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Economic Intelligence Weekly

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Note: Comments and queries on the contents of this publication are welcomed.

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ECONOMIC INTELLIGENCE WEEKLY

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[redacted] 25X1

Iran Seeks Expanded Credits For US Arms

General Toufanian, Iran's Vice Minister of War, will come to Washington early in June to seek a doubling to $700 million of the current annual arms credits from the US Export-Import Bank in FY 1974. The higher level of credits would help the Shah meet his estimated $1 billion payments due US military suppliers in FY 1974. The United States is the major supplier for Iran's expanding arms procurement program, having agreed to deliver about $2.6 billion in arms during the next several years. [redacted] 25X1

Japan Buys into Iraqi Oil

Japan's recent purchase of an 18% share in an Iraqi-French concession in southern Iraq paves the way for delivery of up to 110,000 barrels of oil per day, beginning in 1975. The deal comes on the heels of several other arrangements made to help assure long-term oil supplies. Initial output of the Iraqi field is expected to be 180,000 b/d [redacted] 25X1 Production from the concession area is contingent upon completion, with Japanese help, of a deepwater terminal at Fao. [redacted] 25X1

Japan Outbids US Companies for Ecuadorean Oil

Sumitomo Shoji Kaisha has outbid 23 companies, many of them US, for purchase rights to all Ecuadorean government oil received as royalties from Texaco-Gulf during the next two years. Quito previously received its 16% royalty in cash, based on a reference price of $3.20 a barrel, but it now insists on taking 35,000 barrels a day instead. The Japanese firm bid $3.61 per barrel for this low-sulfur crude. 25X1

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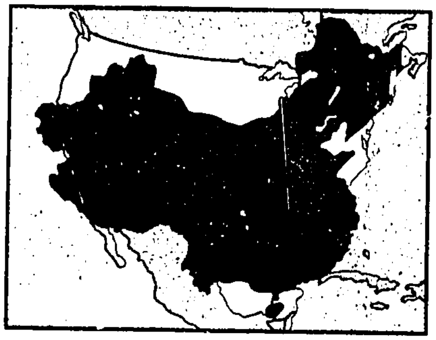
Articles

International Implications of China's Economic Problems

Difficulties in agriculture and efforts to build up industry are causing Peking to turn increasingly to world markets for help.



To compensate for inadequate harvests in 1971 and 1972, the PRC ran up a near-record import bill of $500 million for grain, cotton, and other farm products last year and will spend more than twice as much this year. Because of world shortages, the United States almost overnight has become China's principal supplier of agricultural products and is now one of its three top trading partners.

- In 1973 the United States will sell to China about $500 million worth of agricultural commodities.

- American firms also are participating indirectly in the sale to China of complete industrial facilities; contracts have been signed for four huge chemical fertilizer complexes and four man-made fiber facilities that will cost a total of about $300 million.

The need to expand and modernize the steel, electric power, and other basic industries is a less pressing problem, although here too Peking will need imports. West German and Japanese firms are competing to sell China a $300 million steel complex, which would increase China's finished steel capacity by 3 million to 4 million tons from the present 17 million tons. The Chinese continue to negotiate with both Communist and non-Communist countries for conventional and nuclear generating equipment, which might total as much as $500 million. Other negotiations are under way to upgrade the transportation and communications systems.

Peking is clearly giving first priority to maintaining personal consumption and increasing agricultural production. The problem is, however, that imported fertilizer and fiber plants will not come into operation until after 1975. Thus per capita output of key farm products such as grain and cotton is not likely to be much above the 1971 level for the next several years. Under these circumstances, China should be in the market for substantial amounts of farm products into the late 1970s, even in good years, and the United States should remain one of China's major suppliers.

China is taking new measures to finance its escalating import bill:

by raising prices for exports in strong demand;

by encouraging greater contributions from overseas Chinese;

by developing markets in new areas such as the United States and for new products such as petroleum; and,

in a sharp break with past practice, by purchasing complete industrial plants on credit.

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South African Gold Production Recedes

The climb in the London gold price to more than $100 an ounce since mid-May will tend to reinforce the recent downward trend in South African gold output.

- High gold prices allow producers to exploit previously unprofitable low-grade ores.

- Because processing capacity is fixed in the short run, this results in a decline in gold output.

- As a result South African output has dropped from 900 tons in 1972 – about 60% of world output -- to an annual rate of about 850 tons so far in 1973. Production in the first four months of 1972 and 1973 follow, in tons:

	1972	1973
Jan	78	72
Feb	72	71
Mar	75	72
Apr	76	70

In the last half of 1972, South Africa's balance of payments had improved to such a degree that Pretoria needed to market less than three-fourths of its gold production. Since March 1973, sales of gold have more nearly matched output because of a rise in imports of machinery and consumer goods. If a price of $100 or more for gold is maintained, however, South Africa can cover its trade deficit with only a fraction of its gold output. Gold and hard currency reserves are at an all-time high of nearly $2 billion. 25X1

Postmortem on the Recent Monetary Pressures

The predominance of floating exchange rates clearly helped the international monetary system weather the latest storm.

- Only minor central bank interventions were required to maintain the joint European float, and there were none of the massive central bank dollar support operations seen in the earlier currency crises.

- [redacted] trade has been less affected by adjustments in the floating currencies than had previously been anticipated. 25X1

Although the present system performed well, there was one new element that could intensify future currency pressures. It appears that in the absence of central bank intervention the velocity of currency turnover in the foreign exchange markets increased substantially, permitting a large increase in the volume of currency transactions with only a small increase in currency holdings. There was little movement in the Eurodollar rate, indicating that banks had adequate funds to meet trader demand for dollars to buy gold or other currencies. By contrast, when the dollar came under heavy pressures earlier this year, speculative demand for bank funds temporarily pushed the one-month Eurodollar interest rate from about 6.25% to 10.5%. By holding down the cost of speculative dollar borrowing, increased currency velocity could in the future contribute to large variations in exchange rates.

Trader confidence in the dollar has yet to be restored. In market developments in the last week the dollar has been mixed and the gold price has run to about $115 an ounce. Although the dollar strengthened last week following the announcement of a dramatic improvement in the April US trade balance and the accompanying rally on the New York Stock Exchange, it subsequently fell back to new low points relative to the joint float currencies in light trading. [redacted] 25X1

Mexico Tightens Controls on Foreign Investment

President Echeverria's new foreign investment policy probably will substantially reduce US direct investment spending in Mexico this year. The longer term impact will depend largely on how the policy is administered.

Restrictions adopted in February and early May require new companies to have majority Mexican ownership and management control, block foreign takeovers of established firms, and aim at reducing royalty payments for product designs and production processes. According to government spokesmen, exceptions might be made in the national interest for new investments that bring in advanced technology, create jobs in depressed areas, or are export-oriented. Also exempted are new border industry firms that assemble US-made components for re-export to the United States -- the most dynamic area of US investment activity since the late 1960s.

Thus far, US businessmen in Mexico generally are waiting to see how the laws are enforced, although some with long-established ties are going ahead with planned investments. Chances are good that net US direct investment outlays will drop sharply from last year's $200 million. If enforcement is vigorous, as seems especially likely in the case of the technology laws, US investment inflows may be slow to recover. In any case, new foreign investments may be focused increasingly on export activities that in time could adversely affect the US trade balance with Mexico.

Mexico traditionally has led the way in Latin America in regulating foreign capital. So far, however, restrictions have been outweighed by favorable investment returns, and foreign investment in Mexico has mounted to about $2.2 billion, of which some 80% represents US holdings. During 1961-71, the book value of US investments more than doubled, mostly as a result of outlays for import-replacing manufacturing plants. 25X1

COMPARATIVE INDICATORS

DOMESTIC ECONOMIC ACTIVITY

	Latest Data	Index	Percent Change at Annual Rate From Period: 12 Months Earlier	3 Months Earlier	1 Month Earlier
GNP (At Constant Market Prices)*	Quarter	1970=100		(Previous Quarter)	
United States	73 I	114.6	7.9	7.9	
Japan	73 I	127.9	16.0	21.4	
West Germany	72 IV	107.1	4.7	7.4	
France	72 III	111.0	4.4	7.7	
United Kingdom	73 I	107.7	7.1	6.2	
Italy	72 IV	107.5	2.7	6.6	
Canada	72 IV	114.1	5.9	10.7	
INDUSTRIAL PRODUCTION*		1970=100			
United States	Mar 73	115.0	10.3	8.7	7.6
Japan	Mar 73	125.9	17.6	23.6	34.9
West Germany	Feb 73	114.4	10.4	22.7	40.6
France	Feb 73	121.3	10.9	11.3	0
United Kingdom	Feb 73	108.2	19.0	9.8	19.6
Italy	Jan 73	100.7	-0.6	-16.4	-41.5
Canada	Dec 72	115.8	8.3	17.2	5.3
RETAIL SALES*		1970=100			
United States	Mar 73	139.5	16.0	33.0	85.5
Japan	Jan 73	131.3	18.4	35.9	57.8
West Germany	Jan 73	128.5	9.0	23.1	75.6
France	Feb 73	114.0	7.0	18.8	67.6
United Kingdom	Feb 73	112.3	9.7	12.3	25.4
Italy	Dec 72	131.5	17.3	9.7	56.2
Canada	Dec 72	124.4	9.7	[illegible]	-6.5
WHOLESALE PRICES		1970=100			
United States	Mar 73	111.5	5.0	11.5	13.9
Japan	Apr 73	110.2	11.4	17.2	6.6
West Germany	Mar 73	112.8	5.6	11.4	6.6
France	Mar 73	116.4	11.0	16.2	16.8
United Kingdom	Apr 73	117.1	4.8	-2.1	-15.4
Italy	Dec 72	107.4	5.3	7.8	11.9
Canada	Feb 73	119.8	13.8	28.1	26.2
CONSUMER PRICES		1970=100			
United States	Mar 73	111.6	4.7	7.9	11.4
Japan	Apr 73	120.7	9.4	23.4	25.3
West Germany	Apr 73	117.2	6.7	5.6	0.7
France	Mar 73	116.4	6.4	3.2	6.4
United Kingdom	Apr 73	126.0	9.2	13.2	25.4
Italy	Jan 73	116.3	8.1	9.5	13.3
Canada	Mar 73	112.3	6.0	6.7	3.3
MONEY SUPPLY*		1970=100			
United States	Mar 73	[illegible]	6.3	2.0	1.0
Japan	Feb 73	156.5	26.4	30.6	50.0
West Germany	Mar 73	139.5	15.5	31.0	15.8
France	Feb 73	137.3	12.2	-4.0	-3.4
United Kingdom	Apr 73	[illegible]	13.1	19.3	29.0
Italy	Nov 72	153.7	18.6	21.9	29.2
Canada	Dec 72	141.9	15.8	8.3	3.4

*Seasonally adjusted

EXTERNAL ECONOMIC ACTIVITY

	Latest Data	Index or Amount	Percent Change at Annual Rate From Period: 12 Months Earlier	3 Months Earlier	1 Month Earlier
IMPORT PRICES (National Currency)		1970=100			
United States	Feb 73	119.9	10.0	11.0	7.3
Japan	Mar 73	106.5	13.1	22.2	-17.2
West Germany	Apr 73	111.8	13.8	11.4	23.6
France	Dec 72	112.0	0.2	17.0	151.9
United Kingdom	Jan 73	121.0	14.1	36.3	10.5
Italy	Dec 72	114.0	4.9	11.5	11.2
Canada	Dec 72	106.8	4.4	6.6	15.8
EXPORT PRICES (National Currency)		1970=100			
United States	Feb 73	114.4	8.0	13.2	34.6
Japan	Mar 73	99.9	2.8	6.2	6.2
West Germany	Apr 73	113.5	7.0	11.0	9.5
France	Dec 72	110.9	0.5	18.5	74.0
United Kingdom	Jan 73	121.0	7.1	10.6	10.5
Italy	Dec 72	108.0	1.7	7.8	11.8
Canada	Dec 72	106.1	5.1	10.4	13.3
OFFICIAL RESERVES		Billion US $			
United States	Mar 73	14.4	-2.8	-6.6	0.5
Japan	Mar 73	18.1	-2.1	-37.8	-47.8
West Germany	Mar 73	31.0	41.1	[illegible]	76.5
France	Mar 73	11.2	18.8	2.0	81.5
United Kingdom	Mar 73	6.0	-23.2	-14.2	26.5
Italy	Mar 73	6.2	28.9	-27.0	-26.7
Canada	Mar 73	6.2	-6.0	-29.8	-15.3

TRADE BALANCE	Latest Data	Million US $	Cumulative Balance (Million US$)	1973	1972
United States (f.o.b./f.o.b.)	Mar 73	-60	Jan-Mar	-840	-1,665
Japan (f.o.b./f.o.b.)	Apr 73	440	Jan-Apr	1,513	2,412
West Germany (f.o.b./c.i.f.)	Apr 73	906	Jan-Apr	2,875	1,838
France (f.o.b./f.o.b.)	Apr 73	254	Jan-Apr	179	134
United Kingdom (f.o.b./f.o.b.)	Apr 73	-111	Jan-Apr	-987	-434
Italy (f.o.b./c.i.f.)	Feb 73	-462	Jan-Feb	-844	-174
Canada (f.o.b./f.o.b.)	Apr 73	152	Jan-Apr	487	190

EXCHANGE RATES (Spot Rate)		US $ Per Unit	Percent Change From 14 Dec 1971	19 Mar 1973	18 May 1973
Japan (Yen)	As of 25 May 1973	0.00379	16.38	-0.60	-0.18
West Germany (Deutsche Mark)		0.3623	16.75	2.32	0.47
France (Franc)		0.2259	14.72	2.49	0.35
United Kingdom (Pound Sterling)		2.54	-2.52	3.2	-0.43
Italy (Lira)		0.00170	-1.22	-4.01	0.17
Canada (Dollar)		1.0021	0.4	0.44	0.34

TRADE-WEIGHTED EXCHANGE RATES		Percent Change From Dec 1966	14 Dec 1971	19 Mar 1973	18 May 1973
United States	As of 25 May 1973	-14.50	-6.48	-0.58	-0.29
Japan		30.67	13.64	-1.06	-0.36
West Germany		26.20	7.14	1.91	-0.06
France		-8.06	4.46	1.80	-0.10
United Kingdom		-21.69	-10.40	2.50	-1.17
Italy		-12.07	-11.6	-5.6	-0.2
Canada		5.97	-1.11	-0.58	0.31