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Economic Intelligence Weekly

73-09-05

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Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

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SECRET**ECONOMIC INTELLIGENCE WEEKLY****Notes****Worldwide Grain Developments**

Despite harvesting problems, a record Soviet grain crop is still expected. Continued wet weather in portions of the European USSR during the last week of August probably lowered the quality of unthreshed grain. Weather in the New Lands area, where the harvest is in full swing, has generally been favorable. In Canada the Wheat Board is deferring new export commitments until it can assess the size of the current harvest. Brazil has been informed that it will be mid-October before its request to purchase an additional 400,000 tons of Canadian wheat can be considered. A Philippine request for more Canadian wheat has not been turned down,

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[redacted] Polish officials are expected to arrive in Canada this week to dicker with the Wheat Board. [redacted]

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West Germany Considers Subsidizing Export Credits to Communist Countries

The West German government is considering a proposal to subsidize export credits to Communist countries. France, Italy, and the United Kingdom have long done so, and the United States and Japan have recently provided low-interest loans through their Export-Import banks to supplement financing by commercial banks at commercial rates. Even without such subsidies, West Germany has been the major Western supplier to Communist countries, and approval of the proposal, expected within the next few weeks, would make West Germany an even tougher competitor. (UNCLASSIFIED)

Australia to Control Beef Exports

Canberra is expected to impose export controls on meat in the next few weeks. Controls probably will take the form of selective quotas, which will prevent the export of those types of meat in high demand on the domestic market. Beef of first-grade export quality, shipped primarily to Japan and the United Kingdom, will be hardest hit by the proposed controls. Shipments to the United States, which account for nearly half of US beef imports, will also be affected. [redacted]

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SECRET**Moderate Economic Policy for China**

Premier Chou En-lai's recent report to the Tenth Party Congress implies continuation of the moderate economic policy that has so far characterized the Fourth Five-Year Plan (1971-75). Chou, who devoted most of the report to denouncing the Lin Piao antiparty plot and the machinations of the Soviet Union, claimed that industry, agriculture, transportation, finance, and trade were doing well and noted the stability of prices and the absence of external or internal debt. At the same time, he repeated one of his favorite themes - "Economically ours is still a poor and developing country" - and called for continued hard work, self-reliance, and frugality. Nowhere in his report did Chou hint of any moves against the private plot or income differentials based on skill and effort. [REDACTED]

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Renewed US/Sudanese Commercial Ties

Four contracts worth \$43 million signal the first substantial input of US private capital and technology into Sudan since diplomatic relations were restored in July 1972. The contracts cover the purchase of two Boeing 707s by Sudan Airways and the construction of a textile mill, an earth satellite communications station near Khartoum, and a dry cell battery plant. [REDACTED]

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Premier Jalud on Libyan Oil

Contrary to recent press reports, Tripoli has neither raised the price of its oil to \$6 per barrel nor rejected payments in dollars. According to the text of Prime Minister Jalud's press conference broadcast by Tripoli Radio on 2 September, Jalud discussed the price of oil and oil payments in dollars, but did not explicitly refuse to sell oil for dollars or mention a \$6 per barrel price. He did, however, enumerate several possible solutions to the problem of holding reserves in currencies of uncertain future value, and pointed to the Organization of Petroleum Exporting Countries as possibly being able to find a solution. In the past, Jalud has said that Libyan oil is "worth \$6 per barrel." [REDACTED]

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SECRET**Articles****Soviet RYAD Computer Program**

The Soviet Union's RYAD program to develop a series of third-generation computers is at least three years behind schedule, and large-scale production is not likely for several years.

By modeling RYAD computers after the IBM 360 series, the USSR hoped to save both time and money and make use of the large stock of IBM software. The program has been hampered by shortages of high-quality components, by out-of-date production and testing techniques, and by absence of effective direction and coordination.

The USSR persuaded Bulgaria, Czechoslovakia, East Germany, Hungary, and Poland to de-emphasize their own computer plans and help develop some RYAD models. Only the smaller RYAD models have reached limited-series production or the customer-testing stage. The Soviet Union has the sole responsibility for producing the two largest RYADs, which are roughly comparable with IBM's powerful 360-75 and 360-85.

The USSR apparently was counting on producing 3,000-5,000 RYADs per year by 1975. Moscow now recognizes that only a few hundred machines actually will be produced by that year and has abandoned plans to phase out production of the MINSK-32 - an obsolete second-generation computer. The MINSK-32 will be the foundation of the automated management systems to be set up during 1973-75.

Additional Western help will be critical in determining how fast the Soviet Union can mass-produce reliable RYAD models. The United States, France, the United Kingdom, and Japan already have supplied machinery and technology to manufacture key RYAD components. Moscow now is seeking to purchase complete automated plants for the manufacture of integrated circuits, magnetic tape and disc packs, disc drives, magnetic cores, and printers.

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China: Production and Imports of Cotton

Thousand 480 Pound Bales

Year	Production	Imports ¹	
		Total	From the United States
1957	7,500	400	....
1961	4,000	290	....
1962	4,000	120	....
1963	4,000	360	....
1964	6,000	825	....
1965	7,000	810	....
1966	7,500	600	....
1967	8,500	490	....
1968	7,500	330	....
1969	8,000	310	....
1970	8,000	360	....
1971	7,500	430	....
1972	5,500	740	....
1973	6,500 ²	2,000	510
1974	N.A.	1,600 ²	800 ²

1. Data are for the cotton year 1 August of the previous year through 31 July of the stated year.

2. Forecast.



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SECRET**China: New Buyer of US Cotton**

In the past nine months, China has emerged as a major customer for US cotton. Whereas the United States had shipped no cotton to the PRC prior to this year, 510,000 bales -- about 10% of annual US cotton exports -- were shipped in February-July 1973. Furthermore, Peking has already contracted for more than 750,000 bales of American cotton for delivery in the 1973/74 cotton year, beginning 1 August 1973, or about 12% of export commitments out of the new US crop. Foreign demand for US cotton is so strong that trade sources fear certain grades may ultimately be oversold.

Because of pressing needs for food grain, Peking has squeezed cotton acreage to provide more acreage for foodstuffs. In recent years, declining output and growing domestic requirements have forced China to step up imports of cotton (see the table). Unfavorable growing conditions in 1971 and 1972 reduced domestic output by about 5% and 25%, respectively. Cotton imports increased from 310,000 bales in 1968/69 to 740,000 bales in 1971/72, and skyrocketed to two million bales in 1972/73. The dramatic growth in cotton imports has not prevented temporary cuts in the already meager textile ration.

In the past, China imported primarily long staple cotton, chiefly for use in textiles for export. This year, most imports are short and medium length cotton -- similar to that grown domestically in China and presumably earmarked for home consumption.

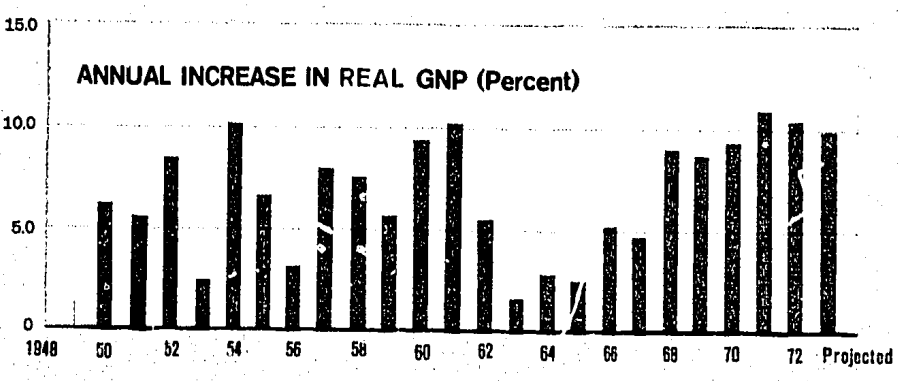
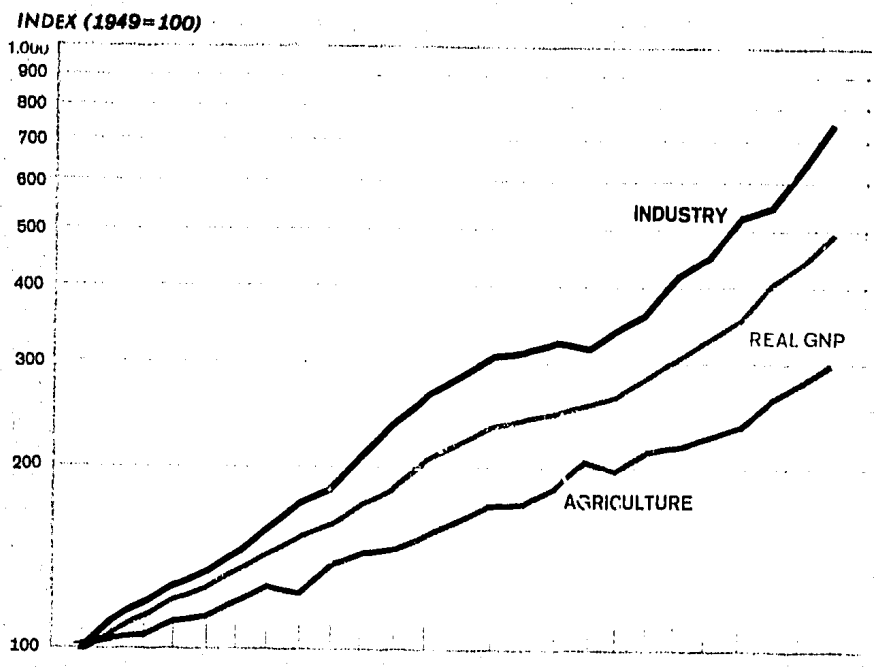
China's cotton crop should increase by roughly one million bales this year. Nevertheless, output will be substantially below the 1965-71 average because of reduced acreage. Imports in 1973/74 are expected to decline to about 1.6 million bales unless growing conditions deteriorate. Since sizable quantities of cotton of the desired grade and staple might not be available elsewhere, Peking could be forced to seek still more US cotton.

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BRAZIL: Economic Indicators



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SECRET**Brazil's Economic Miracle: No End in Sight***

Brazil's economy continues to set a blistering pace. For the sixth straight year, real GNP is increasing by 9% or better. Relying on sound advice from their economics ministers, the military governments have succeeded in moderating inflation, stimulating investment and exports, and attracting foreign capital.

Agricultural production will rise about 5% in 1973 despite frost damage to the coffee crop. Industrial production will grow about 14% even though tight raw material supplies may slow output during the second half of the year. Investment has been rising rapidly and probably will reach 22% of GNP this year, compared with 15% in 1967. Brazil continues to draw heavily on foreign capital to finance its investment effort.

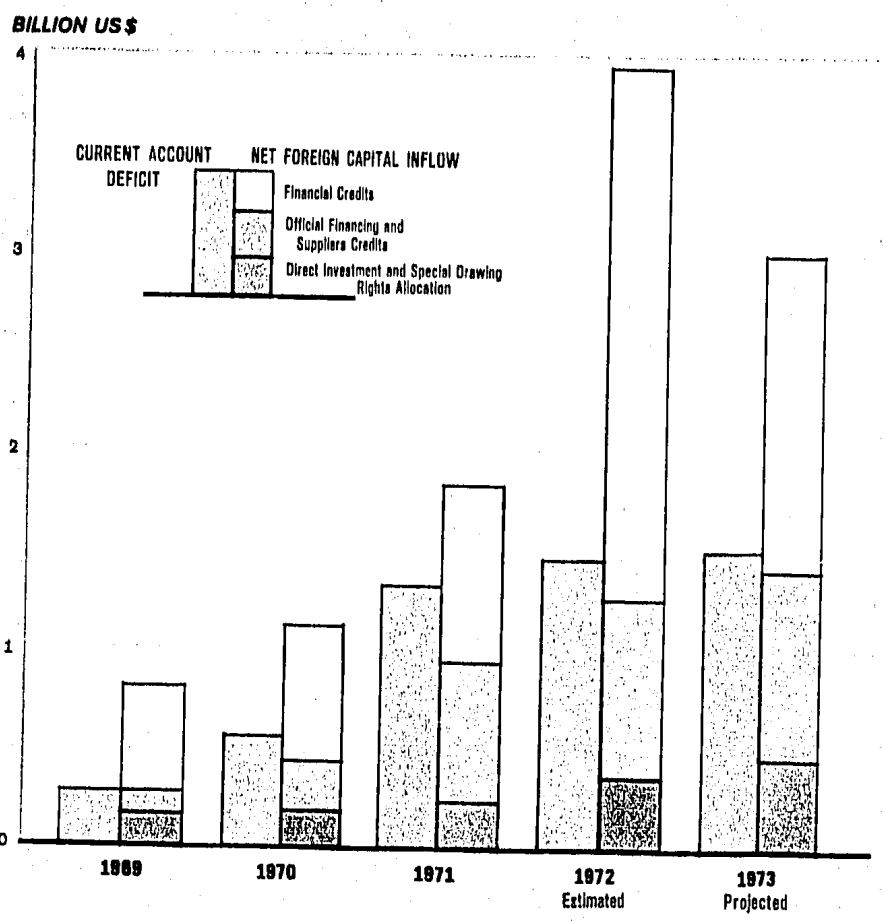
Export growth in 1973 will approach 40% in money terms, 15% in real terms. Brazil has diversified its exports to include manufactured goods, minerals, and new agricultural commodities, thus reducing dependence on coffee and other traditional exports. Markets also are being diversified; the United States now takes only about 20% of Brazil's exports, compared with 33% a few years ago.

Despite its booming exports, Brazil still runs a trade deficit because of the economy's heavy demand for imports. The current account deficit in 1973 probably will exceed \$1.5 billion. At the same time, the overall balance of payments continues to show a large surplus because of a huge inflow of foreign capital. Brazil's foreign exchange reserves have increased from only \$200 million in 1967 to \$6.0 billion. Although the United States still supplies a substantial share of Brazil's foreign capital, the greater part now comes from the Eurodollar market, from credits granted by exporters in Europe and Japan, and from the official international lending agencies.

Beyond the mid-1970s, some slackening in the impressive rate of economic growth is expected. Thus far, exports and foreign reserves have increased rapidly enough to improve Brazil's credit standing abroad despite rising debt. Exports in recent years have benefited from exceptionally high prices, and gains from this source are likely to subside. Brazil will then need to restrict its foreign borrowing to maintain a reasonable debt-to-export ratio, and the economy will begin to encounter some balance-of-payments constraints.

* For further details, see CIA ER IR 73-18, **Brazil's Economic Miracle: Its Foundations and Durability**, September 1973, [redacted]

BRAZIL: Growth of the Current Account Deficit and Net Foreign Capital Inflow



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With the inauguration of a new president early next year, opportunities could arise for elements hostile to foreign capital and eager to redistribute income. Income redistribution has been a chronic issue, since 10% of the population receives nearly 50% of the total income. Brazil is still a poor country, with per capita income somewhat less than the Latin American average. A deteriorating climate for foreign investment or a major effort to redistribute income could also depress Brazil's economic growth.

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SECRET**The Impact of Libyan Oil Nationalization**

Libya's 51% nationalization of the Libyan interests of five major international oil companies on 1 September will not cause significant supply problems for the United States. The companies -- Exxon, Standard Oil (California), Texaco, Mobil, and Royal Dutch Shell -- are faced with either accepting 51% Libyan ownership or being taken over completely.

The five companies currently produce about 700,000 barrels per day -- about 30% of current Libyan production -- and export about 75% of their Libyan oil to Western Europe. The major companies' exports to the United States (both direct and indirect from foreign export refineries) are currently about 130,000 b/d, or about 2% of US oil imports (see the table).

**Estimated Libyan Oil Exports to the United States
January-August 1973**

	Barrels per Day	
	Total Export	From Major Companies
Total	380,000	130,000
Crude to US refineries	162,000	80,000
Crude for direct burning	24,000	....
Products from Caribbean and European refineries	194,000	50,000

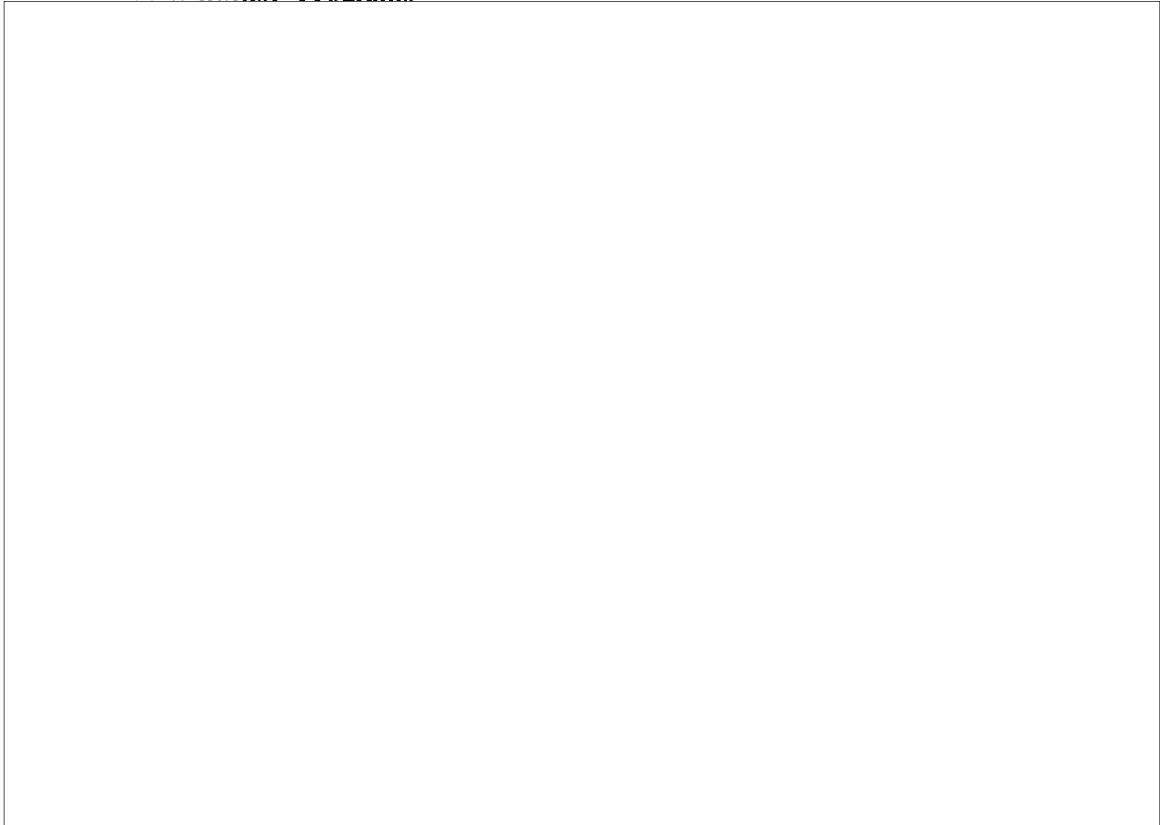
If the companies are successful in blocking the sale of nationalized oil, Libyan officials plan to increase oil production from fields already under their control through the previous nationalization of British Petroleum and Bunker-Hunt and recent agreements with Occidental, Continental, Amerada-Hess, and the Italian State Oil Company, ENI. Surplus capacity in oilfields operated by these companies is nearly 700,000 b/d.

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Publications of Interest

**LDC Debt Service Burden: A Comparison of Western
and Communist Programs**

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DOMESTIC ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since			Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since			
			1970	1 Year Earlier	3 Months Earlier			1970	1 Year Earlier	3 Months Earlier	
GNP* (Constant Market Prices)					WHOLESALE PRICES (Industrial)						
	Quarter				Previous Quarter						
United States	73 II	0.6	6.1	6.4	2.5	United States	Jul 73	0	4.8	7.5	8.3
Japan	73 II	1.4	9.1	13.0	6.9	Japan	Jul 73	2.0	4.0	15.7	17.8
West Germany	73 II	-1.1	3.9	7.2	-4.2	West Germany	Jul 73	0.8	4.9	7.3	7.8
France	73 I	3.3	6.1	6.1	13.8	France	Jun 73	1.4	6.3	13.6	9.1
United Kingdom	73 II	0.7	3.2	5.4	2.8	United Kingdom	Jun 73	1.0	6.7	6.2	3.7
Italy	73 I	0.8	3.1	5.2	3.4	Italy	Jun 73	2.3	7.5	16.2	23.2
Canada	73 I	2.9	6.3	8.0	12.1	Canada	Jun 73	1.8	7.5	16.1	15.8

INDUSTRIAL PRODUCTION*

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jul 73	1.1	5.7	10.2	8.1
Japan	Jun 73	0.4	9.2	19.4	13.0
West Germany	May 73	1.1	4.2	7.2	-4.4
France	Jun 73	-1.5	7.1	8.9	0
United Kingdom	Jun 73	0.4	3.9	10.4	-1.4
Italy	Jun 73	-1.0	2.9	10.2	31.7
Canada	Jun 73	0.9	7.0	10.5	8.5

CONSUMER PRICES

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jul 73	0.2	4.4	5.7	6.3
Japan	Jul 73	0	7.3	11.9	11.0
West Germany	Jul 73	0.3	6.1	7.5	6.4
France	Jul 73	0.8	6.2	7.4	10.8
United Kingdom	Jul 73	0.4	8.5	9.4	7.0
Italy	Jul 73	0.5	7.2	11.7	12.2
Canada	Jul 73	0.9	5.1	7.7	10.4

RETAIL SALES*

(Current Prices)

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jul 73	3.3	11.8	14.2	16.5
Japan	Mar 73	4.0	12.9	24.8	45.2
West Germany	Jun 73	-1.3	9.3	10.0	11.8
France	May 73	6.7	5.3	13.4	9.5
United Kingdom	Apr 73	-7.2	9.6	11.2	-3.0
Italy	Feb 73	9.0	11.5	18.8	24.1
Canada	Jun 73	0.5	10.4	10.4	-0.3

MONEY SUPPLY*

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jul 73	0.4	7.8	6.7	10.8
Japan	May 73	-0.6	19.0	30.5	28.8
West Germany	Jul 73	-3.4	6.0	3.1	-21.5
France	Mar 73	1.2	12.7	10.4	-2.1
United Kingdom	Jul 73	2.3	12.2	13.0	12.9
Italy	Feb 73	2.1	20.1	18.7	21.5
Canada	May 73	2.3	14.1	17.5	20.3

MONEY-MARKET RATES

Representative Rates	Latest	Percent Rate of Interest			
		12 Months Earlier	3 Months Earlier	1 Month Earlier	
United States Prime finance paper	31 Aug	9.00	4.83	6.75	8.13
Japan Call money	25 Aug	7.50	4.25	6.00	7.50
West Germany Interbank loans (3 months)	31 Aug	13.75	4.75	14.00	14.25
France Call money	24 Aug	9.38	3.75	7.63	8.38
United Kingdom Local authority deposits	24 Aug	14.25	N.A.	7.52	10.38
Canada Finance paper	31 Aug	8.75	5.13	6.50	7.50
Euro-Dollars Three-month deposits	31 Aug	11.44	5.44	8.69	11.19

*Seasonally Adjusted

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EXTERNAL ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
EXPORT PRICES (US\$)					
United States	Jun 73	1.0	6.7	14.0	25.0
Japan	Jul 73	1.7	12.3	23.3	20.4
West Germany	May 73	3.5	11.8	17.9	54.7
France	Apr 73	-0.8	12.1	15.8	58.8
United Kingdom	Jun 73	3.1	11.2	11.8	34.1
Italy	Apr 73	0.9	8.2	9.8	24.7
Canada	Apr 73	3.5	6.0	12.5	32.8

EXPORT PRICES

(National Currency)

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	1.8	6.7	14.0	25.0
Japan	Jul 73	1.3	1.8	8.0	17.6
West Germany	May 73	0.6	1.4	2.3	10.2
France	Apr 73	-0.4	4.6	4.8	6.8
United Kingdom	Jun 73	1.2	8.6	10.8	15.1
Italy	Apr 73	2.6	5.7	10.4	28.0
Canada	Apr 73	3.8	4.8	13.0	33.4

IMPORT PRICES

(National Currency)

	Latest Period	Percent Change from Previous Period	1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	0.4	9.7	18.4	32.4
Japan	Jul 73	4.0	5.0	24.0	46.5
West Germany	May 73	1.1	0.8	3.8	6.5
France	Apr 73	2.4	3.3	5.0	1.0
United Kingdom	Jun 73	1.7	11.4	28.4	34.7
Italy	Apr 73	3.3	8.5	18.7	49.2
Canada	Mar 73	3.4	4.0	0.2	18.4

OFFICIAL RESERVES

Billion US \$

	Latest Period End of	Percent Change from		
		June 1970	1 Year Earlier	3 Months Earlier
United States	Jul 73	14.0	10.3	13.1
Japan	Aug 73	15.1	4.1	16.4
West Germany	Jul 73	42.4	8.8	24.8
France	Jul 73	10.4	4.4	9.9
United Kingdom	Jul 73	6.6	2.8	6.1
Italy	Jun 73	6.0	4.7	6.4
Canada	Jul 73	5.8	4.3	6.2

*Seasonally Adjusted

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EXPORTS*

(f.o.b.)

	Latest Period	Million US \$	Cumulative (Million US \$)	
			1973	1972
United States	Jul 73	6,869	Jan-Jul	38,168
Japan	Jul 73	3,114	Jan-Jul	18,752
West Germany	Jul 73	6,002	Jan-Jul	35,918
France	Jul 73	3,309	Jan-Jul	20,292
United Kingdom	Jul 73	2,482	Jan-Jul	16,117
Italy	Jun 73	1,937	Jan-Jun	9,479
Canada	Jun 73	2,132	Jan-Jun	11,984

IMPORTS*

(f.o.b.)

	Latest Period	Million US \$	Cumulative (Million US \$)	
			1973	1972
United States	Jul 73	5,792	Jan-Jul	38,881
Japan	Jul 73	2,713	Jan-Jul	16,507
West Germany	Jul 73	4,807	Jan-Jul	28,016
France	Jul 73	3,128	Jan-Jul	19,492
United Kingdom	Jul 73	2,883	Jan-Jul	18,407
Italy	Jun 73	2,212	Jan-Jun	10,720
Canada	Jun 73	1,894	Jan-Jun	11,110

TRADE BALANCE*

(f.o.b./f.o.b.)

	Latest Period	Million US \$	Cumulative (Million US \$)	
			1973	1972
United States	Jul 73	107	Jan-Jul	-703
Japan	Jul 73	400	Jan-Jul	3,244
West Germany	Jul 73	1,395	Jan-Jul	7,902
France	Jul 73	183	Jan-Jul	801
United Kingdom	Jul 73	-402	Jan-Jul	-2,289
Italy	Jun 73	-275	Jan-Jun	-1,241
Canada	Jun 73	138	Jan-Jun	874

EXCHANGE RATES (Spot Rate)

As of 31 Aug 73	US \$ Per Unit	Percent Change from			
		Dec 60	18 Dec 71	19 Mar 73	24 Aug 73
Japan (Yen)	0.0038	38.61	16.08	-0.89	-0.05
West Germany (Deutsche Mark)	0.4065	61.89	31.00	14.80	0.22
France (Franc)	0.2319	14.86	17.78	5.22	-0.26
United Kingdom (Pound Sterling)	2.4588	-11.89	-5.83	-0.09	0
Italy (Lira)	0.0018	10.56	2.91	0	0.23
Canada (Dollar)	0.9945	7.82	-0.33	-0.32	-0.11

TRADE-WEIGHTED EXCHANGE RATES

As of 31 Aug 73

	Percent Change from			
	Dec 66	18 Dec 71	19 Mar 73	24 Aug 73
United States	-18.57	-9.02	-2.24	0.01
Japan	23.79	9.79	-2.27	-0.06
West Germany	31.72	14.71	9.69	0.17
France	-12.02	1.20	-1.23	-0.45
United Kingdom	-32.77	-18.85	-4.29	0.01
Italy	-15.00	-13.82	-7.01	0.18
Canada	3.93	-2.60	-0.94	-0.11

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