A Peronist president would jeopardize IMF negotiations if it followed through on the party's professed intentions to expand the economy and redistribute income. While an administration run by the Radical party might negotiate an IMF program rapidly, this would generate confrontation in a Congress that is likely to be evenly divided between Peronists and Radicals.

25X1

25X1

Peruvian Finance Minister Pastor has stated that an IMF mission is to arrive in Lima in mid-November to revise the economic stabilization program. The revision comes amid reports that Peru has failed to stick to its IMF program and will be prevented from drawing $70 million from the Fund and $100 million from commercial banks during November and December. The primary difficulty is with the government's budget deficit. An IMF team recently calculated that the deficit would top 9 percent of GDP compared with the target of 4.1 percent. The government hopes to convince the

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

IMF to discount this year's results given the country's disastrous weather, according to the US Embassy. At a minimum, IMF disbursement and commercial bank loans would be postponed until sometime next year.

25X1

The IMF determined in September that the **Philippine** Government failed to meet its performance criterion on net credit to the public sector and was therefore unable to draw $50 million under its one-year standby program signed last February. Press reports indicate that on 14 October Prime Minister Virata asked representatives from 10 banks to constitute a bank advisory committee and to recommend that other banks agree to a 90-day standstill in principal payments on external debt. Financial support from international banks, however, hinges on successful negotiations with the IMF. Although Manila has already implemented most of the policy measures advocated by the Fund, we believe Marcos's precarious political situation will make it increasingly difficult for the government to sustain the program.

25X1

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

International Financial Situation: Trade Surplus Widens in Key Debt-Troubled LDCs

25X1

This article is part of a series of special articles zeroing in on the economic and political aspects of the international financial situation.

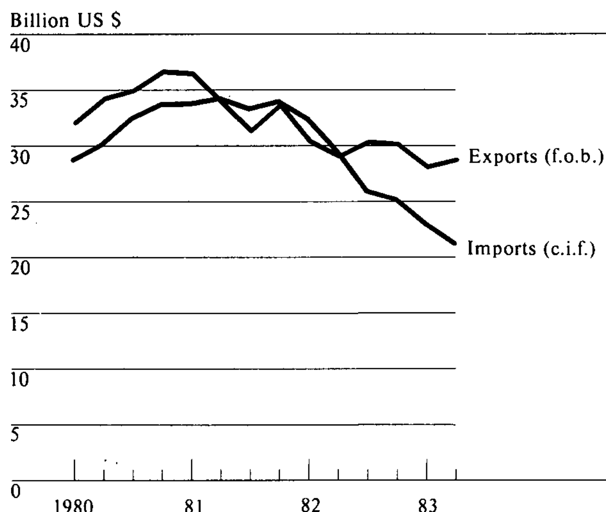
25X1

The trade surplus of the key debt-troubled LDCs[1] climbed above $12 billion in the first half of 1983—compared with $7.7 billion in all of 1982—as these countries further slashed purchases from abroad. Export earnings in first-half 1983 fell $2.6 billion from year-earlier levels, preventing the trade balance from rising even more. The aggregate trade balance of these countries probably will not grow much more in the near term because we expect slower-than-normal recovery in OECD purchases from the Third World and because imports have probably been pared as much as is politically feasible in these debt-troubled LDCs.

25X1

Debt-Troubled LDCs: Recent Trade Trends[a]

25X1



[a] Quarterly data, seasonally adjusted.

25X1

300962 10-83

Imports Plunge

Imports of the 15 key debt-troubled countries have fallen dramatically over the last year and a half. Total imports fell $23 billion—17 percent—in 1982. In the first six months of 1983 imports were down an estimated $17 billion, or 28 percent from the first half of last year. Among the key debt-troubled countries, the size of the import reduction varied widely. Total foreign purchases in the first half by the oil-exporting debtors—Mexico, Ecuador, Indonesia, Nigeria, and Venezuela—registered the sharpest drop, falling by one-third. On the other hand, the imports of Costa Rica and the Philippines showed little change. While reporting an overall first-half decline, Argentine and Mexican imports were up in the second quarter, indicating their import declines may have finally bottomed out.

25X1

The decline in import volume, although steep, was probably less than the fall in dollar terms. Dollar import prices have been falling because of lower oil prices and the appreciation of the US dollar. Dollar export prices for the industrial nations—which account for 60 to 80 percent of LDC imports—fell 4 percent in the first half of 1983. Oil export prices were 11 percent lower in January-June of this year than in the first half of 1982.

25X1

[1] Fifteen countries are classified key debt-troubled LDCs on the basis of their relative debt and debt service positions and their importance to US policymakers. The 15 debt-troubled LDCs we examine are Argentina, Brazil, Chile, Costa Rica, Ecuador, Indonesia, Ivory Coast, Kenya, Mexico, Morocco, Nigeria, Peru, the Philippines, Venezuela, and Zaire.

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Trade Trends in Key Debt-Troubled Countries [a]

Million US $

	1981	1982					1983	
		Total	I	II	III	IV	I	II
Total								
Exports	**134,620**	**120,050**	**30,410**	**29,070**	**30,330**	**30,130**	**28,090** [b]	**28,740** [b]
Imports	**134,880**	**112,310**	**32,230**	**29,320**	**25,780**	**25,030**	**22,880** [b]	**21,480** [b]
Balance	**−260**	**7,740**	**−1,820**	**−250**	**4,550**	**5,100**	**5,210** [b]	**7,260** [b]
Argentina								
Exports	9,140	7,620	2,200	2,080	1,490	1,850	1,960	1,860
Imports	9,430	5,340	1,610	1,360	1,210	1,200	1,070	1,220
Balance	−290	2,280	590	720	280	650	890	640
Brazil								
Exports	23,290	20,180	5,410	4,980	5,070	4,750	5,190	5,780
Imports	24,080	21,070	5,500	5,410	5,200	4,980	4,370	3,840
Balance	−790	−890	−90	−430	−130	−230	820	1,940
Chile								
Exports	3,910	3,820	970	990	960	890	910	1,060
Imports	6,360	3,530	1,050	1,090	730	690	700	680
Balance	−2,450	290	−80	−100	230	200	210	380
Costa Rica								
Exports	960	870	230	230	210	200	190	200
Imports	1,210	870	210	220	220	200	220	250
Balance	−250	0	20	10	−10	0	−30	−50
Ecuador								
Exports	2,540	2,140	590	550	560	450	590	540 [b]
Imports	2,250	1,990	570	510	520	380	390	380
Balance	290	150	20	40	40	70	200	160 [b]
Indonesia								
Exports	22,260	18,940	5,320	4,560	4,890	4,200	4,600 [b]	4,130 [b]
Imports	13,270	16,850	4,260	3,990	3,800	4,680	5,500 [b]	4,700 [b]
Balance	8,990	2,090	1,060	570	1,090	−480	−900 [b]	−570 [b]
Ivory Coast								
Exports	2,540	2,300	740	570	440	560	640	500 [b]
Imports	2,380	2,180	660	540	500	490	550	450 [b]
Balance	160	120	80	30	−60	70	90	50 [b]
Kenya								
Exports	1,180	1,050	290	260	250	230	280 [b]	270 [b]
Imports	2,130	1,640	540	420	320	340	300 [b]	260 [b]
Balance	−950	−590	−250	−160	−70	−110	−20 [b]	10 [b]
Mexico								
Exports	19,380	21,580	4,360	5,000	6,190	6,130	4,970	5,110
Imports	24,070	14,560	5,550	4,140	3,080	1,840	1,630	2,130
Balance	−4,690	7,020	−1,190	860	3,110	4,290	3,340	2,980

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Trade Trends in Key Debt-Troubled Countries [a] (continued) *Million US $*

	1981	1982					1983	
		Total	I	II	III	IV	I	II
Morocco								
Exports	2,390	2,060	500	490	530	550	510	490 [b]
Imports	4,400	4,310	1,070	1,070	1,160	1,030	920	820 [b]
Balance	−2,010	−2,250	−570	−580	−630	−480	−410	−330 [b]
Nigeria								
Exports [b]	17,370	14,280	3,780	3,260	3,470	3,780	1,730	3,000
Imports [b]	19,600	15,120	4,820	4,190	2,790	3,330	2,390	2,340
Balance [b]	−2,230	−840	−1,040	−930	680	450	−660	660
Peru								
Exports	3,250	3,230	780	870	780	790	650	750
Imports	3,450	3,600	1,020	880	890	820	640	610
Balance	−200	−370	−240	−10	−110	−30	10	140
Philippines								
Exports	5,650	4,970	1,270	1,290	1,190	1,210	1,170	1,200 [b]
Imports	8,470	8,270	2,160	2,100	1,960	2,070	2,070	2,180 [b]
Balance	−2,820	−3,300	−890	−810	−770	−860	−900	−980 [b]
Venezuela								
Exports	20,100	16,440	3,790	3,790	4,180	4,420	4,500	3,600 [b]
Imports	13,110	12,500	3,070	3,260	3,280	2,890	2,010	1,500 [b]
Balance	6,990	3,940	720	530	900	1,530	2,490	2,100 [b]
Zaire								
Exports	660	570	180	150	120	120	200 [b]	250 [b]
Imports	670	480	140	140	120	90	120 [b]	120 [b]
Balance	−10	90	40	10	0	30	80 [b]	130 [b]

[a] Exports f.o.b. and imports c.i.f. are based on IMF *International Financial Statistics*. Quarterly data are seasonally adjusted and may not add to annual totals.
[b] Estimated.

25X1

Continued Export Slump

Exports of the debt-troubled LDCs remained stagnant during the first half of this year after dropping nearly $15 billion, or 11 percent, in 1982. The oil-exporting countries saw their first-half 1983 foreign sales plummet to $33 billion, the lowest level since 1979. There were signs of recovery in the export earnings of the nonoil debtors. Exports of this group have been rising slowly since third-quarter 1982 and have nearly recovered to the level of the first half of last year. The exceptions are Peru and Costa Rica where exports fell 15 percent or more in the first half of this year. Exports for the 15 countries were down an estimated 4 percent from year-earlier levels.

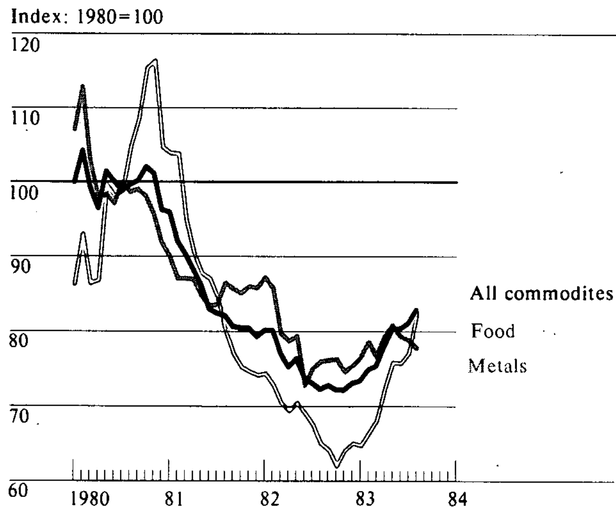
25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

The sluggish export performance of the debt-troubled LDCs occurred despite vigorous attempts by many to promote foreign sales through export incentive programs. Various measures included preferred access to foreign exchange, lower interest rates on export loans, and tax benefits. Nearly all of the debt-troubled LDCs devalued or accelerated the depreciation of their currencies.

Commodity Prices



300963 (A03591) 10-83

25X1

Net Effect: Trade Balances Improve

The general slowing of export declines combined with the sharp fall in imports led to a huge first-half trade surplus for the 15 key debt-troubled LDCs. The aggregate trade balance, which went from a slight deficit in 1981 to a $7.7 billion surplus last year, amounted to an estimated $12 billion surplus, seasonally adjusted, in the first six months of this year. The five oil-exporting countries saw their trade surplus rise to an estimated $10 billion in January-June. Nonoil debtors also ran a surplus in the first half, their first positive balance in at least a decade.

25X1

25X1

Many key debtors appear well on their way to meeting their IMF trade targets. Argentina's first-half seasonally adjusted surplus of $1.5 billion puts it well within reach of its $3 billion target, particularly if it can take advantage of this year's record wheat crop. Brazil ran a $2.8 billion surplus in January-June, nearly assuring Brasilia that it would attain its IMF target. Mexico will probably far exceed its trade performance target; its $6.3 billion first-half trade surplus nearly equaled the target for the entire year.

Near-Term Outlook

In our judgment the aggregate trade balance of the 15 key debt-troubled LDCs probably will not increase much more in the short run. The export earnings of these countries are unlikely to rebound very quickly because OECD imports from the Third World are expected to recover more slowly during the current economic upturn than during previous ones. A potentially positive factor is that nonoil commodity prices in dollar terms have begun to rebound. The IMF commodity price index for August, for example, was up 15 percent in dollar terms from a year earlier.

25X1

Although the fall in imports is expected to level off soon, a number of factors will keep imports from increasing rapidly. Import barriers and foreign exchange controls are unlikely to be dismantled in most countries in the near term. In addition to the continued slow growth in foreign exchange earnings, a shortage of trade financing may limit the ability of many countries to import. Foreign suppliers, concerned that short-term credits may turn into long-term loans as a result of debt rescheduling, are requiring collateral, eliminating open accounts, and demanding prepayment for shipments. Moreover, most of the countries examined here are under or are negotiating IMF stabilization programs where restrictive monetary and fiscal

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

policies will continue to hold down domestic growth and, in turn, import demand.

25X1

Implications

Although the sizable surplus being generated this year will help ease foreign exchange problems for many of the key debt-troubled LDCs, the underlying import cuts of these countries have had adverse effects both externally and internally. The reduction in imports has dampened the export performance of other LDCs and has hurt exporters in the United States and other developed countries. Increasingly, the debt-troubled LDCs have been turning to alternative trading arrangements such as barter and bilateral trade agreements to avoid having to spend scarce hard currency—reversing the past trend toward multilateral free trade. Domestically, LDC import cuts have created shortages of consumer goods and needed inputs for manufacturing and thus have contributed to declining industrial production, rising unemployment, falling standards of living, and, in some cases, growing unrest.

As the debt-troubled LDCs continue to seek ways to limit imports while simultaneously boosting exports, some are likely to set up new trade barriers. If these countries cannot expand exports to other LDCs, they may turn to the Western industrial countries to sell their goods. Intense pressure to increase sales to the developed world could generate North-South strains and possibly intensify protectionist pressures in industrial countries.

25X1

25X1

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Brazil: Domestic Pressures on IMF Austerity

25X1

Brazil's efforts to tighten the austerity screws have met with a rising tide of protests among nearly all sectors of society, especially private business, the middle class, and labor. Demands for the easing of tough economic policies and a break with the IMF are becoming increasingly strident. On Wednesday a rebellious Brazilian Congress—responding to growing constituent discontent—overturned the most recent wage restraint decree law, a key element of the government's austerity pledge to the IMF. The Figueiredo government is attempting to negotiate a compromise, but this will take time. While we believe the government is likely to succeed, the further delays in loan disbursements will cause arrearages to mount. In the coming weeks we foresee continuing difficulties in balancing financial imperatives against political pressures; at worst there is a risk the Figueiredo government will break off negotiations with the IMF, sending shockwaves through the international financial system.

Tougher Austerity and Its Effects

Unhappy with Brazil's poor performance in reducing inflation and the public-sector deficit early in 1983, the IMF insisted that Brasilia undertake stronger measures to receive further financial support. In response to these demands, President Figueiredo, beginning in June, announced piecemeal a series of tough, politically unpopular new steps including:

- Sharply reduced subsidies for agricultural and petroleum products and for some exports.
- Substantial new cuts in state-owned company budgets.
- A lowering of wage adjustments to 80 percent of the consumer price index.

In addition, Brasilia imposed further restrictions on domestic credit, some tax increases, and tighter foreign exchange and price controls.

The stabilization program has boosted inflation by eliminating subsidies and has weakened growth. According to the US Embassy, economic activity in the public sector has slumped because of curtailed capital investment. Meanwhile, private business failures have accelerated because of reduced public-sector purchases, slumping consumer sales, tight credit, restricted imports, and price controls. In the first half of 1983, the Brazilian press reported nearly 400 Brazilian firms were granted bankruptcy decrees and about 300 more sought judicial protection from creditors, a major increase over a year earlier.

25X1

The middle- and lower-income classes are not only seeing a substantial erosion of their real wages, but increasing numbers are joining the unemployed. In Sao Paulo about 13,000 industrial workers have been laid off monthly this year, reducing the number of jobs in the city to near the 1970 level. The middle class, many of whom are losing their jobs or are being forced to accept less prestigious positions, are curtailing spending even on necessities.

25X1

25X1

The Mounting Political Backlash

Since early this year, dissatisfaction with the government's economic management has spread throughout Brazilian society. Special interest groups have opposed the IMF-mandated austerity program through public criticism, private lobbying, and street demonstrations. As a result the political opposition movement is becoming a significant force.

25X1

Private businessmen are highly critical of Brasilia's economic management. They blame excessive deficits and bloated state enterprise budgets for most of

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Brazil's current economic problems. According to press and Embassy reports, businessmen charge that the government, instead of attacking the economy's fundamental structural deficiencies, has moved from one stopgap measure to another. As a result, business groups are turning to political action. They are lobbying hard for policy changes, even though they lack a consensus on alternatives. Moderate businesses press for easing the austerity program, while hardline nationalists are calling for a complete break with the IMF. More significantly, business elites have begun to seek political alternatives to the ruling party.

Rising unemployment and declining real wages are arousing considerable **labor** discontent with the austerity program. Although disunity and widespread concern over job security have hampered collective action, labor's political activity has been on the rise. Following a poorly organized nationwide workers' strike in July, the US Embassy and the press reported that one of the major wings of the labor movement—including the country's most militant unions—met in August. The conference organized a new national labor confederation and called for a late October strike to protest the wage restraint law.

In **Congress,** four opposition parties claiming to represent labor, joined by ruling party dissidents, are pressuring the administration on labor-related issues. Congress recently voted against the government's economic strategy by approving a resolution calling for a debt moratorium and by repealing the wage decree.

Growing economic frustration among Brazil's **public employees**—prominent among the traditional middle-class backers of the military government and its political party—is undermining support for Brasilia's economic policies. The IMF's insistence that the government drastically slash public spending has threatened their jobs and prompted protests. In May and June more than 100,000 civil servants struck for higher pay and job security.

Economic Management Under Fire

The diminished credibility of Brasilia's economic team, especially Planning Minister Delfim Netto, is compounding the difficulty of reconciling differences between the IMF and domestic groups.

25X1

25X1

According to the US Embassy, thousands of state-enterprise employees—mostly well paid and well organized—demonstrated against budget cuts. Recently public employees have joined other middle-class elements in denouncing the wage law—which applies to all workers—and in lobbying congressmen for its repeal.

25X1

Keeping the Program on Track

Despite this growing political resistance, the Figueiredo administration has maintained momentum in its negotiations with the international financial community only through domestic economic concessions and political maneuvering. The administration:

- Agreed in May to a modest easing of wage controls, to a shorter workweek, and to increased job security.
- Pledged to public employees in late June to absorb fiscal spending cuts through curtailed investment rather than reduced salaries or employment.
- Moved in August to relax controls on commercial loans and to ease foreign exchange restrictions on small businesses.

25X1

25X1

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

On the other hand, government party leaders have warned that congressional obstruction of austerity measures could endanger political liberalization; civil liberties were suspended in Brasilia on Wednesday for 60 days. The administration's resort to carrot-and-stick political levers to protect its economic program, however, has become increasingly ineffective as social pressures such as the recent food riots mount.

Hurdling the Wage Negotiations

A letter of intent to revise the IMF stabilization program was signed in September, but it was contingent upon Brasilia's pledge to enact wage restraints. Foreign commercial banks and official creditors subsequently agreed to provide financing. Neither the IMF nor the banks will resume loan payments, however, until they are assured that Brasilia can meet its IMF commitments. Such assurance will be contingent on legislative passage of new measures to replace the wage decree voted down by the Brazilian Congress.

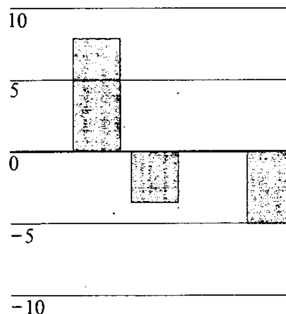
The hostility with which the Congress views the administration's austerity pledge to the IMF has focused on wage restraint. The most recent defeat has spurred government party leaders in Congress to attempt to negotiate a broader compromise measure that would survive congressional review while preserving wage restraint. This proposal, according to the US Embassy, would shift more of the burden of austerity to higher-income groups by allowing full cost-of-living hikes for low-paid workers and by taxing capital gains. Additional price controls, tax reform, and a phasein of collective bargaining to replace government wage regulations are being considered to win support for the measure.

We believe the Figueiredo administration's new tactic of combining a broader compromise with the use of political muscle will ultimately gain acceptance for an austerity package in line with the IMF accord, but protracted negotiations may be necessary. The US Embassy reports the complexity of the ruling party's proposal makes its passage unlikely before December. In the interim, foreign

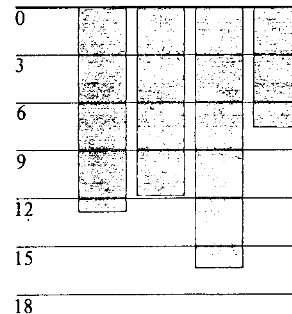
Brazil: Economic Indicators

Note change in scales

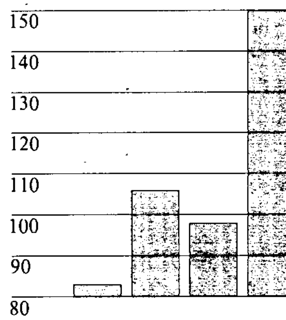
Real GNP Growth
Percent



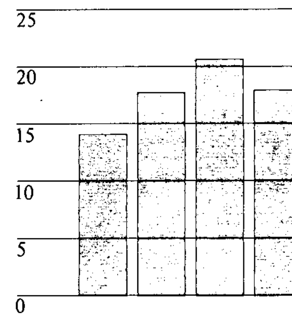
Current Account Deficit
Billion US $



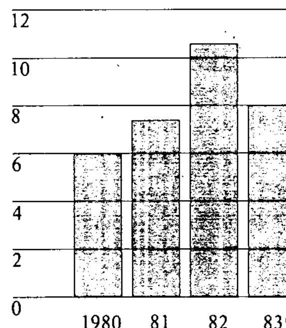
Consumer Inflation
Percent



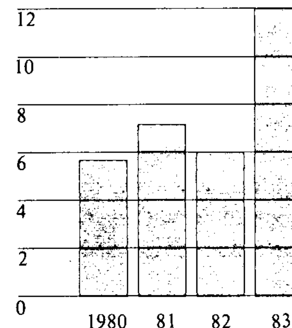
Debt Service[a]
Billion US $



Government Deficit[b]
Percent of GDP



Unemployment
Percent



[a] Interest payments and long-term principal repayments.
[b] Federal public sector deficit.
[c] Estimated.

300965 (A03592) 10-83

25X1
25X1
25X1
25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

creditors will remain uncertain about the government's ability to obtain backing for the legislation and are likely to delay further their scheduled loan disbursements.

Financial Imperatives Versus Political Constraints

The expected delay surrounding this new economic package will stretch the limits of Brazil's already tenuous foreign exchange position. many international bankers will not consider resumption of lending until an IMF accord is in place. This would impair not only Brasilia's ability to line up the $16.5 billion in financial commitments needed to meet the foreign financing gap through 1984, but also critically needed bridge loans. Without imminent restoration of foreign credits, imports will be squeezed harder, hobbling agricultural and industrial production. Brasilia will be forced to allow its foreign payments arrears to rise considerably beyond the current $2.5 to $3.0 billion, a level previously thought intolerable by foreign bankers. We believe numerous outstanding US bank loans may have to be placed in a nonperforming status at the end of this year causing Brazil to be declared in default.

Even presuming Brasilia successfully hurdles the wage negotiations, we foresee continuing difficulties in implementing necessary austerity. The Figueiredo government is increasingly obliged under the ongoing political liberalization to heed public opinion and share decisionmaking with Congress. At the same time, it is faced with the need to implement essential economic retrenchment. Accordingly, while Brasilia will strive to keep the IMF austerity program on track and maintain workable relations with foreign creditors, it will be hard pressed to withstand building domestic pressures for modifications to these policies.

Adherence to the IMF accord will cause substantial sacrifices and hardships among the Brazilian people over the next year or two and social pressures could again derail the agreement. The extremely tight fiscal and monetary policies required by the IMF will debilitate economic activity through at least the end of next year. Moreover, a continuing decline in economic activity risks higher unemployment.

Spreading disorder and growing political opposition from the middle class and labor will spur Brazilian policymakers to consider declaring a moratorium on foreign debt payments. Initially, Brasilia might contemplate a temporary moratorium—perhaps 90 days—aimed at pressuring foreign banks to accept a long-term restructuring of Brazil's debt. Such a moratorium, however, would be a gamble for the government and could stalemate negotiations. In this event, trade credits probably would contract and economic activity plummet further. Even with the risks implied by this nationalist option, Brasilia might see it as a means of deflecting public resentment and creating a new political consensus to shore up the government's legitimacy.

25X1
25X1
25X1
25X1
25X1
25X1
25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Mexico: The Course of Labor-Government Relations

25X1

Despite soaring prices, declining real wages, rising unemployment, and shortages of food and consumer goods, Mexican workers show few signs of militancy, and their support has allowed President de la Madrid some flexibility in implementing the painful measures necessary to brake the overheated economy. The continued loyalty of organized labor—the largest and best organized sector of the tripartite ruling party—is essential for the success of the austerity program and for short-term political stability. Union leaders, nevertheless, foresee growing demands for redress that they can ill afford to ignore.

We believe the de la Madrid government will be able to build on the early success it has had in meeting challenges and that the chances are better than even that labor-government relations will remain on an even keel. Although the fluidity of the situation makes for significant downside risks, the political institutions in which labor plays an important part will continue to serve Mexican stability to a degree that is unmatched elsewhere in Latin America.

Unions During the Economic Slide

Organized labor's willingness to accept harsh austerity measures during the past 10 months is a solid indicator that the give and take that has long characterized labor-government relations is working even under the strains imposed by the severe economic downturn. Recognizing the seriousness of the country's economic plight and the potential for instability, Fidel Velazquez—a charter member of the Institutional Revolutionary Party (PRI) and longtime head of the nation's largest union organization, the Confederation of Mexican Workers (CTM)—has lent his substantial political weight to the side of moderation. His declarations of support for the government, calls for broader labor-government cooperation, and rejection of a Communist-proposed alliance helped smooth the troubled transition from Lopez Portillo to de la Madrid and have reduced tensions. Labor's backing for de la Madrid provided him the room to launch a recovery program, build his image as an effective leader, and persuade international financiers of his commitment to austerity. Painful IMF strictures have not drawn much fire, and criticism of austerity has been tempered with effusive declarations of loyalty. No major strikes by progovernment unions have occurred.

25X1

25X1

Labor moderation, however, is not unconditional, and union strategists have worked to defend the economic interests of their rank and file. Job preservation remains the top priority—unionists repeatedly have told US Embassy officials they would forgo major wage increases to avoid closing firms and boosting unemployment. Businessmen, in part hemmed in by regulations requiring large severance payments and other benefits for full-time workers who are laid off, have responded with such moves as cutting hours and splitting jobs to keep employment up. Simultaneously, the federal work force has been expanded. Even though unemployment is rising nationally and probably exceeds 20 percent, among unionized workers it is probably less than 10 percent.

25X1

25X1

Curbing inflation has also been a major goal, and labor leaders have linked accepting small wage hikes with government and business efforts to keep prices down. While inflation this year will be near triple-digit levels, rates in August and September show some moderation and suggest success in easing upward pressures. Although many federal subsidies have been slashed and price controls lifted on most goods, dietary mainstays such as beans,

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Mexico: Leading Progovernment Union Organizations, 1983 [a]

	Leadership	Membership	Geographic Areas of Strength
Confederation of Mexican Workers (CTM)	Fidel Velazquez	1.5-2 million workers. Includes aviation, cement, construction, electrical, farm, hotel, paper, printing, and sugar workers.	Mexico City, Mexico State, Sonora, Puebla, Guadalajara, Queretaro
Federation of Government Workers Unions (FSTSE)	Manuel German Parra Prado	1.5-2 million workers, including most bureaucrats and secondary school teachers.	Mexico City, state capitals
Regional Confederation of Mexican Workers (CROM)	Antonio J. Hernandez	150,000 members. Includes textile, shoe, garment, and maritime and port workers.	Veracruz, Mexico City
Revolutionary Confederation of Workers and Peasants (CROC)	Alberto Juarez Blancas	500,000 members. Includes food and beverage, textile, transportation, and hospital workers.	Mexico City
General Confederation of Workers (CGT)	Lorenzo Veldepenas Machuca	30,000 members.	Federal District

[a] A number of large national unions affiliated with the ruling party remain outside the organizations listed. The most important include railroad (STFRM), petroleum (STPRM), mining-metallurgical (SITMMSRM), and electrical (SME) workers. All are members of the PRI-sponsored Congress of Labor.

25X1

rice, and tortillas are still affordable. Government grain purchases for state-owned stores and PRI distribution networks are keeping supplies adequate in urban areas. 25X1

Nonestablishment unions and their opposition party allies have been a thorn in the side of the President, but they have not displayed the strength to force changes in government policy. Their sharp vocal criticism of belt-tightening measures, the formation of antiausterity front groups, and strikes by Communist-dominated teachers unions in Mexico City and the southern states of Guerrero and Oaxaca, however, have embarrassed the ruling party. Government responses, described by the Embassy as the strongest against nonestablishment unions in years, included threatening to void the contract of the striking Communist union at the National Univeristy and closing the parastatal company another leftist union was picketing. 25X1

Crucial Variables

We see numerous dangers to the existing labor-government relationship, but no single factor that would provoke an immediate severing of the ties. We believe the severity and duration of the country's economic decline are straining labor-government bonds. De la Madrid could soon face labor pressures to backtrack on economic reforms even though most union leaders accept the need for retrenching. While the personalistic nature of decisionmaking in Mexico might temporarily mask developing intraparty tensions, manifestations of an eroding labor-government relationship—widespread strikes, demonstrations, and public rejection of administration policies—would surface quickly. Political missteps by de la Madrid, his inability to

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Labor's Role

Organized labor in Mexico is primarily an apparatus for political leverage. Integrated into the post-Revolutionary corporatist structure by an elaborate network of rewards and control mechanisms, union leaders channel government instructions to members and mount progovernment demonstrations. They also keep party strategists up on grassroots concerns and supply the votes necessary to justify ruling party claims that it represents the majority of Mexicans. Strikes are rare.

Union functionaries, anxious to hold on to their jobs and improve their chances for advancement, generally cooperate with the government and restrain rank-and-file demands when their aspirations are considered detrimental to ruling party-government interests. Recalcitrant workers are expelled from their locals and because of union shop requirements lose their jobs. Dissident victories in shop elections are voided.

The high wages and benefits for unionized workers are important to guaranteeing labor quiescence. Members constitute an economic elite and their standard of living is largely unmatched by most Mexicans. They reap the lion's share of extensive government social programs and union-sponsored facilities.

25X1

Although labor is subordinate to the state, the behind-the-scenes influence of union leaders can affect government policy. According to US Embassy officers, Fidel Velazquez consults frequently with the President.

25X1

25X1

Labor receives numerous elective and appointive posts as well.

25X1

Most Mexican laborers, reflecting the importance of agriculture and high underemployment, do not belong to unions. Just 20 to 25 percent of Mexico's total work force of some 21 million is unionized and new enlistees probably do not match the increase in the labor force. Among full-time workers, however, 60 to 70 percent belong to unions and those in essential industries—petroleum, electrical, transportation, steel, and mining—are well organized. In addition, over 90 percent of plants employing more than 25 workers are unionized.

25X1

25X1

pull Mexico out of its economic tailspin, and potential disarray in the labor movement's hierarchy have the highest potential for disruption.

The President

With the President the paramount player in Mexico's authoritarian political structure, his skill in juggling the conflicting demands of powerful interest groups will shape the course of labor-government relations. Should de la Madrid blunder or appear indecisive, this would spell a loss of public confidence. A technocrat by training and considered a political neophyte at the time of his nomination, de la Madrid has so far been skillful in enforcing austerity. His program has diffused issues around which antigovernment forces might have coalesced, and he has proved adept at exploiting the ruling party's ability to simultaneously move in apparently opposite directions to reduce strains.

25X1

25X1

The President's handling of labor has been particularly impressive. He has provided progovernment unionists with enough "victories" to keep their followers in line, while avoiding giving hard-hit businessmen the impression that he is totally in the union camp. Nonestablishment organizations have

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Mexico: Leading Nonestablishment Union Organizations, 1983

	Membership	Geographic Area of Strength	Ideology
National Federation of Independent Unions (FNSI)	70,000 members	Monterrey	Center-right, close to CTM philosophy
Authentic Labor Front (FAT)	Unknown. Controls a handful of locals	Puebla, Queretaro	Christian-Democrat, militant, associated with opposition leftist parties
Independent Workers Union (UOI)	20,000 members. Membership is declining. Strongest in automobile and airline industries	Mexico City	Nonideological
University Workers Union (SUNTU)	60,000 members	Federal District, state capitals	Dominated by Unified Socialist Party
Single National Union of Nuclear Workers (SUTIN) [a]	3,500 members	Federal District	Close ties with Unified Socialist Party

[a] SUTIN is, however, a member of the progovernment Congress of Labor.

25X1

been forced to toe the line. Success in keeping wages down has earned applause from business and international bankers.

Although we believe that maintaining labor's support is de la Madrid's major political objective and that he has favored its interests just enough to keep its allegiance, he is keenly aware that the inner balance of the ruling party would be jeopardized by excessive organizational rewards to a single group. Just how far de la Madrid can go in keeping labor on board without meeting unacceptable opposition from within the ruling party is unclear. We believe he views other pillars of the party—especially the middle class—as organizationally weak, unprepared to mount serious challenges, and susceptible to preemptive political reforms. Indeed, these other segments of the party remain quiet, and the President probably believes that he can continue squeezing them without unleashing unmanageable reactions.

The Economy

The outlook for Mexico's economy is grim. Even under the best circumstances, which include a strong US recovery and continued foreign lender confidence, we see little chance for the beginning of recovery until mid-1984. Thus, although price hikes next year may be cut in half, economic activity will remain stagnant. Although it is difficult to determine the point at which worker patience would be breached, indefinite sacrifice is unlikely. Job preservation may no longer suffice, and we believe calls for more worker militancy will grow. Indications are that the rank and file strongly oppose food price increases and will press their leaders to push for changes in relevant government policies. Strikes by unions affiliated with the ruling party would be a sign that the difficulties plaguing the political system were too complex to handle in traditional, behind-the-scenes negotiations.

25X1
25X1
25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Labor Discipline

Disorganization within labor's hierarchy would magnify existing low-level tensions over how to respond to the economic crisis. Up to now the masterful manipulation of 83-year-old Fidel Velazquez has held workers together, and labor continues to speak with one voice. Because he has no heir apparent, however, and because those who might take his place lack his influence and contacts, Velazquez's death or incapacitation would cause a vacuum at the top that could complicate continued cooperation with the government. Established institutional controls should provide de la Madrid with enough leeway to choose Velazquez's successor without precipitating an immediate crisis.

Even if he lives out the remainder of de la Madrid's term, Velazquez's success in maintaining labor discipline is not guaranteed. Some union leaders in the PRI disapprove of his handling of wage negotiations, and the CTM's increased share of labor's growing congressional representation has weakened cooperation. Indeed, praise for several small labor organizations by the labor minister coupled with a decision by insurance industry workers to terminate their affiliation with the CTM sparked speculation that Velazquez's star is dimming. Moreover, the powerful petroleum workers union is wary of administration attacks on corruption and could break ranks and challenge the government.

Outlook for 1984

De la Madrid's adherence to next year's IMF program will require more politically risky cuts in public spending and possibly in employment. Continuing restraint will cause new bankruptcies and additional unemployed workers. We believe the program will continue to limit consumption, and as a result real wages will once again fall, although the loss will be less dramatic than in 1983.

Although disruptive incidents could occur and sharp rhetoric issue from both labor and government, we believe that well-established lines of communication, a perceived need for cooperation, and the demonstrated flexibility of labor and government leaders will forestall serious confrontation. Some strikes seem bound to occur, but PRI-affiliated trade unions are likely to moderate demands on business while continuing to stress job preservation. The President may need to employ selective use of force to maintain order, but his success early in his term in establishing authority and in reducing the atmosphere of anxiety suggests he will remain in control of events.

25X1

Downside Risks

25X1

Friction between labor and government seems most likely to develop as economic growth picks up. Union members are likely to demand economic benefits or structural reforms in the PRI to enhance their status in exchange for previous sacrifices. As long as the system appears to reward labor and the traditional hierarchical structure is seen as the avenue for advancement, increases in labor agitation will remain within established norms. At this juncture, breakup of the system that has served labor so well seems unlikely. Indeed, as long as unions focus on bread-and-butter issues, even a sharp upswing in the number of strikes would not be regime threatening.

25X1

A political crisis causing the personal links tying the system together to fray and the government to appear rudderless would—at any time—disrupt labor-government relations. In such circumstances, Mexico City might fluctuate between the pressures of competing interest groups. Labor, as a result, would take an increasingly independent course, guided more by economic self-interest than a broader national commitment. Nonestablishment unions would have a new appeal. Demands for higher wages and work stoppages would skyrocket as labor-business accommodation dissolved. Under these circumstances, the government might discard austerity to boost economic activity, inviting a new financial crisis.

25X1

25X1

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Prolonged economic stagnation, while causing increased labor militancy, would on balance be less disruptive than fissures in the Mexican political system. If, however, oil prices drop sharply or a global financial crisis occurs, union reaction to the resulting plant shutdowns and massive layoffs would be rapid and highly nationalistic. Calls for unilateral debt repudiation and increased protectionism would be followed by demands for the nationalization of foreign-owned firms. To maintain its legitimacy and to hold labor's allegiance, the administration would feel compelled to respond favorably. After the euphoria of debt repudiation and nationalizations evaporated, however, labor-government relations would soon begin to deteriorate as competition for shares of a reduced economic pie began anew.

A leadership vacuum within the labor movement poses the greatest unknown. Continued strong performance by the President would alleviate most immediate problems. Maintenance of the status quo would be aided by the lack of political activism among the majority of workers. Over the longer term, jockeying for power among CTM leaders or the inability of Velazquez's successors to restrain labor demands could touch off a restructuring of the movement and its relations with the government.

Vulnerability of US Firms

In our opinion, US and multinational firms are likely to face increased problems from labor, especially when the economy picks up. Union leaders probably discount the harmful effects of currency depreciation and negative economic growth on foreign-owned companies and see them as better prepared than domestic firms to make concessions. In addition, US firms could face pressure from the government to restrain wage settlements and thus avoid interunion tensions.

25X1

25X1

25X1

25X1

25X1

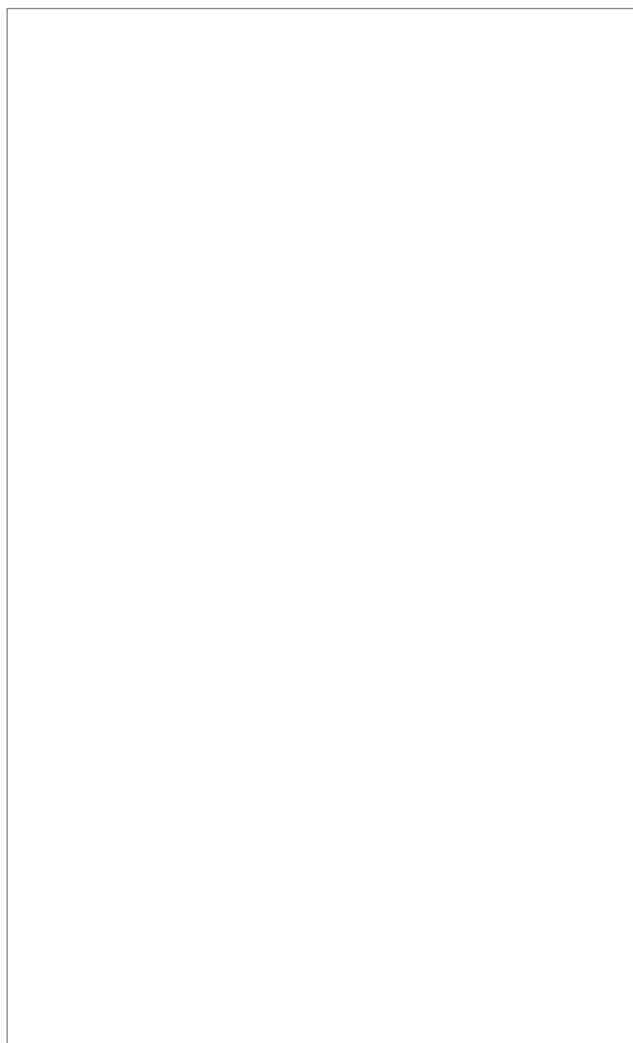
Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Angola: Costs of Civil War and Soviet Dependency

25X1

The Angolan economy continues to suffer seven years after the disruptive independence process. The exodus of almost all of the 400,000 Portuguese left an inexperienced government to cope with massive economic and security problems. These difficulties have intensified during the 1980s because of falling world prices for Angola's exports and the deteriorating security situation caused by the South African–assisted UNITA insurgency. The economy will worsen as Angola faces balance-of-payments problems at least until 1985 when some improvement could occur owing to large oil production increases. In the absence of Western aid, Angola is likely to seek greater concessions in bilateral military and economic aid from the USSR.



25X1

25X1

Economic Pressures

Setbacks in 1981. A sharp decline in the Angolan economy in 1981 was triggered by the fall in petroleum earnings, on which the government had become almost totally dependent. There were other setbacks as well:

- A plunge in the prices of Angola's other major exports—coffee and diamonds—further depressed earnings.
- Two successive years of drought forced Luanda to increase imports of food.
- The government boosted defense expenditures in the face of stepped-up South African and UNITA attacks.
- The return of Angolan refugees from Zaire and Zambia and the migration of farmers to urban areas to escape the drought and the chaos caused by UNITA placed added pressure on the government's resources.

The result of these factors was the start of a financial crisis. The trade balance deteriorated from a $471 million surplus in 1980 to a $5 million deficit in 1981 as export revenues fell and the government stepped up imports by 15 percent. Although previously a cautious borrower, Luanda substantially increased its foreign debt exposure during 1981 in an effort to meet its foreign currency needs. External public debt doubled from $1.1 billion at the start of 1981 to $2.2 billion by

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

yearend. For the first time, Angola entered the Eurocurrency market to meet short-term borrowing needs and began requesting extended trade credits in lieu of cash payments for imports.

Domestic spending pressures caused the government's budget deficit to soar. Public expenditure jumped by 25 percent from $2.8 billion in 1980 to $3.5 billion in 1981.

Meanwhile, the gap between revenues and expenditures widened to about $1 billion because of the drop in petroleum revenues. To cover the deficit, the government resorted to expanding the money supply and caused inflation to rise to almost 50 percent.

Nosedive in 1982-83. We believe President dos Santos decided in early 1982 to scale down economic growth targets because of the growing budgetary pressures and the deteriorating foreign financial position. Setting a ceiling of $72 million for the 1982 budget deficit, the government cut subsidies, terminated all investment in new development projects, and for the first time since independence in 1976 began collecting income taxes from private individuals. In late 1982, the Central Committee of the ruling party granted dos Santos special powers to deal with the deteriorating security situation and to enact emergency measures giving priority to the production of food and key industrial goods and to raising exports.

Efforts to boost output of Angola's major exports largely failed. Petroleum production and prices both fell. Official diamond output fell 15 percent, probably because of pervasive corruption by government officials. Coffee volume remained stagnant because of government procurement problems and the poor security situation in coffee growing regions; in many areas farmers pulled up coffee bushes and planted subsistence food crops.

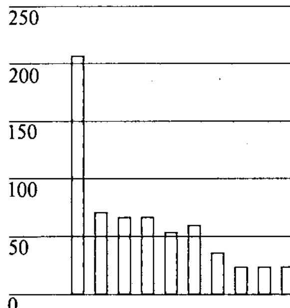
The government is failing in its efforts to rein in public spending in 1983. Luanda hoped to cut military expenditures

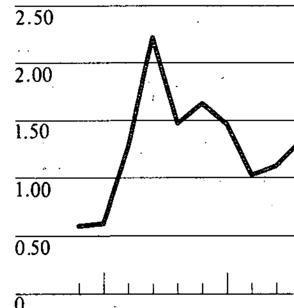
The upsurge in UNITA activity

Angola: Commodity Prices and Production Trends

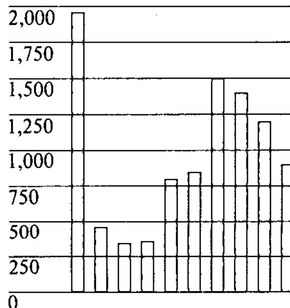
25X1

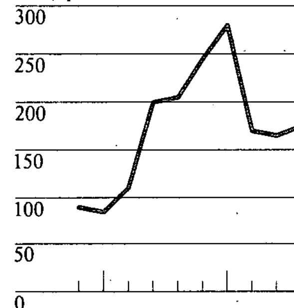
Coffee



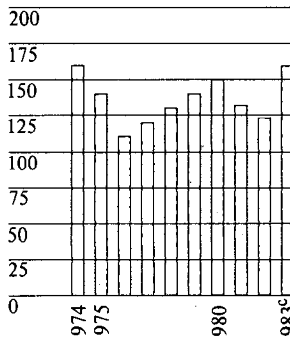


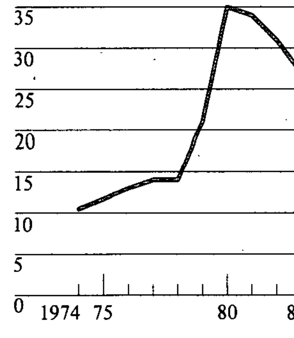
Diamonds





Petroleum[b]





[a] Data reflect average prices for South African diamonds.
[b] Pegged to official Nigerian sales prices.
[c] Estimated.

300964 10-83

25X1 25X1 25X1 25X1 25X1 25X1 25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

during the first nine months of the year, however, will in all likelihood drive defense expenditures in 1983 above last year's level.

The performance of individual sectors of the economy this year gives Luanda little cause for optimism. Despite the return of normal rainfall, agriculture—which employs about 80 percent of the Angolan population—has recovered only marginally. According to press reports, sabotage by UNITA in central Angola has destroyed almost all of the modern farms in what was once the country's breadbasket. Most rural Angolans now rely on subsistance agriculture to satisfy immediate family needs, and Luanda must import food for urban consumers.

Most factories in Angola are working at only 20 percent of capacity and have an average absentee rate of 40 percent with some as high as 70 percent.
Many urban workers do not report for duty because they spend most of their day foraging for food. In addition, raw material shortages and a lack of spare parts have brought some production units to a standstill.

The only bright spot in 1983 has been the oil sector. We expect oil earnings to increase by $215 million. Petroleum production rose 30 percent by the end of the first half of 1983 to about 160,000 b/d, owing to initial production from the offshore Takula oilfields and increased onshore production. The hike in export volume was partially offset by falling prices as Luanda scrambled to sell in a buyers' market.

For the year, we expect Angola's current account position to improve because of the higher oil earnings and tight controls on imports of food, raw and intermediate goods, and capital equipment. Luanda's increased wartime needs took precedence over civilian imports as purchases of military equipment doubled. Moreover, on the basis of our analysis of data on Angolan trade with the West, we estimate that a growing share of imported consumer goods is used to satisfy the MPLA elite and the Soviet, Cuban, and European personnel in Angola.

Foreign Debt Crunch. Burgeoning investment costs in the petroleum and diamond sectors and a heavy debt service obligation to the USSR and Cuba for military supplies and technicians have worsened Angola's foreign payments position. Investment costs in the petroleum sector doubled in 1982 to about $260 million as the country began investing in new oilfield development, according to an official document of the Angolan central bank. Meanwhile, overdue payments to the Soviet Bloc and Cuba for military purchases and services started piling up in 1982, and the government resorted to commercial credits to finance food and other basic imports. By mid-April 1982, the country had fallen behind in payments and was being pressed by creditors.

25X1

25X1

25X1

By midyear, the country was almost six months behind in payments to many Western creditors,

25X1

25X1

25X1

We believe Luanda's pleas this year for official financial assistance have fallen on deaf ears. Similarly, appeals to foreign bankers and investors have had few results. In addition to the deteriorating economic and security conditions, Western bankers are troubled by the lags in repaying trade credits and the lack of accurate financial data provided by Angolan banking officials.

25X1

25X1

1984 and Beyond

If the security situation deteriorates further next year, which we believe likely, we expect foreign

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

investors and domestic producers will avoid committing further resources to Angola. Farmers will continue to flock to the cities or resort to subsistence agriculture. The few remaining expatriate farmers probably will emigrate rather than face UNITA harassment. Although some foreign businessmen may sign new investment contracts, few will actually commit funds until the security situation improves. The Angolan elite probably will continue to send its money out of the country.

Continuing balance-of-payments problems will prevent Luanda from slowing the downward economic slide next year. Although export revenues are officially projected to rise about 25 percent to about $2.0 billion as new oil production comes onstream, much of this increase has already been mortgaged to cover investment costs. The positive impact of increased oil revenues also will be eroded by increased military costs and pressures from creditors to stem the burgeoning backlog of short-term debt. Accordingly, we doubt that dos Santos will be able to substantially increase vital food imports.

Luanda probably will look to official Western foreign assistance for relief. Almost all potential Western donors—including France, Brazil, Portugal, Italy, and Spain—have indicated that their support to Angola will be limited to government-guaranteed trade credits, a few small investment loans, and some food aid.

The dearth of aid from the West will probably lead Luanda to turn to Moscow for greater concessions in its bilateral military and economic relationship.

25X1

The USSR probably will not offer much economic aid over the coming year. We expect the Soviets to continue to refuse any rescheduling of commercial debt or any trade financing. Funds from the Soviet-Angolan economic agreement of 1982 probably will remain reserved for large infrastructure projects that take time to implement; examples are the Kapanda dam and a new oil refinery.

25X1

25X1

Dos Santos will have little choice but to sacrifice economic growth. We predict GDP will drop at least 5 percent next year as a result of an inability to increase imports of productive goods and the steady drop in economic activity as UNITA sabotage teams move farther north.

25X1

Luanda's financial situation may improve in 1985 as oil revenues increase because of rising production. If the regime is able to keep the austerity lid on as export revenues climb, Luanda by late 1985 may be able to pay off much of its overdue debt and thus gain renewed access to international markets.

25X1

25X1

25X1

25X1

25X1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

25X1
Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Page Denied

Next 17 Page(s) In Document Denied

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1

Secret

Secret

Sanitized Copy Approved for Release 2011/01/19 : CIA-RDP84-00898R000300150007-1