

Approved For Release
2009/04/10 :
CIA-RDP85T00875R00150014

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CIA/OER EIW 73-4-19

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Secret



Economic Intelligence Weekly

On file Department of
Commerce release
instructions apply.

1 . State Dept. review
completed

Not referred to
EXIMPBANK. Waiver
applies.

Secret

CIA No. 7406/73
19 April 1973

Copy No. 4

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ECONOMIC INTELLIGENCE WEEKLY

Notes

China Acquires Additional US Industrial Technology

Peking has purchased a \$41 million urea complex from two Japanese firms, Toyo Engineering and Mitsui Toatsu Chemical. This new complex, which will incorporate technology supplied by an American company, M.W. Kellogg, is the fourth fertilizer plant to be purchased this year. The first three were obtained from a US controlled Dutch firm, Kellogg Continental. The attendance by US Steel, Continental Oil, Caltex, Mobil, Dow Chemical, Monsanto, Squibb, and Gleason Works at the spring Canton Trade Fair offers the possibility of further sales of US technology.

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[redacted] Negotiations are in progress with Monsanto and Westinghouse for several major installations that could more than double the \$300 million value of Western plants purchased by China this year. [redacted]

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Burma Invites US Oil Companies for Talks

Interested US companies (about 25 so far) will go to Rangoon beginning in mid-May to compete with German and Japanese governmental oil organizations for rights to conduct offshore exploration in Burma. The Burmese government has shifted from its previous policy of requiring that all foreign financing for development purposes come from governmental sources only. The policy change reflects the government's decision to boost export earnings through oil development, which has stagnated since the industry was nationalized 10 years ago.

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Italy Seeks US Approval for Arms Exports to Libya

Rome has requested US approval to export a second order of 150 M-113 armored personnel carriers to Libya. The APCs are manufactured in Italy under US license and cannot be exported to third countries without US approval. Libya had relied exclusively on the USSR and Czechoslovakia for APCs until last year when the United States permitted Rome to export an initial order of 150 APCs. At that time, Rome also received approval to deliver 27 Boeing and Augusta Bell helicopters to Libya. [redacted]

[redacted]

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Jordan to Seek Advance on US Aid?

Amman may request an advance on this year's US aid payments. The US Embassy estimates that Jordan's unfinanced budget deficit will rise about \$31 million in the next two months unless advance foreign payments are obtained. Of the nearly \$100 million in total foreign budget assistance Jordan is slated to get in 1973, only \$10 million of US support assistance and a contribution of \$22 million from Saudi Arabia are to be received in the first half. As an alternative, Jordan could draw down foreign exchange reserves - \$285 million at the end of March, the equivalent of a year's imports - to meet this deficit. [redacted]

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France Favors Subsidizing EC Soybean Production

France is lobbying for protective EC policies affecting soybeans, the United States' largest agricultural export. As the world's leading market for soybeans and soybean meal, the EC last year bought about \$1 billion worth from the United States. EC countries now produce only negligible amounts of soybeans, but Paris is angling for subsidies under the EC Common Agricultural Policy that would enable French farmers to grow soybeans profitably. The Minister of Agriculture claims that France has a planting potential of only 350,000 acres, but the acreage obviously depends upon the size of the subsidy and the price of competing crops. If plantings were limited to 350,000 acres, output probably would equal about 20% of French consumption and 4% of EC consumption. [redacted]

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Articles

Short-Term Prospects for Exchange Rate Stability*

Although the international money market has been calm since the inauguration of the European joint float on 19 March, renewed pressures will develop in the coming months. Balance-of-payments projections for the major industrial countries indicate the following:

West Germany The mark, currently near the bottom of the joint float band, will soon become a strong currency again. A trade surplus on the order of \$2 billion in the second quarter of 1973 should ensure growing demand for the mark.

France A trade surplus of \$500 million in the second quarter, aided by seasonal factors, also will keep the franc strong.

Japan A surplus of about \$1.6 billion is projected for the current quarter. The Bank of Japan is prepared to intervene in the market, if necessary, to prevent a sharp yen appreciation, but it probably will not encounter strong upward pressure before fall.

Other countries The Canadian dollar will remain close to parity with the US dollar, and the lira will probably stabilize, but increasing trade deficits should cause sterling, the Swiss franc, and the Scandinavian currencies to weaken. The United Kingdom probably will experience a record trade deficit of about \$600 million in the second quarter.

Market behavior will, of course, be affected by central bank interest rates and intervention activity as well as by balance-of-payments trends. Psychological and political factors also will continue to affect the market. The joint float arrangement is an inviting target for money managers and speculators with billions of dollars at their disposal. Unless the Europeans demonstrate a willingness to support the band when pressures increase and unless provision is made to control the flow of the massive funds available to speculators, a successful attack on the float is likely, probably before autumn.

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SECRET**Expanding US-Polish Economic Relations**

Polish purchases from the United States – up by one-half last year, from \$73 million in 1971 to \$112 million in 1972 – should increase even more in 1973.

- Orders already have been placed for an estimated \$150 million worth of livestock feed, and additional contracts probably will be forthcoming.
- Purchases of machinery and equipment, traditionally a small share of imports from the United States, should also rise sharply.

If, as expected, US sales to Poland double this year, the longstanding trade surplus with the United States will turn into a deficit in 1973.

Beyond 1973, imports of capital equipment from the United States probably will grow rapidly.

- Contracts and cooperative venture deals already have been signed with such firms as International Harvester, Alan Scott, and Textron.
- A recent Polish delegation to the United States expressed Poland's desire to import large amounts of equipment for the copper industry.
- Premier Piotr Jaroszewicz informed Export-Import Bank President Kearns during his visit in early April that Poland will seek \$200 million in US credits this year.

The President's decision last November to authorize Export-Import Bank financing for Poland should help US firms to win Polish contracts. The Bank already has authorized credits to finance part of the purchase prices of two meat processing plants, a Sendzimir rolling mill, and a Cyber-72 computer system. The Bank's recent upgrading of Poland's credit rating may lead to an increase in Poland's use of Ex-Im credits.



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SECRET**World Sugar Situation Remains Tight This Year**

Growth of demand in 1973 probably will keep sugar consumption above production for the third consecutive year. World sugar stocks have fallen to abnormally low levels, and pressure on sugar prices has intensified. The free market price, now 9 cents a pound f.o.b. Caribbean ports, is likely to fluctuate between 8 and 9½ cents per pound during most of 1973, up from averages of 7½ cents in 1972 and 4½ cents in 1971.

Production declined in 1971-72, mainly because drought and other problems reduced the Cuban crop sharply. World output in the crop year ending in August, however, is expected to reach an all-time high of 76 million tons – about 3% above the 1970 peak. One factor in the rise is a partial recovery of Cuban production, traditionally the source of about one-third of the sugar moving in international trade. Cuba's crop seems likely to reach 5.3 million tons – 20% more than last year but only two-thirds of the record 1970 crop. Expanding production in South America – particularly Brazil – is compensating for much of Cuba's production shortfalls.

World sugar consumption has been growing about 2% annually since 1970 and is likely to amount to about 77 million tons this year. World stocks thus are expected to decline by a million tons by next August, to 16 million tons. Because the ratio of stocks to consumption – 21% – is already reflected in prices, a further substantial price increase seems unlikely during the next few months. Prices could jump late in the year, however, if a poor crop causes the USSR or China to buy on the free market, as they did last December and January.

Continuing high market prices are unlikely to affect supplies in the preferential US sugar market this year. US production is up, and although US prices are currently below the free market price, foreign suppliers will not want to jeopardize their future quotas in the US market by diverting supplies to the free market.

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