

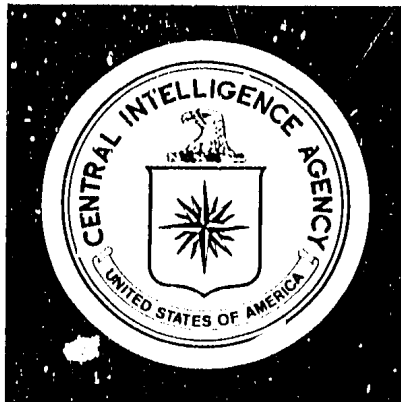
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Economic Intelligence Weekly

State Dept. review completed

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CIA No. 7833/73
20 December 1973

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Note: Comments and queries regarding this publication are welcomed.

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ECONOMIC INTELLIGENCE WEEKLY

Notes

North Vietnam: Food Deficit Continues

North Vietnam's recently harvested rice crop was disappointing. Hanoi reported that this year's autumn crop ranked fifth among those of the past 15 years. On this basis, food production this year will probably cover only about three-fourths of consumption requirements. Food imports from the USSR and China, already running at record levels, will almost certainly exceed the previous peak of 800,000 tons in 1968. [REDACTED]

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The United States Begins to Import Polish Coal

The first shipment of low-sulfur coal from Poland under an agreement concluded last spring has arrived in the United States. Two powerplants in New England will use the coal. The value of shipments is expected to reach about \$15 million in 1974 and presumably will be far greater in the future because of a scarcity of domestic low-sulfur coal on the East Coast. Polish coal output will be increased to meet both added domestic needs and the large boost in exports planned for the next few years.

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China-USSR Air Service

China is expected to begin direct air service to Moscow in February. CAAC, China's national airline, and Aeroflot, the Soviet national carrier, each will be allowed one weekly non-stop flight each way between the two capitals. The only international routes now flown by CAAC are to Hanoi, Pyongyang, Rangoon, and Irkutsk. Aeroflot already operates service from Moscow to Peking, with stops at Omsk and Irkutsk. CAAC can use either its Il-62s or its recently acquired 707s on this new service.

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The Dollar Continues Strong

The dollar's strength and sterling's weakness have continued to dominate the international money markets in December. With the deterioration in UK domestic economic conditions, sterling has set new record lows almost daily. Traders have judged that London's new austerity budget and energy consumption plans will prove inadequate to deal with continued labor problems and shortages. The mark and French franc are

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at their lowest levels against the dollar since the spring as the market continues to focus on the economic implications of anticipated oil shortages in Europe. Although Tokyo has maintained the yen at the rate reached in mid-November, the government has been forced to change banking regulations and restrict Japanese tourists' spending abroad to slow its reserve losses.

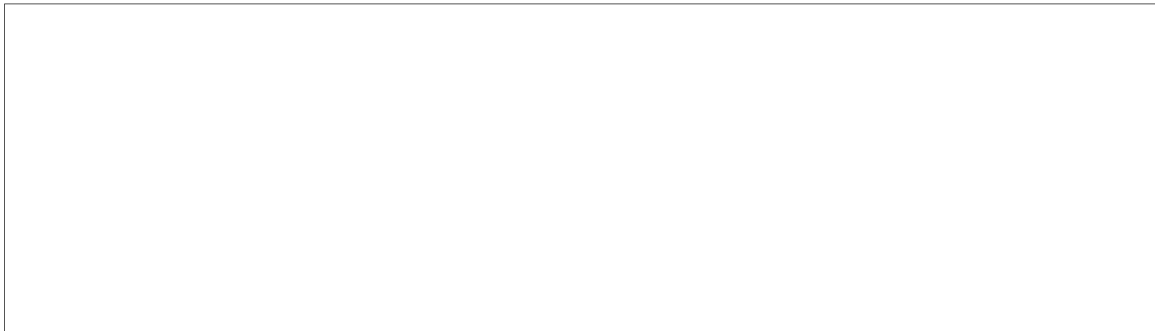
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US-Indian Rupee Settlement

On 13 December the United States and India initialed an agreement disposing of US-owned rupee holdings, which will grant to India rupees worth approximately \$2.2 billion and retain rupees worth \$1.1 billion for US uses. Under previous agreements, these rupees could be neither converted to dollars nor spent in India without New Delhi's approval, except to cover US Embassy expenses in India. The amount granted to India nominally will be used to finance development projects under India's Fifth Five-Year Plan (1974/75-1978/79), mainly for agriculture, power, housing, and family planning. Transfer of these holdings, however, does not provide India with new resources. Of the amount retained by the United States, \$64 million will be converted to dollars and the rest will be used to finance US Embassy expenses in India, US aid to Nepal, and additional Indian exports to the United States. Before implementation, the agreement must be ratified by the US Congress and the Indian Parliament.

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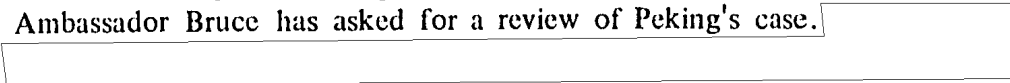
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Large Chinese Imports of US Scrap

China imported more than 600,000 tons of scrap iron in the first 10 months of 1973, more than 350,000 tons from the United States. US exports for the whole year may exceed 600,000 tons. In 1972, China imported only 360,000 tons, none from the United States. China's needs for imported scrap are rising at a time when worldwide demand has also increased sharply. Because of the impending US policy of limiting annual scrap exports to the average of the three years ending in June 1973, China -- which has bought US scrap only in 1973 -- will be especially hard hit. Ambassador Bruce has asked for a review of Peking's case.



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INDIA: GOOD NEWS AND BAD NEWS

An inventory of India's economic position reveals some short-term economic strengths which, however, are overmatched by continuing fundamental weaknesses. On the bright side, the favorable monsoon will mean record foodgrain and commercial crops for the fiscal year ending 31 March 1974. India's short-term international financial situation also is encouraging.

- International reserves are \$1.2 billion, the equivalent of about five months' imports.
- Additional available IMF funds stand at \$1.1 billion.
- Unused non-project foreign aid is about \$450 million.
- Both the USSR and the Western Aid Consortium appear willing to increase their support.

But one good monsoon and the ability to run up a higher foreign debt will not turn the economy around.

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- Prices in October were 21% higher than a year earlier, and the supply of goods on almost all fronts continues to lag behind growing demand; the government, faced with sharply increased outlays on food subsidies, drought relief, and the salaries of government workers, remains reluctant to increase taxes on agricultural income, the only remaining large tax source.
- Industrial production has grown less than 1% this year, compared with 7% in 1972; India has its own energy crisis with the construction of electric power stations far behind schedule, coal production lagging, and petroleum imports curbed by skyrocketing prices and Arab cutbacks in production.
- Imports recently have been growing at a 34% clip, compared with 12% for exports; the jump in imports unfortunately reflects, not higher purchases of industrial raw materials and components, but rather increased imports of foodgrains and higher prices for oil and fertilizers.

As for economic policy, the government has succeeded in combining the worst features of both a planned and a market economy. Private investment in industry, trade, and agriculture continues to be hobbled by an incredibly indecisive bureaucracy and the expansion of the maze of regulatory requirements.

Critics from the press, the universities, and the business sector advocate greater use of the market mechanism on all fronts -- for example, elimination of price controls, liberalization of licensing requirements, and reduction in the government bureaucracy. Critics of the proposed Fifth Five-Year Plan (to begin on 1 April 1974) claim that it ignores economic realities. A leading economist in the Ministry of Planning has resigned in protest against the plan's unrealistic trade and production goals, and a key member of the prestigious National Council of Applied Economic Research has recommended that the plan be delayed a year. Nonetheless, the government continues to slowly push ahead with the much criticized plan.

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CUDA TINKERS WITH ECONOMIC MANAGEMENT

Pressed by the Soviets – who pick up an annual half billion dollar tab for the Cuban economy – the Castro government is taking steps to strengthen incentives and bring prices more in line with costs.

- Certain workers are to begin receiving pay for overtime work.
- Larger quantities of ration-free luxury consumer goods are to be made available, albeit at high prices.
- Prices for public utility services are to be raised to reduce the need for subsidies.

These measures violate basic tenets of Castro's utopian revolutionary code. Castro acknowledged last month at the National Labor Congress that the backtracking was necessary because he had gone too far and too fast in bringing Communism to Cuba.

These steps will complement other reform measures being taken under Soviet prodding.

- Immediate control of the economic bureaucracy is being shifted to some extent from unqualified political appointees to technicians.
- Impulsive decisionmaking at top administration levels is giving way to more disciplined, long-term planning.
- New emphasis is being placed on quality control and cost accounting.

To help carry out the measures, the USSR has provided Cuba with 5,000 technical advisers – double the number of the late 1960s. Soviet emphasis on reform recently caused Castro to complain that the USSR was obsessed with efficiency.

Poor management is a major factor in Cuba's depressing economic performance and in the Soviets' growing dissatisfaction. Even Cuba's last conspicuous success – the intensive sugar production campaign that brought a record output of 8-1/2 million tons in 1969/70 – appears to have been a mistake. Only now is the economy fully recovering from the disruptions caused in other sectors. Even though Soviet economic assistance has permitted fixed investment to reach about 18% of GNP, total output has stagnated in recent years, and per capita output has declined. The new measures are a small beginning in righting the direction of the economy.

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VENEZUELA: PEREZ' OIL POLICY

President-elect Carlos Andres Perez has made a number of strongly nationalistic statements that foreshadow changes in Venezuela's economic relationships with the United States. He has pledged to:

- Accelerate nationalization of foreign oil concessions, which, under the Hydrocarbons Reversion Law of 1971, are scheduled to revert to the state, beginning in 1983;
- Use oil to compel industrialized countries to (a) remove trade barriers on Venezuela's non-petroleum exports and (b) assure Venezuela of needed supplies of raw materials;
- Give Venezuela's interests precedence over the needs of importing countries - e.g., development of the Orinoco Tar Belt will be carefully controlled by the state.

Despite these statements, Perez is likely to manage Venezuela's external economic relations pragmatically. He recognizes the need for good relations with the United States - Venezuela's largest trading partner - and probably will seek expanded US trade and investment on terms more favorable to Venezuela. His call for accelerated nationalization reflects an effort to prevent further damage from the Reversion Law. The law has discouraged investment and exploration for additional reserves and probably would result in the decline of the industry if the government waits until 1983 to take over. Although Perez has been vague about the future role of the international oil companies, he acknowledges the need for their technical, financial, and marketing resources.

Perez is not likely to succumb to the pressure of conservationists, who argue that rapidly rising revenues now permit a cutback in oil production. Venezuela's current consumption and planned development needs require growing oil revenues, and Perez will continue to be under considerable pressure to maximize Venezuela's benefits from its oil. His party's strong position in the new Congress enhances the prospects for a petroleum policy mutually beneficial to the United States and Venezuela.

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SOVIET ECONOMIC BLUEPRINT FOR 1974

The USSR's economic guidelines for 1974, presented at last week's Supreme Soviet session, show that the economy will continue essentially on its present tack. The main features of the plan are:

- Substantial growth in GNP and industry;
- Continued large injections of capital and materials into agriculture;
- A concentration of investment resources on completing projects already begun; and
- Continued gradual growth in defense spending.

Soviet 1974 Plan in Perspective

	<u>Average Annual Percentage Rates of Growth¹</u>			
	1971-72	Preliminary 1973	Plan 1974	Five-Year Plan 1971-75
Major aggregates (Western concepts)				
GNP	3	7	5½	6
Industrial production	5½	6	7	8
Agricultural production	-3½	12	6½	3½
Investment				
Total gross fixed investment	7	3½	6½	6½
Energy				
Total primary energy (excluding electric power)	4	5½	6	6
Coal	2½	2	1½	2
Oil	6½	7	7	7½
Gas	5½	6½	9	10
Electric power	7½	6½	6½	7½
Resources for agriculture				
Delivery of machinery	10½	13	11	11
Delivery of mineral fertilizer	9½	8½	12	9½
Consumer welfare (per capita)				
Consumption	3	4	4	4
Housing space	2	2	2	2½

1. Rounded to the nearest one-half percent.

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The Soviet planning czar Nikolay Baybakov pointedly commented that the plan "ensures a normal and uninterrupted supply of fuel and electricity." Growth rates for crude oil and natural gas, which account for about three-fifths of total energy consumption, are targeted to be the same as or higher than in 1973.

Although the explicit defense allocation in the state budget shows a 2% decline compared with 1973, other indicators suggest an increase in military and space expenditures. For example, outlays for science -- a category that includes most space and defense R&D activities -- are scheduled to rise by nearly 6% in 1974.

Farm output is slated to increase by 6-1/2% over 1973, a record agricultural year. Despite another major boost in the scheduled allocation of machinery, fertilizer, and other farm inputs, prospects for a substantial gain in agricultural output are dim unless the above-average weather conditions of this year are matched in 1974.

Foreign trade with the "developed capitalist nations" figured prominently in the plan presentation. Baybakov underscored the importance of importing advanced types of machinery and equipment and reiterated the leadership's preference for self-liquidating credits that are repaid in goods rather than currency.

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DOMESTIC ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Latest Quarter	Percent Change from Previous		Average Annual Growth Rate Since		
		Quarter	1970	1 Year Earlier	3 Months Earlier	Quarter
		1970	1970	1970	1970	1970
United States	73 III	0.9	5.0	5.7	3.7	
Japan	73 III	0.5	8.5	10.0	2.0	
West Germany	73 II	-2.3	3.6	0.2	-8.6	
France	73 II	0.7	0.2	8.7	2.9	
United Kingdom	73 III	1.0	4.5	11.4	4.2	
Italy	73 I	0.8	3.1	5.2	3.4	
Canada	73 III	0.4	5.7	6.9	1.7	

WHOLESALE PRICES

Industrial

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier	Earlier
		1970	1970	1970	1970	1970
United States	Nov 73	3.2	6.0	12.3	21.3	
Japan	Nov 73	3.2	7.0	22.3	31.9	
West Germany	Oct 73	0.8	4.9	7.3	5.2	
France	Sep 73	-0.1	7.0	14.9	14.0	
United Kingdom	Nov 73	1.3	8.0	9.5	19.3	
Italy	Oct 73	2.0	8.8	20.1	15.6	
Canada	Sep 73	-0.7	10.0	24.6	45.0	

INDUSTRIAL PRODUCTION*

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier**	Earlier**
		1970	1970	1970	1970	1970
United States	Nov 73	0.2	5.8	6.4	2.6	
Japan	Oct 73	1.2	9.3	17.6	10.2	
West Germany	Sep 73	1.1	4.3	9.7	-3.7	
France	Sep 73	-4.5	0.0	4.9	7.7	
United Kingdom	Oct 73	0.1	3.7	5.8	2.7	
Italy	Oct 73	-2.4	4.1	10.5	18.2	
Canada	Sep 73	1.8	6.0	8.3	-3.4	

CONSUMER PRICES

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier	Earlier
		1970	1970	1970	1970	1970
United States	Oct 73	0.8	5.0	7.9	12.3	
Japan	Oct 73	0.4	8.1	14.2	17.9	
West Germany	Oct 73	0.7	5.9	6.6	3.8	
France	Oct 73	1.1	6.6	8.1	11.1	
United Kingdom	Nov 73	0.8	8.9	10.4	15.7	
Italy	Oct 73	0.8	7.3	11.0	8.3	
Canada	Oct 73	0.3	5.4	8.7	9.0	

RETAIL SALES*

Current Prices

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier**	Earlier**
		1970	1970	1970	1970	1970
United States	Nov 73	0.1	11.0	11.4	8.5	
Japan	Jun 73	2.1	12.5	22.6	14.3	
West Germany	Sep 73	0	8.0	4.8	-	
France	Aug 73	-4.3	3.1	1.8	4.5	
United Kingdom	Aug 73	0.7	11.1	12.1	14.8	
Italy	May 73	2.3	11.3	20.4	22.3	
Canada	Oct 73	-0.2	10.2	10.1	13.9	

MONEY SUPPLY*

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier**	Earlier**
		1970	1970	1970	1970	1970
United States	Nov 73	0.9	7.2	5.5	1.2	
Japan	Aug 73	1.0	17.8	28.3	5.7	
West Germany	Sep 73	1.3	8.7	0.4	-12.3	
France	Sep 73	1.5	12.3	8.1	-3.8	
United Kingdom	Oct 73	0.2	10.3	6.9	1.4	
Italy	Apr 73	2.8	20.4	19.1	13.7	
Canada	Oct 73	0.7	13.4	13.8	10.9	

MONEY-MARKET RATES

	Representative Rates	Percent Rate of Interest			
		Latest Date	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	14 Dec 8.25	5.13	9.00	7.75
Japan	Call money	30 Nov 9.25	4.25	7.50	8.75
West Germany	Interbank loans (3 Months)	14 Dec 13.00	8.75	14.25	14.00
France	Call money	7 Dec 11.50	7.00	9.56	11.25
United Kingdom	Local authority deposits	7 Dec 15.38	5.59	14.06	12.63
Canada	Finance paper	14 Dec 9.25	5.13	8.63	9.00
Euro-Dollars	Three-month deposits	14 Dec 10.44	8.06	11.44	9.19

*Seasonally adjusted.
**Average for latest 3 months compared with average for previous 3 months.

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EXTERNAL ECONOMIC INDICATORS

EXPORTS*

	Latest Month	Cumulative			Percent Change
		Million US \$			
		1973	1972		
United States	Oct 73	0,430	57,040	40,107	41.0
Japan	Nov 73	3,560	32,530	25,104	29.3
West Germany	Oct 73	0,785	56,054	38,172	46.8
France	Nov 73	3,538	33,050	24,920	40.1
United Kingdom	Nov 73	2,478	20,077	20,908	24.7
Italy	Oct 73	2,223	17,781	15,020	18.4
Canada	Sep 73	1,990	18,004	14,547	24.3

EXPORT PRICES

	Latest Month	Percent Change		Average Annual Growth Rate Since	
		from Previous Month	1970	1 Year Earlier	3 Months Earlier
		Month	Month		
United States	Oct 73	3.0	8.9	24.2	30.0
Japan	Aug 73	2.9	13.0	24.0	38.0
West Germany	Sep 73	-0.0	15.0	33.3	38.0
France	Jul 73	0.5	15.3	29.1	53.2
United Kingdom	Sep 73	-1.0	9.6	12.8	-1.1
Italy	Jul 73	3.3	10.1	15.5	34.0
Canada	Aug 73	2.9	6.9	15.2	19.0

IMPORTS*

	Latest Month	Cumulative			Percent Change
		Million US \$			
		1973	1972		
United States	Oct 73	5,900	50,350	45,415	24.1
Japan	Nov 73	3,143	28,455	17,053	60.9
West Germany	Oct 73	5,053	42,298	31,041	30.3
France	Nov 73	3,350	32,450	22,898	41.7
United Kingdom	Nov 73	3,124	30,792	22,451	37.2
Italy	Oct 73	2,428	19,957	13,933	43.2
Canada	Sep 73	1,940	16,914	13,783	22.7

EXPORT PRICES

	Latest Month	Percent Change		Average Annual Growth Rate Since	
		from Previous Month	1970	1 Year Earlier	3 Months Earlier
		Month	Month		
United States	Oct 73	3.9	8.9	24.2	30.6
Japan	Aug 73	3.1	2.8	9.9	39.5
West Germany	Sep 73	1.3	1.3	1.4	10.2
France	Jul 73	-2.5	4.0	5.8	0.9
United Kingdom	Sep 73	0.5	9.1	12.8	15.5
Italy	Jul 73	3.3	7.5	15.7	30.3
Canada	Aug 73	2.8	5.7	16.9	18.9

TRADE BALANCE*

	Latest Month	Cumulative (Million US \$)			Change
		Million US \$			
		1973	1972		
United States	Oct 73	530	884	-5,228	5,912
Japan	Nov 73	417	4,075	8,111	-4,037
West Germany	Oct 73	1,732	13,356	7,131	6,225
France	Nov 73	188	1,202	1,131	71
United Kingdom	Nov 73	-646	-4,715	-1,545	-3,171
Italy	Oct 73	-205	-2,178	1,078	-3,263
Canada	Sep 73	49	1,170	763	407

IMPORT PRICES

	Latest Month	Percent Change		Average Annual Growth Rate Since	
		from Previous Month	1970	1 Year Earlier	3 Months Earlier
		Month	Month		
United States	Oct 73	4.8	11.3	23.0	27.1
Japan	Aug 73	3.4	2.7	14.7	29.0
West Germany	Sep 73	0.9	0.1	3.0	0.4
France	Jul 73	0.2	3.1	8.4	0.8
United Kingdom	Sep 73	5.5	14.8	41.5	65.2
Italy	Jul 73	5.9	12.6	30.9	70.6
Canada	Jul 73	1.5	5.2	11.6	17.5

BASIC BALANCE**

	Latest Period	Cumulative (Million US \$)			Change
		Million US \$			
		1973	1972		
United States*	73 II	-800	-1,700	-5,700	4,700
Japan	Oct 73	-771	-7,336	1,791	-9,128
West Germany	Sep 73	555	2,521	3,575	-1,055
France	73 II	17	-559	-202	-357
United Kingdom	73 II	-261	-1,348	-630	-717
Italy	73 I	0	0	242	-242
Canada	73 II	93	-151	434	-585

EXCHANGE RATES

	Spot Rate	Percent Change from			
		As of 14 Dec 73			
		US \$ Per Unit	18 Dec 1971	19 Mar 1973	7 Dec 1973
Japan (Yen)	0.0036	29.43	9.98	-6.10	0
West Germany (Deutsche Mark)	0.3769	49.92	21.46	6.44	-0.66
France (Franc)	0.2188	8.27	11.02	-0.82	-0.77
United Kingdom (Pound Sterling)	2.3075	-17.31	-11.44	-6.24	-0.80
Italy (Lira)	0.0017	3.12	-4.01	-6.72	0.06
Canada (Dollar)	1.0003	8.45	0.25	0.26	-0.12

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		End of			
		Jun 1970	1 Year Earlier	3 Months Earlier	
United States	Oct 73	14.4	16.3	13.3	14.0
Japan	Nov 73	13.2	4.1	18.4	15.1
West Germany	Oct 73	39.8	8.8	23.9	42.4
France	Nov 73	7.9	4.4	10.0	9.9
United Kingdom	Nov 73	6.6	2.8	5.9	6.5
Italy	Sep 73	6.5	4.7	6.4	6.0
Canada	Nov 73	5.7	4.3	6.0	5.6

TRADE-WEIGHTED EXCHANGE RATES***

	As of 14 Dec 73	Percent Change from			
		Dec 66			
		18 Dec 1971	19 Mar 1973	7 Dec 1973	
United States		-15.24	-5.87	0.82	0.17
Japan		18.83	5.00	-6.94	0.14
West Germany		26.67	11.83	6.85	-0.34
France		-12.28	0.93	-1.51	-0.41
United Kingdom		-35.97	-21.68	-7.29	-0.46
Italy		-16.81	-15.83	-8.81	0.55
Canada		5.85	-0.73	0.90	0.24

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

***Weighting is based on each listed country's trade with 18 other industrialized countries to reflect the competitive impact of exchange rate variations.