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International Economic & Energy Weekly

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15 **Chinese Agricultural Reform: Consolidating Gains** 25X1

Agricultural reform in China has brought sharp increases in rural output and consumption over the past eight years, but there are many problems associated with reform that need to be addressed. Nonetheless, US farmers will be hurt by declining Chinese agricultural imports in 1986, and by growing Chinese competition on the international market. 25X1

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Perspective

Economic Implications of the French Election

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The National Assembly election on 16 March seems likely to usher in a period of political turbulence and economic uncertainty in France. The nub of the problem lies in the power-sharing arrangement that is likely to emerge. By most projections, the conservative opposition will capture a majority in the Assembly, ousting the Socialist government that has served since 1981. Although the right will probably control the government after March, Socialist President Mitterrand, whose term runs until 1988, has vowed to stay on and "cohabit" with the conservatives. Never since the Fifth Republic was established in 1958 has power been shared by a government from one party and a president from another. The president, who has always been backed by a legislative majority, has until now monopolized policymaking. After March, Mitterrand will probably be pitted against a prime minister who will be contending with him for dominance over policymaking and who might be looking to run for president himself in 1988. 25X1

Economic policy and foreign affairs are likely to be the main battlegrounds. The right's platform focuses heavily on economic issues. Conservatives promise to reverse the policies of the Socialists, especially nationalization, and "liberate" the French economy through tax cuts, price decontrol, and the elimination of laws constraining business. Although Mitterrand is likely to cede control over domestic economic policy—where his main recourse will be to impede reforms—he will make a strong effort to retain the initiative for foreign affairs, which has always been considered a "preserve" of the presidency. Control over foreign economic policy is a potential bone of contention. Although a consensus exists within France on most international economic issues—LDC debt relief, greater exchange rate stability, and continued use of export credits—the right's platform implies a tougher French line on some trade questions, notably agriculture. 25X1

French economic policy over the next two years will be conducted against the backdrop of the political jockeying surrounding cohabitation. All eyes will focus on the Presidential elections in 1988, and each side will be quick to blame any downturn in the economy on the other. The Socialists hope that the right's economic program will backfire, enhancing leftist electoral prospects in 1988—and perhaps even giving Mitterrand an opening to call early legislative elections. The conservatives hope to avoid major pitfalls until 1988, when they expect to recapture the Presidency and carry out their full program of economic liberalization. 25X1

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The next two years are likely to prove even more challenging than usual for US policymakers dealing with France. Initially, at least, the struggle between president and government for control over policymaking is apt to lead to confused and contradictory signals from Paris. Mitterrand and the conservatives reportedly are already positioning themselves, for example, to use the Tokyo Summit as an early test of who will call the shots in foreign economic policy. France may ultimately become so wrapped up in the problems of cohabitation that it will turn inward and keep a low profile in international economic affairs. No one in Paris wants the embarrassment of airing France's dirty political linen in public, and neither side will want to be accused of making France look like a fool on the world stage. Alternatively, cohabitation may cause French policy to veer toward prickly Gaullist nationalism as Mitterrand and the government try to best each other in the eyes of voters by promoting strictly French interests and occasionally bashing the United States. 25X1

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France: A New Direction for the Economy? 25X1

The conservative opposition will probably win the National Assembly election on 16 March, but its promises to "liberate" the economy through denationalization, tax cuts, and market deregulation are unlikely to lead to radical changes in the short run. The new government will have to cope with the political confusion and market uncertainties that will inevitably accompany "cohabitation" or power sharing with Socialist President Mitterrand. In addition, it will face considerable practical difficulties in implementing far-reaching programs like denationalization amid the constraints imposed by the still recovering French economy. Moreover, the 1988 presidential election leaves the conservatives little time to produce convincing economic results, and the new government must be careful not to appear to undermine the promising but tenuous economic recovery started by the Socialists. 25X1

Leaders of the Opposition

Jacques Chirac . . . Mayor of Paris, leader of the neo-Gaullist Rally for the Republic Party . . . most frequently mentioned candidate for prime minister . . . top priorities are quick tax cuts and denationalization . . . perhaps most pro-US of three top conservative leaders . . . 53 years old.

Valery Giscard d'Estaing . . . President of France 1974-1981, former Minister of Finance . . . founder of the Union for French Democracy, the other main conservative party grouping . . . more cautious approach than Chirac, believes balanced budget and tax cuts can be accomplished simultaneously . . . strongly pro-EC . . . possible prime minister, but more likely to head finance, trade, or interior ministry . . . 60 years old.

Raymond Barre . . . Prime Minister under Giscard, longtime professor of economics . . . also a member of the Union for French Democracy . . . refuses to serve while Mitterrand remains in office, argues cohabitation will weaken French political institutions . . . most pragmatic approach to economy, emphasizes budget balancing . . . most popular of three top leaders, clearly eyeing presidential bid . . . in the meantime content to stay in National Assembly and wield strong influence on economic policy . . . 61 years old.

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The Socialists' Economic Record

The French economy today is doing better than at any time since the Socialists took office in 1981. However, the government has been getting little credit in the polls, possibly because of its fumbling initial attempt at economic management. Soon after their election, Mitterrand and then Prime Minister Mauroy launched an ambitious and costly nationalization program and inaugurated a policy of domestic economic expansion. The latter, especially, aggravated inflation and led to a burgeoning trade deficit, worsening a decidedly mixed economic picture. Beginning in mid-1982, in the face of serious economic decline, the Socialists gradually abandoned their expansionist policies and turned to conventional austerity more characteristic of conservative policymakers. The Socialists also turned increasingly to market-oriented measures aimed at encouraging flexibility and competition in the highly regulated French economy. In a recent press interview, Finance Minister Beregovoy pointed out that 85 to 90 percent of French industrial prices are now decontrolled, roughly double the proportion a year ago. Another of Beregovoy's legacies is the series of measures adopted mainly in 1985 to liberalize French capital markets. The Socialist government has eased foreign exchange controls, and Paris has given the green light for new financial instruments—such as commercial paper and negotiable certificates of deposit—heretofore banned in France.

These policies, often described by US diplomats as "slow growth, no accidents," have borne fruit:

- Most important, inflation has slowed considerably—last year it fell to 5.8 percent on an annual basis, down from 13.3 percent in 1981. Even more dramatic, the December-to-December increase was only 4.7 percent last year. This is a singular achievement for France, where inflation has been above 5 percent since the early 1970s.

- French economic growth, while still unimpressive by OECD standards, has improved since the Socialists' 1982 policy reversal. The situation now is perhaps best characterized as sluggish growth with prospects for improvement. French GDP, which grew last year by 1.3 percent, should move ahead at an annual rate of over 2 percent this year due largely to declining oil prices and a recent pickup in domestic demand.

- France's external position should continue to improve, again largely because of falling oil prices. The current account was nearly in balance in 1984 and preliminary figures show a small surplus last year. Projections by the French statistical institute, based in part on an oil price of $22 a barrel and an exchange rate of 7.5 francs to the dollar, indicate a savings of $5.4-8.1 billion on the trade account, heightening the prospects for a trade surplus in 1986—the first since 1978.

Nonetheless, the Socialist economic record has blemishes. Most embarrassing—especially for a party championing working-class interests—is unemployment. The French unemployment rate stood at 10.2 percent last year, up from 6.3 percent in 1980. Even here, however, the Socialists argue that the picture is brightening; until January the unemployment rate had edged downward for four consecutive months, leading Socialist politicians to proclaim that sustained low inflation and good growth prospects are paying off in job creation.

France: Economic Indicators, 1980-85

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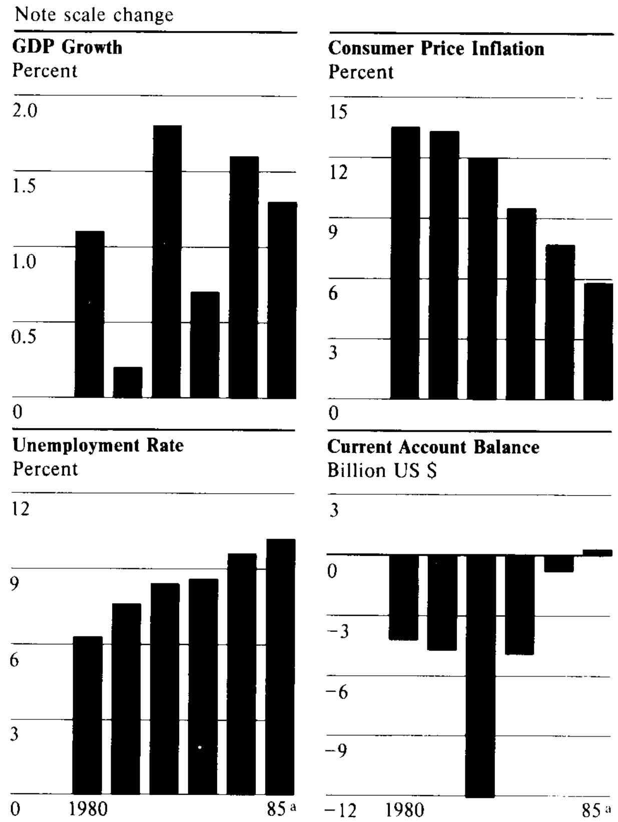

a Preliminary data.

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Another politically sensitive area is public debt, which—while still low by European standards—has risen sharply under the Socialists. According to OECD statistics, total public debt as a percentage of GDP jumped from 25.9 percent in 1981 to 34.6 percent last year.

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The Right's Economic Platform

The main provisions of the right's program include:

- *Denationalization.* Among the early candidates are the Paribas and Indosuez financial groups, the bank Societe Generale, glass maker Saint Gobain, aluminum manufacturer Pechiney, and chemicals giant Rhone Poulenc. Conservatives say that, once state-owned companies in competitive sectors become attractive to investors, they will be denationalized through direct sales, capital increases to spread ownership, and conversion of debt to equity. The government probably will limit foreign investment to 20 to 25 percent of total ownership to blunt Socialist charges of relinquishing control of the French economy to foreigners.

- *Tax cuts.* The conservatives want to abolish the wealth tax imposed in 1981 by the Socialists, cut income tax brackets (lowering the highest bracket to 50 percent), give more tax incentives to savings and investment, and reduce corporate taxes and mandatory corporate social security contributions. As a gesture to the more moderate members of the coalition who favor a cautious policy, many of these reforms would be delayed until 1987.

- *Deregulation.* The conservatives intend to liberalize the economy by eliminating controls on foreign exchange, prices, interest rates, and oil pricing and refining. In addition, the right hopes to abolish the requirement that firms get permission from the government before making layoffs, abrogate laws mandating worker representation on the boards of state-owned companies, lower employer contributions to mandatory fringe benefit packages, and adjust the minimum wage more cautiously.

- *Public spending.* Although the platform does not specify spending cuts, the conservatives have promised to seek greater productivity and profitability in state-owned operations. The right complains bitterly that public debt is the Socialists' most malignant legacy, with former Prime Minister Barre claiming it will take five years to reassert control over public spending. The conservatives also argue that the Socialists' 1986 budget is a sham, fraught with "timebombs" designed to embarrass the new government. They contend that some large expenditures, such as shipbuilding subsidies, are not funded through the year, and that a $140 million social security payment has been postponed from December 1986 to January 1987 to shift it to next year's budget. [redacted] 25X1

Prospects for the Right's Program

Whatever the conservatives' intentions, they will have to work with the political realities of power-sharing—Mitterrand will enjoy a powerful pulpit for the next two years, and he will retain some powers he can wield to help frustrate conservative programs. Most notably, he is empowered to dissolve the National Assembly once a year, thus forcing new elections. He can hold this sword over the right's head if conservative policies on bread-and-butter issues alienate French voters. In addition, denationalization will require enabling legislation and during the debate Mitterrand may try to play factions off against one another. He may also try to have parts of this legislation declared unconstitutional. Mitterrand must use obstructionist tactics warily, however, and will try to avoid creating a political uproar that could damage the Socialists' chances in 1988. [redacted] 25X1

In order to dramatize its program—and capitalize on the political momentum it will probably enjoy after the election—the new government's first order of business is likely to be denationalization. [redacted] 25X1 25X1 senior conservative officials believe that the government must move decisively on denationalization to maintain its credibility. [redacted] 25X1 the "window of opportunity" 25X1 will not exceed six months. In our view, there are several obstacles to quick, wholesale denationalization. Above all, the right must ensure that any sell-off does not swamp the narrow French financial markets. The financial press has reported market jitteriness over denationalization, including concerns of company managers that denationalization will complicate their attempts to raise fresh capital.

One of the biggest risks is that the strategy of cutting taxes and reducing government spending simultaneously may take time to work its desired results, causing painful economic adjustments in the interim. The right is already divided on how quickly to move on fiscal reform, with moderates arguing that tax cuts and rapid price decontrol will rekindle inflation, and that immediate exchange decontrol will lead to capital flight. In addition, the Socialists' austerity program has already pinched France, and the right may find that further spending cuts are politically costly. Finally, given France's strong latent import demand, a surge in growth is likely to cause a deterioration in the trade balance, which could put pressure on the franc within the European Monetary System.

Implications for the United States

Perhaps the most troublesome issue the United States will face with the new government is agricultural trade policy. Although there is broad consensus on trade policy between the two parties, the opposition depends more heavily on the farm vote than the Socialists. As a result, the right has called for measures to shore up farmers' incomes, including a strengthening of EC agricultural export subsidies. Late last year, Chirac bluntly told US diplomats that he was opposed to a new trade round until the United States and the EC work out a modus vivendi on agriculture. Chirac fears that without such a prior arrangement, the EC—and France in particular—will find itself isolated on agriculture, a situation that would be intolerable.

The new government is likely to leave most other aspects of French international economic policy largely unchanged. The right will doubtless continue to push for holding talks on international monetary reform in conjunction with the new trade round. French policy favoring the use of mixed credits will probably also remain the same, although Paris may eventually reexamine their use in light of budgetary cutbacks.

International Financial Situation: The Plight of the Commodity Exporters 25X1

Recent attention has focused on Mexico and the Cartagena Group, but we are concerned that debtors outside Latin America also may follow Mexico in seeking major debt concessions or in unilaterally reducing their debt service payments. Many of these countries are just as hard pressed as Mexico by the effect of declining export prices and economically and politically onerous debt service burdens. 25X1

The attention given the slide in oil prices has overshadowed even greater declines in the prices of other primary commodities:

- The price of tin has fallen by some 40 percent since late 1984, with nearly all of the decline coming with the collapse of the tin market late last year.
- Zinc, lead, and phosphate prices have declined between 13 and 27 percent over the last year.
- Important LDC agricultural exports also have suffered, with rice prices off some 8 percent in the last year, palm oil prices down 42 percent, and coconut oil prices nearly 60 percent below year-end 1984 levels.

Indeed, of 22 key LDC commodity exports, only five have not experienced falling prices over the past year. 25X1

Key LDC Commodity Exports: Price Changes *Percent*

	Since December 1984	Since 1980
Coconut oil	−59	−49
Palm oil	−42	−41
Tin	−40	−58
Hides	−36	102
Oil	−29	−35
Zinc	−27	−18
Phosphates	−23	28
Peanut oil	−22	−17
Lead	−14	−60
Cotton	−14	−36
Silver	−11	−72
Corn	−11	−22
Soybeans	−11	−26
Beef	−9	−11
Rice	−8	−54
Wheat	−3	−17
Lumber	−2	−4
Rubber	1	−43
Cocoa	1	−15
Copper	1	−36
Sugar	15	−86
Coffee	32	20

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Collectively, these price trends have severely damaged the export performance and prospects of many debtors. While lower oil prices will benefit oil importers, the declines in prices of their export products have, in many cases, outweighed this gain. In Africa, the impact of lower oil prices on the economic and political situation in Nigeria is well known, but other debtor countries are also being hurt. Egypt has been hit not only by falling oil prices, but also by lower prices for cotton, second only to oil as an Egyptian export. Morocco also is experiencing falling export earnings largely because of the drop in the price of phosphate, which accounts for one-fourth of its exports. 25X1

The picture is similar in Asia. Malaysia is being heavily buffeted by falling palm oil prices and the fallout from the collapse of the tin market. In

Selected Debtors: Debt Servicing Capabilities

	Change in Merchandise Exports for 1985 [a] (*percent*)	Primary Commodities as Share of Merchandise Exports (*percent*)		Ratio of Reserves to Imports [d] (*months*)	Interest Payments As Share of Exports of Goods and Services, 1985 (*percent*)	Change in Merchandise Imports 1981-85 (*percent*)
		Oil [b]	Nonoil [c]			
Argentina	1	4	76	1	63	−55
Brazil	−5	7	45	10	38	−23
Chile	0	NEGL	65	4	39	−55
Colombia	15	NEGL	66	6	35	−27
Egypt	3	76	16	2	23	25
Indonesia	−9	77	17	4	14	−20
Ivory Coast	10	4	93	1	14	−42
Jamaica	−20	1	49	1	29	−20
Malaysia	−5	27	42	4	15	12
Mexico	−12	70	9	3	46	−67
Morocco	−10	2	59	NEGL	26	−15
Nigeria	3	96	3	1	12	−50
Pakistan	−7	1	18	1	18	7
Peru	−3	21	69	8	20	−46
Philippines	−15	3	48	2	49	−35
Thailand	−5	NEGL	59	3	26	−1
Venezuela	−11	86	6	17	22	−46
Zaire	−9	20	55	2	16	17

[a] Value in US dollars, based on exports to OECD.
[b] Fuels.
[c] Foodstuffs and raw materials.
[d] Total reserves minus gold.

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addition to receiving lower prices for its exports, Kuala Lumpur may have to agree to provide funds to pay the International Tin Council's debts in order to restore confidence in the tin market and prevent further price declines. After oil, Indonesia's leading exports are rubber and lumber; in the last year, the prices of these commodities have not changed, but stand 43 and 4 percent, respectively, below 1980 levels.

If Mexico obtains special treatment, either through negotiations or unilaterally, these major commodity exporters may try to make the same case—that they are beset by world market forces and have no prospect for an upturn in their export situations, and cannot for domestic political reasons absorb the drops in export earnings through further cuts in imports. Such an outcome would place considerably greater strains on the international financial system.

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World Grain Market: Continued Glut

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Expanded acreage and high yields—especially in coarse grains—probably will boost global grain production to a record 1.35 million metric tons in market year 1986 (July 1985–June 1986). Final tallies of the size of the global surplus await only the results of the Southern Hemisphere harvest now under way. While Brazil and Argentina have suffered significant crop losses as a result of poor weather, South Africa and Australia will have near-record production. At the same time, slow world economic growth, worsening LDC debt problems, and increased self-sufficiency have led to greatly reduced import demand. As a result, grain prices generally are expected to continue their downward trend and, with record stocks accumulating, competition for grain sales will intensify, benefiting LDC importers. For key Latin exporters—Brazil and Argentina—lower prices and export volumes will cut sharply into export earnings. For the United States, provisions of the new US Farm Bill will boost US competitiveness but put more pressure on world grain prices, although the major impact is not likely to be felt until the next crop year.

Market Impacts

Despite weather problems in the Southern Hemisphere, expanded acreage and high yields—especially in coarse grains—will boost global production to record levels in market year 1986, according to USDA estimates. World coarse grain production in 1985/86 is estimated at a record 840 million tons—up 4 percent from last year. While 1985/86 wheat production has slipped 2 percent from last year, production will still top 500 million tons.

Meanwhile, the slowdown in world economic growth and worsening debt problems have led to reduced demand, rising stock accumulation, and downward pressure on prices. For example, while world production has increased 14 percent since 1980, consumption has risen only 8 percent. As a result, USDA reports world wheat and coarse grain stocks now top 280 million tons—nearly two-thirds of annual trade in grains. Declining demand is particularly apparent for wheat this year. According to USDA, world wheat imports are expected to drop 17 percent to 90 million tons—the lowest level in five years. An expected 11-million-ton drop in Soviet wheat imports will account for much of the decline, with other importers such as Brazil and China also cutting back. Reduced production among other major importers—the EC, Mexico, and Japan—will be more than offset by large stocks in these countries. 25X1

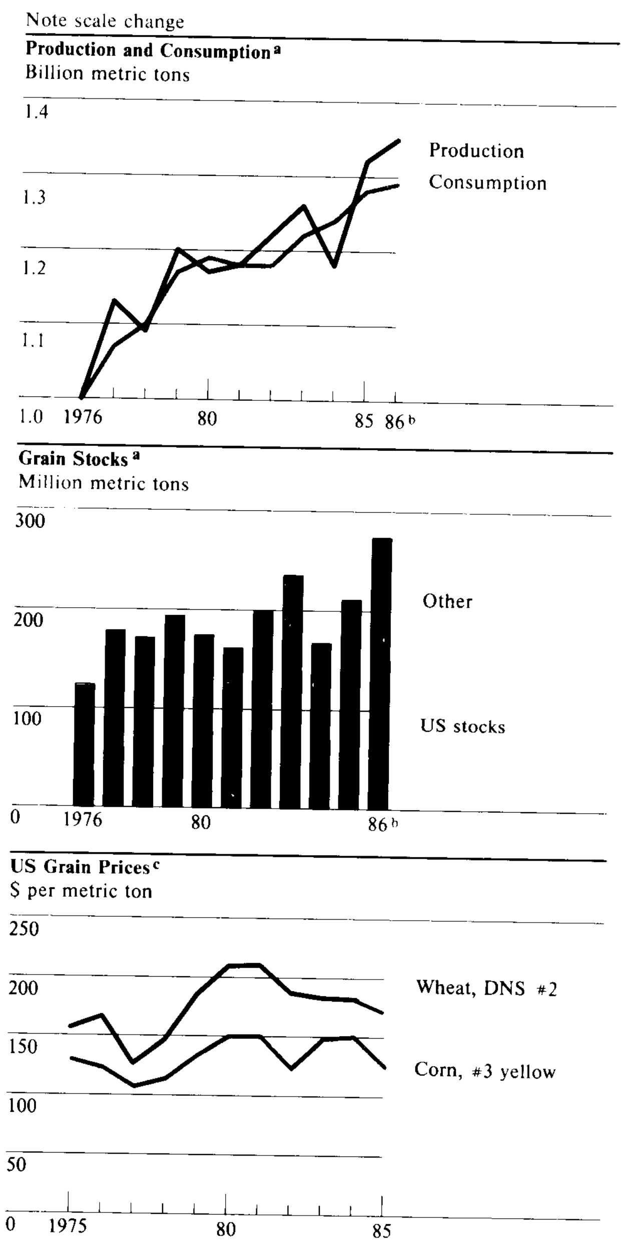
The lone exception to the continuation of a buyer's market is likely to be high-quality wheat. The quality of the Australian crop is down, and significant downgrading of Northern Hemisphere crops has occurred because of too much moisture:

- In Canada, prolonged wet conditions caused harvest delays and reduced wheat quality—a maximum of only 20 percent of the 24-million-ton wheat crop is expected to be graded #1 this year, compared to 67 percent in 1984/85. 25X1

- In the EC, supplies of bread-quality wheat have been lowered by the effect of poor weather in the 1985/86 crop—especially in the United Kingdom—and heavy sales from stocks. 25X1

As a result of these trends, the price outlook for grains is mixed. Prices of high-quality wheat, for example, have rallied by almost 30 percent in recent months. Supplies of high-protein wheat will be especially tight, and prices for higher grades will remain strong until Northern Hemisphere new crop wheat is available in July. Other grain prices, 25X1

World Grain Trends



[a] Data for marketing year ending 30 June of the stated year.
[b] USDA projections.
[c] C.i.f. Rotterdam.

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however, will continue their downward trend. According to market analysts, grain prices in 1985/86 will average 4 percent lower. The impact of the new US farm bill will not be felt until the next marketing year, making US grain exports more competitive and pushing competitor prices downward. 25X1

In the interim, grain importers will continue to benefit as exporters scramble to make sales. We anticipate that competitors of the United States will attempt to line up sales—perhaps offering discounts—before the full impact of lower US prices is felt. Buyers for their part can be expected to delay major purchases until US prices come down. This will be especially true for the USSR—whom we expect to purchase little US wheat until new crop supplies become available in July. 25X1

Key Country Impacts

For ***Brazil,*** this year's poor grain crops will squeeze government coffers. Soybean earnings are expected to decline by $1-1.5 billion, and 25X1 the food import bill for corn and rice will rise by $1.2 billion. According to the Ministry of Finance, Brazil will require imports of 3.5 million tons of corn and nearly 2 million tons of rice by February 1987. Brasilia is counting on record-high coffee prices and the drop in oil prices to partially offset the cost of food imports. 25X1

Argentine flood damage could result in up to $500 million in lost wheat export earnings. This will complicate Argentina's efforts to pay interest on its $50 billion foreign debt and will force further cuts in the 1986 budget. Prospects for Argentina's other farm exports—meat, sugar, and cocoa—are not any brighter. 25X1

South Africa's economy will be helped by a resumption of corn exports. The net earnings increase over last year is expected to approach $300 million,

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World Wheat and Coarse Grain Production, 1981-86 [a]

Million Metric Tons

	1981	1982	1983	1984	1985	1986 [b]
World	**1,175.8**	**1,218.3**	**1,258.3**	**1,176.3**	**1,322.7**	**1,345.7**
Wheat	**442.9**	**448.4**	**479.1**	**490.9**	**513.8**	**504.3**
Coarse grain [c]	**732.9**	**769.9**	**779.2**	**685.4**	**808.9**	**841.4**
United States						
Wheat	64.8	75.8	75.3	65.9	70.6	66.0
Coarse grain	198.3	246.6	250.7	137.1	237.2	274.3
Argentina						
Wheat	7.8	8.3	15.0	12.8	13.2	8.5
Coarse grain	21.0	18.4	17.8	17.4	18.6	18.0
Australia						
Wheat	10.9	16.4	8.9	22.0	18.3	16.5
Coarse grain	5.2	6.7	3.9	9.4	8.5	8.7
Brazil						
Wheat	2.7	2.2	1.8	2.1	1.9	4.1
Coarse grain	22.9	23.4	19.9	21.5	21.0	19.6
Canada						
Wheat	19.2	24.8	26.7	26.5	21.2	23.9
Coarse grain	22.1	26.0	26.5	20.9	22.0	24.5
EC						
Wheat	55.1	54.4	59.8	59.2	76.6	66.1
Coarse grain	69.7	67.8	71.6	64.1	74.8	72.6
South Africa						
Wheat	1.5	2.3	2.4	1.8	2.2	2.0
Coarse grain	15.3	8.8	4.5	5.1	8.5	9.9
Other						
Wheat	280.9	264.2	289.2	300.6	309.8	317.2
Coarse grain	378.4	372.2	384.3	409.9	418.3	413.8

[a] Data are for marketing years ending 30 June of the stated year.
[b] USDA projections.
[c] Coarse grains include corn, barley, rye, sorghum, and oats.

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Southern Hemisphere Crops: Droughts and Floods

This year's Argentine wheat crop has been hard hit by flooding. According to trade reports, damage has been severe in the provinces of Buenos Aires, Cordoba, and Santa Fe. Most experts predict a production drop of about 4 million tons—a 40-percent decline from the previous marketing year's level. As a result, according to USDA officials, exports could fall to 4.5 million tons from 8 million tons last year. Increases in Argentine corn and soybean exports will offset some of the decline in earnings. A bumper corn harvest of over 13.5 million tons will permit exports of 8 million tons—a 13-percent jump from last year. [redacted]

In Brazil, the worst drought in over a century will mean sharply lower corn and soybean[a] *crops—resulting in the need for sizable corn imports and the elimination of most soybean exports this year. Brazilian soybean crop estimates range as low as 12 million tons—a 30-percent decline from last year's record levels. States most seriously affected include the main producing regions of Rio Grande do Sul, Santa Catarina, and Parana in the south. Even with late soy planting to replace drought-stricken crops, yields will be reduced in a shortened growing season. Similarly, Brazilian corn production is expected to decline by nearly 3 million tons from 1984/85 levels, according to Embassy and press reports.* [redacted] 25X1

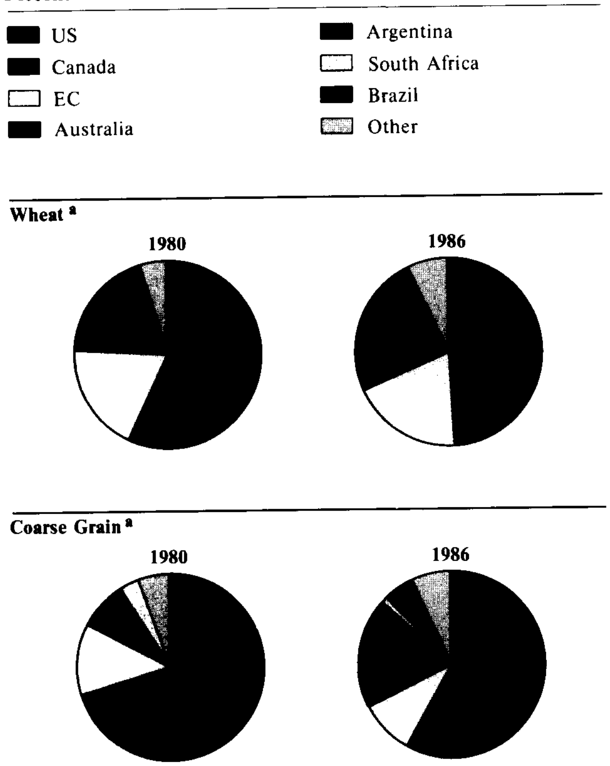
[a] *Although not included in grain statistics, soybeans are a major component of Brazilian agricultural exports.* [redacted] 25X1

In Australia, persistent rains in Victoria and New South Wales have seriously damaged wheat quality, despite a bumper crop of 16.5 million tons. As a result, some 10 percent of the harvest will be downgraded to feedwheat and sold at a sharp discount to already low prices. On the positive side, Canberra has lined up large sales this year to the USSR, Egypt, and China, and is forecast to have its second straight year of record exports. In response to the wheat shortage in Argentina, the Soviets recently discontinued talks on further wheat purchases from Buenos Aires and instead purchased 2.5 million tons of Australian wheat, the largest Soviet purchase ever 25X1
from Australia. [redacted] 25X1

In South Africa, improved weather has resulted in much better yields, boosting 1985/86 corn production and export prospects sharply above those of recent drought-reduced years. [redacted] 25X1
[redacted] *South Africa has planted a near-record corn area for 1985/86. On the basis of on-site inspections and South African Maize Board estimates, total corn planting is estimated at over 4 million hectares—an 8-percent increase over last year. High yields will reportedly provide 3 million tons for export.* [redacted] 25X1

World Grain Exports: Shrinking US Shares

Percent



[a] Data for marketing year ending 30 June of the stated year.

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according to press reports. Corn is typically Pretoria's second leading export item—with annual exports contributing up to one-half of raw agricultural export earnings in nondrought years. In addition to cash and credit sales, Pretoria plans to promote barter deals using corn in exchange for other basic commodities such as rice and coffee. 25X1

Implications for US Sales

As competition tightens, the United States will find both opportunities for and obstacles to increased grain sales. Large global availability of feedwheat—especially in the EC, Australia, and Canada—will provide increased competition for US exports of coarse grains. On the other hand, weather-induced shortages of high-quality wheat will provide the United States opportunities for increased sales. Because of weather-damaged wheat supplies, for example, Canada could lose up to 5 million tons of prime wheat sales to the United States. Overall, however, US wheat and coarse grain exports in 1985/86 are expected to fall by 20 percent from last year's level, according to current USDA forecasts. While US sales have been falling at a faster rate than global sales in recent years, the decline could slow dramatically in 1986/87 as US prices become more competitive. 25X1

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Chinese Agricultural Reform: Consolidating Gains [1] [redacted]

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Agricultural reform in China has brought sharp increases in rural output and consumption over the past eight years. By introducing incentives for increased productivity, reforms have also freed up tremendous surplus labor to develop the country's rural industries. But, while agricultural leaders have strongly praised the performance of the rural sector, they note that there are many problems associated with reform that need to be addressed. Beijing's reformers are particularly concerned about declining grain output, rapid food-price inflation, and the corruption that has accompanied the drive to increase profits. In 1986 they will attempt to solve these problems and bring a greater degree of stability to China's countryside. Nonetheless, US farmers will be hurt by declining Chinese agricultural imports in 1986, and by expanding Chinese exports, which increasingly compete with US farm goods on the international market. [redacted]

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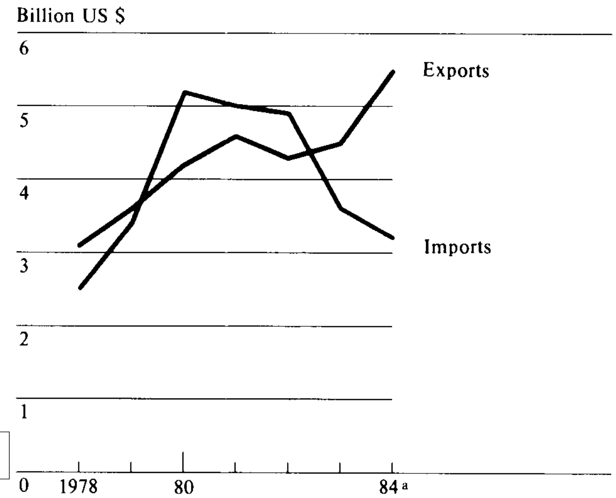
China's Farm Trade, 1978-84



a USDA estimates.

[redacted]

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308338 2-86

Agricultural Reform Brings New Problems

China's leaders have been using agriculture as a testing ground for a series of decentralized economic policies. The experiment began in 1978 with the implementation of the "peasant responsibility system," a program designed to shift more of the production decisionmaking to the farmer. The six consecutive years of bumper harvests that followed brought both progress and problems for the Chinese rural economy. Rural output increased by 50 percent between 1978 and 1984 and peasant consumption increased by over 40 percent. But the burden of higher government prices drained the state budget, and the large volume of output tied up state-controlled transportation lines. Moreover, state procurement policies that failed to adequately reward product quality resulted in large stockpiles of low-quality goods. In reaction, the Chinese last year attempted to integrate the peasant responsibility system with a streamlined bureaucracy and a modified agricultural control structure. [redacted]

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These "second-stage" reforms, however, have brought new problems. The inflation that followed the deregulation of food prices has been more serious than Beijing anticipated, with one-year price jumps of 30 to 70 percent in some cities. Government attempts to fight food price inflation have not worked well. State-controlled markets, which sell merchandise at below-market prices, have had trouble fending off middlemen who buy goods from these stores and resell them at higher

[redacted]

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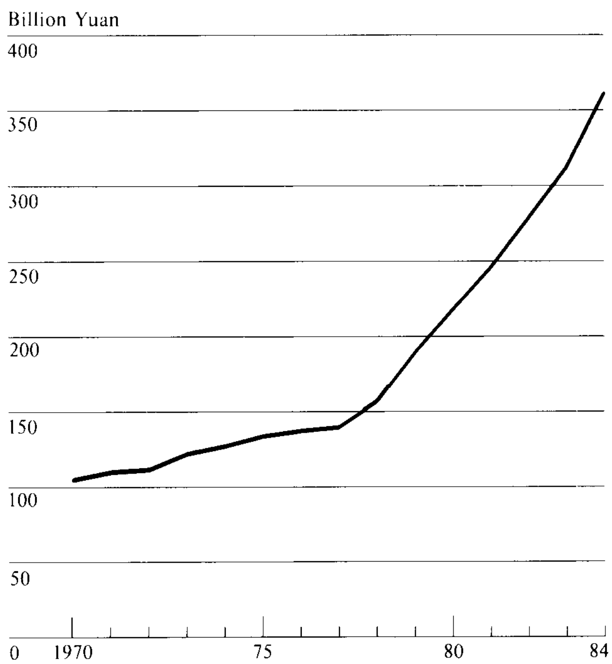
China: Gross Value of Agricultural Output, 1970-84



[redacted]

308339 2-86

An Overview of Chinese Rural Reform

The peasant responsibility system, which increased incentives by linking income to decisionmaking responsibility and production, was adopted in December 1978 during the party's Third Plenary session of the 11th Central Committee, but was not fully implemented until 1980. Under this system communes were dismantled and individuals and families were allowed to rent farmland for 15-year periods and to make their own production decisions. Moreover, procurement prices were increased, giving farmers more incentive to raise production. [redacted] 25X1

The second stage of reforms, implemented in 1985, eliminates the state monopoly purchase of agricultural goods and encourages peasants to sell more on the open market. The reforms:

- *Permit peasants to sign contracts to sell part of their grain, cotton, and oilseed harvests to state commercial departments at negotiated prices.*
- *Require noncontract grain, cotton, and oilseed production to be sold on the open market.*
- *Eliminate state purchases of nonstaple products such as vegetables, fruit, and meat.*
- *Promote rural industrial development.* [redacted] 25X1

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prices on the open market. Government attempts to use wage subsidies to soften the effects of rapid price rises have only been partially effective because of the unequal distribution of these subsidies in many major cities. [redacted]

One of the most significant results of reforms has been the shift away from traditional grain production to cash and industrial crops such as oilseeds and cotton. The State Statistical Bureau estimated that crop areas planted to grain in 1985 declined by 4.6 percent. Moreover, because of the lower profit margins for grain, peasants skimped on inputs such as fertilizer and labor for these crops. These factors, combined with poor weather in the Northeast, probably resulted in a 7- to 8-percent drop in 1985 grain output. [redacted]

Production of nongrain crops, on the other hand, continues to increase. China expects 1985 oilseed output will be up by more than 30 percent, and preliminary reports estimate red meat output to be up by 7 percent. Egg production jumped 23 percent and milk production gained nearly 10 percent. 25X1
[redacted] 25X1

The more efficient and profit-conscious agricultural economy has freed up large amounts of surplus labor for other types of work. This movement has also been helped by government-sponsored programs to develop rural industries. By mid-1985, according to Chinese press reports, 60 million peasants had left farming to set up restaurants, service shops, repair businesses, and transport

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firms. Recent US Embassy reports indicate that the rate of growth of rural industry during 1985 increased by nearly 50 percent over 1984.

Local Officials Remain a Problem

A major setback to reform in 1985 was the demonstrated inability of many local officials to fill their new role. While their actual degree of authority and responsibility increased with reform, many rural leaders saw their prestige and power slip as the peasantry looked to rural entrepreneurs as the new prototype of success.

Press reports indicate that, while most rural officials openly support the new policies, there are questions about how responsibly they implement reforms. To push their own programs, such as road and building construction, some local cadre have illegally docked funds from procurement checks, and increased taxes and tolls to pay for these programs. Other rural leaders, resentful of those who made money from private activities, set up bureaucratic roadblocks to business entry or taxed away the profits of successful businessmen. Press reports state that some corrupt cadre used public funds to pad their own bank accounts or to build themselves new homes.

Rural Policy Outlook for 1986

While some senior party leaders oppose the "second-stage" reforms, policymakers in Beijing insist that they will push forward in 1986. We do not, however, foresee major changes in Chinese agricultural policies such as those that took place last year. Rather, we anticipate that Beijing will merely fine-tune the present program. We expect policymakers to try to slow rural industrial growth by controlling official and private forms of rural credit. After a substantial decline in grain output last year, we expect higher grain prices and state directives to stimulate an increase in 1986 grain production. In 1986, we believe Beijing will be able to maintain overall economic control and still offer the incentives peasants need to attain the goal of 6-percent annual growth in agricultural output as set forth in the new Seventh Five-Year Plan.

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Implications for the United States

The agricultural reform program will be doubly damaging to US farmers as Chinese agricultural imports decrease and as expanding Chinese exports increasingly compete with US agricultural goods in the world market. National and provincial agricultural leaders are pushing the export of Chinese farm products, and foreign sales of Chinese corn, soybeans, cotton, and other agricultural commodities have increased as a result. The drop in Chinese agricultural imports will continue this year even though a weather-induced decline in Chinese soybean production has forced the Chinese to increase purchases of foreign soybeans. China will be looking to the United States and other Western countries for breeding stock, hybrid seeds, and other agricultural technology, but, for the time being, the years when major Chinese purchases of agricultural commodities made the United States one of China's top trading partners appear to be over.

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Sub-Saharan Africa: IMF Funding Declines [redacted]

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A surge in repayments more than offset new IMF lending to Sub-Saharan countries last year, resulting in a sharp decline in net drawings of IMF funds, despite Fund efforts to respond to the region's economic problems. Repayments on the heavy IMF lending of the early 1980s are growing; at the same time, various economic and domestic political factors have limited new IMF loan arrangements by African states. The reduced flow of IMF funds to Africa has come when both foreign donor countries and African states are calling for increased assistance to promote economic growth in the region. The UN General Assembly's Special Session on Africa in May will provide African nations with a major opportunity to engage the West in an international dialogue on African economic problems. [redacted]

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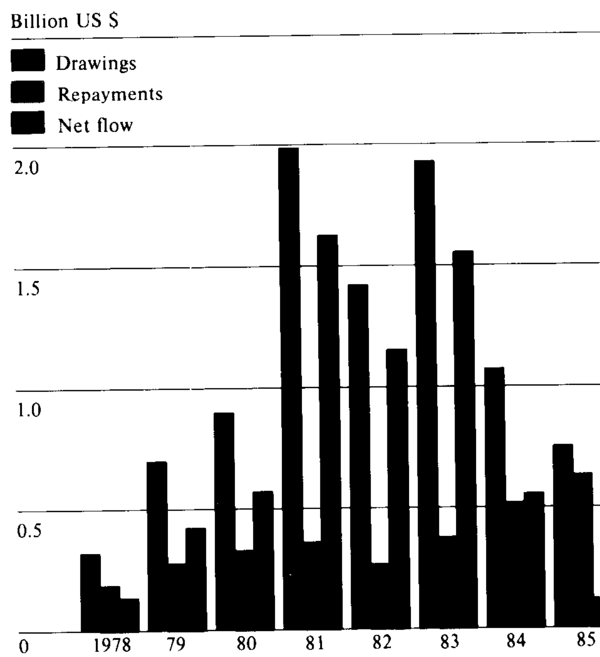
Sub-Saharan Africa: Financial Flow From the IMF, 1978-85[a]



[a] Excludes South Africa.

[redacted] 25X1

308349 2-86

Drawings Down, Repayments Up

Sub-Saharan Africa's net drawings of IMF funds were $118 million last year, compared with $554 million in 1984 and a record $1.6 billion in 1981, according to IMF data. The decline reflects both a fall in gross drawings to $751 million, the lowest since 1979, and a rise in repayments to $633 million. Lending would have been larger had Nigeria concluded a $2.5 billion arrangement with the IMF. Some countries also became ineligible for IMF funding because of payment arrears to the Fund. The upsurge in repayments has been the result of heavy IMF lending to Africa in the early 1980s with the onset of a major economic crisis aggravated by drought. [redacted]

We believe the decline in IMF lending to Africa has been offset, although barely, by financial flows from other multilateral institutions and bilateral sources. According to IMF data, the region's combined international reserves of $4.4 billion in November 1985 were at the same level as at yearend 1984. Because we expect a slightly improved combined current account position with the ending of drought in most of Sub-Saharan Africa last year, the unchanged reserve position suggests that net financial flows to the region in 1985 did not register a major increase. [redacted] 25X1 25X1

More Net Payers Than Net Recipients

Sixteen African countries were net payers to the IMF last year, led by Uganda, Ivory Coast, and

Sub-Saharan Africa: Net Financial Flows From the IMF [a]

Million US $

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Total [b]	**133.2**	**422.4**	**570.2**	**1,625.1**	**1,153.4**	**1,553.0**	**554.2**	**118.2**	**6,129.7**
Benin			2.5			1.9			4.4
Burundi	−4.1	12.3				−5.1	−4.9		−1.8
Cameroon	−5.8	−14.7	−16.7	−10.0	−3.3	13.4	7.2		−29.9
Central African Republic	−1.4	−3.1	1.9	16.4	2.0	5.8	0.2	1.6	23.4
Chad	−3.3	−1.5	−2.9	2.0		3.5	0.5	3.4	1.7
Comoros				0.4			0.3		0.7
Congo	4.1	1.2	−6.9	−7.9		3.5	2.6		−3.4
Djibouti							0.6		0.6
Equatorial Guinea		−0.3	12.4	7.4		1.5	−6.2	−1.5	13.3
Ethiopia	9.1	46.5		77.9	23.4	−19.2	−21.5	−31.5	84.7
Gabon	12.5	9.7			−2.2	−8.0	5.3		17.3
Gambia, The	6.5	−4.5	2.1	10.6	16.2	−1.8	0.7	−2.8	27.0
Ghana	−6.0	28.8	−12.6	−11.4	4.1	277.5	214.8	121.8	617.0
Guinea	−7.3	−1.8	−1.4	−5.2	12.5	5.0			1.8
Guinea-Bissau	1.0	1.4		2.8	−0.3		1.5	−0.9	5.5
Ivory Coast	−30.2		15.9	387.6	127.4	179.4	14.0	−37.8	656.3
Kenya	5.4	72.0	69.0	26.9	147.4	95.8	−12.1	54.2	458.6
Lesotho					2.2				2.2
Liberia		38.5	20.8	53.4	71.1	55.3	16.3	−7.0	248.4
Madagascar	−3.3	−4.8	49.1	37.3	57.7	12.3	18.4	−4.1	162.6

Ethiopia. Both Uganda and Ethiopia were without standby or extended arrangements with the IMF that would have led to new loans. Uganda was stymied by uncertain political conditions, insurgency, and economic chaos. Ethiopia has avoided an IMF arrangement since 1982. The Ivory Coast's net payment reflects repayments for substantial IMF assistance received each year since 1979.

Ghana, Zaire, and Kenya led the 12 African countries that were net recipients of IMF funds. These three countries are actively implementing major economic adjustment programs under IMF auspices. Ghana's agreement with the Fund expired at yearend and a new agreement is expected soon; Zaire's current agreement runs for one year from April 1985; and Kenya's expires this month.

Some Potential Borrowers Reluctant

Only 17 of 44 African member countries drew on the Fund last year. Some countries chose not to use the IMF; others were prevented from doing so because of failure to make payments due to the Fund or to meet economic performance criteria under standby arrangements.

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Economic Reasons. Some African IMF members, in our judgment, believe their economic problems are not serious enough to warrant the constraints of an IMF-supported program:

- ***Botswana*** has never drawn IMF funds, despite being hit by drought the past three years. Surging

25X1

(continued)

Million US $

	1978	1979	1980	1981	1982	1983	1984	1985	Total
Malawi	−4.8	27.5	30.6	27.8	2.3	25.5	17.8	7.2	133.9
Mali	−1.5	−2.3	3.8	−2.7	26.8	17.0	21.3	8.6	71.0
Mauritania		−1.2	16.5	4.0	16.7	−2.5	−9.2	−2.8	21.5
Mauritius		36.2	45.5	67.2	24.8	18.3	−6.9	−12.5	172.6
Mozambique								13.4	13.4
Niger						32.9	14.8	15.7	63.4
Nigeria					340.8	82.7			423.5
Sao Tome and Principe							0.9		0.9
Senegal	18.9	7.9	48.0	60.5	44.0	28.3	17.4	15.0	240.0
Seychelles						0.7			0.7
Sierra Leone	−5.3	0.3	0.4	28.9	−0.2	23.1	11.0	−4.5	53.7
Somalia			7.8	30.5	35.5	50.7	−3.0	26.2	147.7
Sudan	24.7	63.9	140.7	172.9	45.9	161.8	14.2	−5.0	619.1
Swaziland	0.2				4.7	10.7		−1.0	14.6
Tanzania	−28.8	27.1	19.5	−12.3	−10.4	−20.3	−25.0	−4.4	−54.6
Togo	−9.4		21.6	8.6		23.4	13.1	6.6	63.9
Uganda	−12.5	3.4	35.8	132.3	92.2	107.8	−17.1	−65.2	276.7
Zaire	−12.1	−14.9	16.8	107.1	120.9	128.2	106.6	66.2	518.8
Zambia	186.3	95.2	7.8	367.9	−49.3	80.0	78.1	−19.0	747.0
Zimbabwe			42.3	44.2		164.2	82.5	−21.2	312.0

[a] Gross purchases minus repurchases (excludes transactions with the IMF-administered Trust Fund). SDR values converted to US dollars at period average SDR/$ exchange rates. Excludes South Africa.
[b] Regional IMF totals adjusted for countries covered in this paper. Country data may not add to totals shown because of rounding.

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diamond exports in 1983 and 1984 contributed to current account surpluses and helped cushion the impact of drought on the country's important cattle industry.

- The tiny ***Cape Verde*** islands have been mainly supported by remittances from Cape Verdeans abroad and bilateral economic aid from OECD countries. These combined resources have apparently enabled the economy to limp along without IMF support.

Ideological Objections. In our view, some African countries, such as Ethiopia, have avoided the IMF on ideological grounds:

- Marxist ***Angola,*** with its heavy economic dependence on the Soviet Union, remains a nonmember.

- ***Burkina,*** another leftist state, perennially buffeted by drought, has not sought IMF assistance.

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Head of government Sankara consistently engages in anti-IMF rhetoric while receiving substantial bilateral economic aid from France and West Germany. [redacted]

In contrast to these hardliners, at least two leftist governments have shown signs of accommodation with the IMF. Despite its close relationship with the Soviet Union, ***Mozambique*** pragmatically chose to join the IMF in 1984, probably to pave the way for increased economic aid from the West. ***Guinea,*** which is hard pressed economically, has imposed economic austerity measures that could be the groundwork for an IMF-supported economic adjustment program in the near future. [redacted]

Domestic Political Restraints. Some IMF members wished to avoid the political unpopularity of adopting IMF-sponsored economic adjustment measures. They hoped to struggle along on bilateral and non-IMF multilateral support. For example:

- ***Nigeria***, in response to popular sentiment, chose not to enter into an IMF agreement. Lagos has since drawn up its own economic adjustment program that we believe is likely to fail in the face of plummeting oil revenues.

- ***Tanzania*** has negotiated unsuccessfully with the IMF for five years as it continues to resist making enough economic reforms to satisfy the Fund. According to US Embassy reporting, Tanzania's ex-President Nyerere, with a history of anti-IMF positions, continues to influence the Tanzanian negotiations. In the meantime, Tanzania continues to depend on bilateral economic aid mostly from West Germany, Nordic countries, and the United Kingdom. [redacted]

Some Countries Ineligible for IMF Funds

Some African countries had their funding cut off because of arrears due to the IMF or failure to meet performance criteria under their IMF-supported programs:

- The IMF terminated ***Liberia***'s $43 million standby agreement last year, after suspending it in 1984, for failure to meet performance criteria and for payments arrears. Because of growing arrears, the Fund in January 1986 declared Liberia ineligible to further use its resources. 25X1

- ***Somalia***'s drawings under its $24 million 1985 standby arrangement were suspended later in the year for payments arrears and failure to carry out programed economic reform.

- ***Sudan***, whose IMF funding under a standby arrangement was suspended in 1984, had its IMF program canceled last year, and was this month declared ineligible to use any IMF resources, because of unpaid arrears to the Fund that 25X1 exceed $200 million and for failure to adopt appropriate economic adjustment measures.

- ***Zambia*** received no funds last year under its $247 million standby arrangement, because of arrears to the IMF and other foreign creditors. The IMF arrears have since been paid and the Fund approved a new standby arrangement this month. [redacted] 25X1

Varying Economic Results

For several African countries the funds they received from or paid to the IMF last year were linked to economic adjustment programs that they were implementing under formal agreements with the IMF. Some foreign donor governments and multilateral institutions also have required economic reform as a condition for continued assistance. 25X1 As a result, 15 countries had IMF-supported economic adjustment programs at yearend 1985 compared with 14 countries at yearend 1984. [redacted] 25X1

Most of the better performers had IMF programs last year:

- ***Ghana***'s three-year-old economic recovery program successfully attained its economic adjustment objectives, according to IMF documents. A larger-than-expected cocoa crop, bumper food

Sub-Saharan Africa: Standby and Extended Arrangements With the IMF, 31 December 1985

Member	Date of Arrangement	Date of Expiration	Amount (*million US $*)
Central African Republic	23 September 1985	22 March 1987	16.0
Equatorial Guinea	28 June 1985	27 June 1986	10.0
Ivory Coast	3 June 1985	2 June 1986	73.0
Kenya	8 February 1985	7 February 1986	94.0
Madagascar	23 April 1985	22 April 1986	32.0
Malawi	19 September 1983	18 September 1986	89.0
Mali	8 November 1985	31 March 1987	25.0
Mauritania	12 April 1985	11 April 1986	13.0
Mauritius	1 March 1985	31 August 1986	54.0
Niger	5 December 1985	4 December 1986	15.0
Senegal	16 January 1985	15 July 1986	84.0
Somalia	22 February 1985	21 February 1986	24.0
Togo	17 May 1985	16 May 1986	17.0
Zaire	24 April 1985	23 April 1986	178.0
Zambia	26 July 1984	30 April 1986	247.0

[redacted]

crops, and increased diamond and gold production helped. Accra has also been receiving structural adjustment loans from the World Bank.

- ***Ivory Coast*** had substantial economic recovery, with estimated real economic growth of about 5 percent. Like Accra, Abidjan has been receiving structural adjustment loans from the World Bank.

- ***Kenya*** remains a favored pupil of the IMF because it successfully implemented economic reform and met IMF performance criteria. A good harvest in 1985 and increased receipts from tourism also helped.

- ***Zaire*** has continued to meet IMF economic performance criteria, although sometimes with difficulty. The country has shown marked improvement in the management of government finances, according to the IMF.

- ***Mali*** and ***Mauritius*** performed fairly well last year, according to IMF documents. Mali has had to contend with the serious impact of drought on its economy, and serious imbalances remain, [redacted] 25X1 Mauritius has made 25X1 good progress in restoring financial stability with major reductions in inflation rates and in both the budget and current account deficits as a percent of GDP. High unemployment remains a lingering problem, however, according to US Embassy reporting. [redacted] 25X1

Although African economic conditions eased somewhat last year with the return of seasonal rainfall to much of the region and good harvests in several countries, a few states did not do well either with or without IMF help:

- ***Liberia*** continued to suffer from chronic foreign exchange shortages and budget deficits aggravated by preelection spending by President Doe. Liberia was in arrears to the African Development Bank and the World Bank as well as the IMF. As a result, many important bilateral lenders suspended payments to Monrovia. 25X1

- ***Somalia***'s economic position worsened because of lower-than-expected economic aid and high debt service requirements.

- Hit by drought, a civil war in the south, and a crushing $9 billion external debt, ***Sudan***'s economic problems were aggravated by a temporary military-civilian leadership that lacks the mandate or the will for major economic reform.

- ***Zambia***'s chronic foreign exchange shortage, stemming largely from prolonged weak copper prices, restrained economic growth. [redacted]

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Outlook

Additional African countries will become net payers to the IMF over the next few years as repayments rise. According to World Bank estimates, Sub-Saharan Africa is due to repay a gross total of $4 billion to the IMF over the next three years. This net outflow will occur even if the IMF implements a proposal to recycle some $2.9 billion through 1991 to low-income countries, most of them in Africa. These recycled funds would come from loans made to similar countries in 1976-81 from an IMF-administered Trust Fund and could be supplemented by contributions from some IMF members. The already economically beleaguered African countries almost certainly will pursue vigorous campaigns in the United Nations and other international forums in an effort to increase financial flows to the continent. 25X1

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Briefs

Energy

Oil Aid for Iraq

The US Embassy in Kuwait reports that Kuwait and Saudi Arabia will continue oil sales from the Neutral Zone on Iraq's behalf in 1986. Iraqi earnings, however, are likely to fall because of lower world oil prices. A senior Kuwaiti official cited concern over Iran's offensive into Al-Faw as the reason for renewing the agreement, which expires at the end of this month. Both Saudi Arabia and Kuwait had been reluctant to renew the agreement because of their own financial problems. Saudi and Kuwaiti aid to Iraq from Neutral Zone oil—which was sold at official prices—totaled about $2 billion in 1985. The US Embassy in Riyadh reports that future sales will be in line with market prices. This will yield lower proceeds for Iraq unless Saudi Arabia and Kuwait agree to increase sales above the agreed-to level of 248,000 b/d.

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USSR and Kuwait Sign Economic Agreement

Kuwaiti Oil Minister Sabah signed an economic cooperation protocol in Moscow earlier this month. The agreement reportedly calls for joint oil and energy development projects in Kuwait and in the USSR, as well as in third countries, and for oil swaps whereby the USSR is to ship oil to Kuwaiti customers in Europe and Kuwait is to provide an equal amount to Soviet customers in Asia or Africa. It also provides for cooperation in banking and for consultations on the world oil market. The US Embassy in Moscow reports, however, that the Soviets refused a Kuwaiti request for an official public statement in support of OPEC. The extent of the protocol suggests that recent events in South Yemen will not mar Soviet relations with Kuwait. It reflects Moscow's desire to earn more of the region's petrodollars by building economic development projects and banking ventures. The USSR already has oil-exchange agreements with other countries to reduce transportation costs.

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Angolan Contingency Oil Plans

Angola is making contingency plans to maintain oil sales and to take over operations from US oil companies in the event of an embargo. Angolan oil officials project world oil prices will continue to decline sharply. They foresee a need to offer extremely favorable terms to assure continued high sales. President dos Santos has stated publicly that Angola will lose about $600 million in 1986 even if prices remain at mid-February levels of about $18 a barrel. Luanda is gathering data on Chevron-Gulf's Angolan exploration and production budget through 1988, its Angolan development plans, its US and British maintenance and construction contractors, and its use of US machinery and equipment. To diversify control of exploration, Luanda recently awarded Spain's Hispanoil an interest in a new exploration contract headed by US-owned Conoco. Angola probably could count on French, Italian, British, Belgian, and Brazilian, as well as Spanish and Portuguese oil companies to take the place of Chevron-Gulf and other US companies. 25X1

Libyan-Italian Refinery Update

Tripoli is consolidating control over its recently purchased TAMOIL refinery in Milan. [redacted] 25X1 25X1

[redacted] The refinery is the most modern in Italy. Moreover, Tripoli plans to terminate all employees of Jewish descent and intends to utilize only Libyan or Cuban crude. The refinery and distribution network will substantially improve Tripoli's ability to stabilize its oil exports and revenues. [redacted] 25X1 25X1

Soviet Oil Well Disaster

The Soviet press claims that a major well blowout in the Tengiz oilfield in western Kazakhstan was brought under control with explosives after burning for seven months. The US Embassy reports that a knowledgeable Western observer has indicated that, because of the fragile structure of the Tengiz deposit, the blowout could ruin the entire field. Although it is too early to ascertain the extent of the damage, severe damage to the deposit would be a major setback for the Soviet Petroleum Ministry. Tengiz, rumored to contain about 3 billion barrels of oil and one of the first deep sour-oil deposits developed, was counted on to help offset declining output elsewhere in the USSR. Soviet capability to drill and develop deep sour-oil and gas deposits is extremely limited because of a lack of modern equipment and appropriate high-pressure blowout prevention devices. [redacted] 25X1

Falling Oil Prices Pinch British Coal Industry

Falling oil prices make it unlikely that London will meet its target of returning the coal industry to profitability by 1987-88. The price decline has widened oil's advantage over coal, and the National Coal Board (NCB) will have to either lower prices or lose customers. If oil stabilizes at $20 per barrel, the NCB probably can make a profit, although later than previously forecast. If oil prices fall below $18 per barrel, however, it becomes economically feasible for the coal industry's biggest customer, the Central Electricity Generating Board, to begin using several idle oil-fired power stations. The NCB has already cut prices slightly and is likely to ask the government for a further cut if oil prices continue to fall. These new problems are especially disappointing to the NCB because productivity has risen to record levels since last year's miners' strike, and may dash hopes that the NCB could show a profit sooner than anticipated. [redacted] 25X1

Delay in Canadian Oil Project Stirs Regional Dissension

Ottawa's decision to reconsider the approval of a $560 million loan guarantee for a facility to upgrade heavy crude oil has rekindled regional disagreements that conceivably could call the Tories' commitment to a free market energy policy into question. Because of budget constraints and uncertainty about future oil prices, Ottawa is withholding approval even though it agrees with Alberta and Saskatchewan that the project is needed to limit Canada's dependence on imported oil in the 1990s. Alberta Premier Getty has lashed out at Eastern Canada's neglect of the western provinces' interests, and Ottawa's timid defense of the region. The oil-consuming eastern provinces, however, consider the loan risky and contrary to Ottawa's policy of cutting back the government's role in the energy sector. Critics also fear future measures favoring expensive domestically produced oil over cheaper imports. The Cabinet is divided over the issue, and to defuse the situation Ottawa will probably seek a compromise, perhaps involving a partial guarantee. [redacted] 25X1

Turkish-Soviet Natural Gas Contract Signed

The USSR and Turkey recently concluded a 25-year gas deal—after nearly 18 months of negotiation—when Moscow unexpectedly agreed to buy Turkish goods to offset the cost of 70 percent of the gas and to reduce its initial gas deliveries. Peak deliveries are to reach 4 billion cubic meters annually in 1992, rather than the 5-6 billion discussed earlier. Pricing and other terms have not been disclosed. The Soviets' sudden willingness to meet Turkish terms may be part of an effort to improve political relations following continued disagreement over Black Sea issues and a recent Soviet proposal on Cyprus. The agreement probably will increase slumping bilateral trade and ultimately provide Turkey with about 90 percent of its gas needs, although this will be less than 5 percent of its total energy requirements. Most of the gas is likely to go to Turkish industry. [redacted] 25X1

Burma Postpones Gulf of Martaban Project

[redacted] Rangoon has shelved the $1 billion 25X1
Gulf of Martaban offshore gas project for three to four years because of an acute shortage of foreign exchange, a mounting debt service ratio, and poor marketing prospects for downstream products such as urea. Long opposed to private foreign investment, the government had planned to carry out the project with borrowed funds. With a debt service ratio above 50 percent and foreign exchange reserves of only $20 million, however, Rangoon has shifted to exploiting onshore gas, which does not require costly foreign technology. Nonetheless, we believe continued economic difficulties in time could prompt a shift in Rangoon's policies toward foreign investment. [redacted] 25X1

International Finance

Argentine Debt Gambit

Buenos Aires claims it will limit debt-service payments to 30 percent of export receipts and seek foreign financing for the remainder—a politically acceptable way of telling bankers it wishes to borrow roughly $2.6 billion this year, according to the US Embassy. Bankers are warning that these moves will increase uncertainty about Argentina's debt policies, further delay disbursement of $1.2 billion in loans, and stall talks on debt rescheduling. Argentina apparently is seeking debt relief similar to any Mexico may obtain. The government also hopes that its rhetoric on debt will build domestic support for its economic reforms, but this may prove counterproductive. President Alfonsin's political support could weaken, and pressure for more radical debt action could intensify unless Buenos Aires achieves substantial concessions from creditors and faster economic growth. [redacted] 25X1

Brazil's Evolving Approach on Debt

While Brazilian officials have publicly taken a hard line on new IMF programs, their private comments indicate some flexibility. Finance Minister Funaro boasted on local television in January, for example, that Brazil would never again need a formal Fund program. Moreover, a draft of the message President Sarney will deliver to Congress on 1 March registers strong opposition to any economic plan that imposes a severe burden on the country and warns that Brazil "can react to the detriment of creditor institutions." Privately, however, Funaro approached Embassy officials early this month soliciting US support for a rescheduling of Brazil's commerical debt over 15 years on the basis of a consulting agreement with the IMF. Although Funaro did not provide a detailed proposal, he made it clear that Brasilia does not want a formal Fund monitoring program and that the major criterion of any such arrangement would be the performance of external accounts. He stressed that Brazil's strong external performance—it will not need any new bank loans this year—obviates the need for a Fund program. The Sarney administration's public stance on the IMF probably is designed to curry domestic favor in an important election year. We believe President Sarney realizes that it would be political folly to attempt an IMF program this year, but he realizes that some sort of accommodation is necessary to obtain the multiyear debt rescheduling. Brasilia probably views its flexibility as an important concession to creditors anxious to forestall any radical action on the debt. 25X1

Implications of South Africa's Debt Accord

The agreement last week between South Africa and major creditor banks to reschedule $14 billion of suspended debts could unravel if domestic unrest persists. Pretoria agreed to repay at least $500 million this year and to accept a one-year deferral of repayments on the remaining principal. South Africa also has $3.6 billion falling due this year outside the rescheduling agreement. The agreement may ease the financial pressure on South Africa, but many details remain unresolved, and the unwritten accord is vulnerable to pressures on the banks from antiapartheid groups. Even though Pretoria may slow economic growth to cut imports and fight inflation—which jumped to 21 percent, the highest rate in more than 60 years—the current account surplus this year is unlikely to reach the estimated $3 billion of last year, increasing the need for other debts to be rolled over. 25X1

Tokyo To Ease Capital Restrictions

In an effort to slow the yen's appreciation against the dollar without inciting US criticism, the Finance Ministry is considering relaxing controls on capital outflows. The US Embassy reports the Finance Ministry may expand the amount Japanese insurance companies can invest in foreign bond holdings; currently such holdings are limited to 10 percent of the total portfolio. In addition, trust banks are reportedly planning to resume investing loan trust funds in non-yen bonds, a practice halted by informal guidance from the Finance Ministry in September 1985. We expect these moves to moderately increase capital outflows, but not by enough to overcome factors contributing to the current strengthening of the yen. 25X1

International Trade

Shifting World Trade Balances

Worldwide trade balances continue to shift dramatically. For the United States, the strong dollar and domestic economic recovery have been responsible for the $75 billion deterioration in the trade balance. Japan, Western Europe, and the Asian NICs have been the major beneficiaries of the surge in US import demand. Key debtors improved their trade position through austerity measures and higher exports to other countries (although trade among the debtors has fallen dramatically). Middle Eastern oil exporters sharply cut imports in response to lower oil revenue, holding the trade balance decline to $6 billion. 25X1

Bilateral Trade Balance Shifts, 1983-85 [a]

Billion US $

	Overall	United States	Japan	Canada	Western Europe [b]	Key Debtors [c]	Asian NICs [d]	Middle Eastern OPEC [e]
United States	−75		−28	−6	−26	−2	−12	−2
Japan	25	28		1	−1	−3	NEGL	1
Canada	2	6	−1		−3	−1	−1	NEGL
Western Europe	27	26	1	3		−6	2	2
Key debtors	15	2	3	1	6		1	2 [f]
Asian NICs	12	12	NEGL	1	−2	1		2
Middle Eastern OPEC	−6	2	−1	NEGL	−2	−2 [f]	−2	

[a] Most 1985 figures are projections based on partial-year data. All countries are not included.
[b] Western Europe excludes Portugal, Iceland, and Turkey.
[c] Argentina, Brazil, Chile, Colombia, Indonesia, Malaysia, Mexico, Nigeria, Peru, the Philippines, and Venezuela.
[d] Hong Kong, Singapore, South Korea, and Taiwan.
[e] Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.
[f] Trade shifts from 1983 to 1984.

25X1

Global and Regional Developments

EC Bid To Boost Dairy Exports

The EC Commission has adopted a new scheme for promoting dairy exports that permits larger and unpublished export subsidies. The Commission may now consider export sales individually and approve them at any price it deems reasonable. The new mechanism would probably be used only for large sales of products such as butter in certain markets—probably the Soviet Union, India, and Pakistan. Dairy traders are now expecting the Commission to approve a sale of 100,000 metric tons of butter to the Soviet Union with a subsidy equivalent to 75 percent of the price the EC originally paid the farmers. This scheme was almost certainly aimed at reducing the EC's current butter stockpile of over 1 million tons. Should it prove successful, the Commission will probably consider using it for grain and beef as well. The new mechanism is likely to drive world dairy prices down and anger other dairy exporters—New Zealand is already protesting to the Commission and member states. [redacted] 25X1

[redacted] 25X1

Japan Increases Sugar Purchases From Cuba

Recent sugar deals between Japan and Cuba contain significant advantages for both sides that may boost bilateral trade sharply this year. [redacted] 25X1
[redacted] Japanese companies have agreed to buy 600,000 to 800,000 metric tons of Cuban sugar in 1986, about double the amount purchased in 1985. Cuba received a one-third advanced payment, which should help ease its financial crisis. In exchange, buyers obtained guaranteed on-time delivery for the prepaid sugar and space in Cuban ships to send Japanese manufactures to Cuba. Japanese importers, moreover, expect to profit when world prices rise later this year because of weather damage to harvests in Cuba and Brazil. The additional hard currency earnings will probably help Havana maintain its reputation as a reliable debtor in Japanese government and business circles. Tokyo last November agreed to reschedule $62.5 million of official government loans to Cuba on favorable terms including a five-year grace period. [redacted] 25X1

Grasshopper Plague Unlikely, Despite UN Fears

The UN Food and Agriculture Organization (FAO) is warning of a potential grasshopper infestation that could cover several African countries. FAO projects that the infestation could be as serious as the 1978 plague—in which the desert locust destroyed crops from West Africa across to the Arabian Peninsula. It would begin when 1986 spring rains lead to the hatching of eggs laid during an outbreak of grasshoppers in Mali last year. FAO has called for donor nations to fund a comprehensive program—including survey of egg sites, purchase of pesticides and equipment, and aircraft support. Although the United States is currently supporting egg survey operations, the full array of aid requested seems unnecessary. The grasshoppers involved are distinctly different from the desert locust and should only pose a regional problem in and around Mali. In addition, the pesticides sought by FAO raise serious environmental concerns—some of them have been banned in the United States. 25X1

National Developments

Developed Countries 25X6

25X6

Italy To Supply Aluminum Cylinder Heads to US Firm

Fiat SpA of Italy will provide almost all of the aluminum cylinder heads for a major US automaker because of the inability of US companies to manufacture sufficient quantities of this high-quality engine part. US auto manufacturers have limited experience producing aluminum cylinder heads, but nearly all foreign auto builders use aluminum heads. We believe the use of aluminum cylinder heads will accelerate after 1987 as manufacturers continue to apply lightweight metals to reduce vehicle weight—aluminum heads save about 30 pounds (nearly 15 kilograms) on a six-cylinder engine. Foreign suppliers will dominate until US casting companies design and build machinery to produce this engine component. 25X1

Madrid Reveals Medium-Term Economic Program

Austerity and moderation—with major emphasis on private-sector investment and employment—will continue to characterize Spanish economic policy through 1989. Under its new economic program, the government is committed to budgetary austerity and monetary control to promote private saving, reduce inflation, lower interest rates, and curb labor costs. Madrid probably will have little trouble staying on course next year. Nevertheless, Madrid expects an upswing in domestic demand to boost the rate of economic growth from the average annual rate of 2.2 percent in 1983-85 to 3.2 percent in 1986-89. Unemployment forecasts, however, remain vague, probably to avoid focusing attention on the failure to carry out an election-year promise of creating 800,000 new jobs. Although factions of the Socialist Party have called for greater government efforts to create jobs, discontent is likely to remain low as long as the economy continues to show signs of improvement. 25X1

Lower Gas Revenues Squeeze Dutch Budget

The steep fall in oil and gas prices will cut sharply into the Hague's revenues in 1987, forcing some hard choices to keep the deficit from increasing. Natural gas revenues—which accounted for 15 percent of government income in 1985—are now projected to fall by at least $4 billion in 1987 as a result of lower oil prices and the anticipated further decline of the dollar. (The 1986 budget will not be affected because of the one-year lag between export transactions and government receipt of revenues.) If no action is taken, the budget deficit would increase from 6.5 percent of GNP in 1985 to about 8.5 percent in 1987. To avoid this, Prime Minister Lubbers—who faces national elections in May—has called for cuts in investment incentives and subsidies for large gas consumers, as well as possible increases in taxes on energy consumption. Finance Ministry officials, however, told US Embassy officers that they prefer to rely entirely on expenditure cuts. [redacted] 25X1

Greece Plans Value-Added Tax

Athens finally is moving to introduce a value-added tax (VAT), as called for under Greece's EC accession treaty, but many important details still remain to be worked out. For example, the bill to implement the VAT in January 1987 calls for three brackets, but the actual tax rates will not be decided until the end of this year. The new tax will replace 10 indirect taxes, including the business turnover tax, stamp duties, and a tobacco tax, which raised a combined $2.3 billion in 1985. Since joining the EC in 1981, Greece has requested three delays on the VAT, but finally committed itself to the new tax as part of a deal last November for a $1.5 billion EC balance-of-payments loan. Greek officials believe that the VAT, coupled with recently enacted tax enforcement measures, will aid government efforts to reduce widespread tax evasion. Athens may not raise all the revenue it expects, however, since farmers will be exempt and small businesses will receive graduated exemptions based on their annual turnover. [redacted] 25X1

Greece Reducing Public-Sector Losses

National Economy Minister Simitis last month announced plans to reduce the public enterprises' deficit by 75 percent in 1986; last year the more than 50 state-owned transport, industrial, and utility companies had record losses of approximately $970 million. The measures include setting up a special management group at Simitis's ministry to monitor the ailing companies, strictly applying the tight incomes policy for 1986-87, devising five-year plans for each of the firms, limiting hiring, and improving productivity. While this program should help, we believe Athens is unlikely to meet its target without an actual reduction in the bloated work forces. With unemployment approaching 9 percent, this is probably politically impossible. Although prices for a number of goods and services—including oil products, electricity, postal services, transportation, and pharmaceuticals—were raised substantially last December, Prime Minister Papandreou will probably find it difficult to institute the additional price increases needed to make the firms profitable. [redacted] 25X1

Less Developed Countries

Libyan Hard Line With US Companies

[redacted] in early February the 25X1
chairman of the Libyan National Oil Company (LNOC), Abdullah Al-Badrik advised the US oil companies in Libya that they were in default of contractual obligations for failure to pay for crude oil liftings in December 1985. The US companies were further advised on 13 February that Libya would not

negotiate until the payments were made or the US sanctions revised. Badri reportedly had given a briefing on the progress of negotiations to Libyan leader Qadhafi, who ordered Badri immediately to begin taking a harder line. All Libyan officials were reportedly ordered to communicate with the US firms only via telex—perhaps a legal maneuver. [redacted] the Libyans had been hoping to retain the presence of US oil companies by a modification of the US executive orders brought about by oil company pressure. Qadhafi probably now realizes that the US companies lack such leverage and have no other choice but to leave Libya. [redacted] 25X1 25X1

Libyan Financial Maneuvering

Qadhafi may put the bite on Saudi Arabia and other Gulf states for financial assistance if Libya experiences cash flow difficulties because of the US assets freeze. [redacted] 25X1 25X1

[redacted] While some token aid may be forthcoming, large-scale assistance or movement of assets is unlikely—Saudi Arabia and other Gulf states have repeatedly refused Libyan aid requests and diversion of US investments would be too costly. Moreover, Libyan agitation for reductions in Gulf states' oil production probably rankles GCC members. The threat of Libyan retaliation if Tripoli's requests are rebuffed probably will not be sufficient to secure GCC cooperation. [redacted] 25X1 25X1

Libyan Military Alert Costs Mount

The extended alert in response to US military maneuvers is sapping morale and taxing already diminished resources. [redacted] soldiers on alert status in late January received only one meal per day, often only macaroni and squash, and virtually no meat. Many soldiers are soliciting food from family members, [redacted]. Poor treatment of soldiers is uncharacteristic of Qadhafi's longtime policy of ensuring military loyalty by providing a high standard of living. Libya's unprecedented economic problems since 1981, however, have caused food imports to drop over 50 percent and probably foreshadow further cuts in military rations. Continued military alert, accompanied by worsened living conditions, may provoke dissatisfied elements in the armed services to move against the Libyan leader. [redacted] 25X1 25X1 25X1

More Financial Problems Ahead for Malaysia

[redacted] Malaysia's banking system, including well-managed banks, is facing serious financial difficulties. Attention is now focusing on Finance Minister Daim Zainuddin, a major investor in several large Malaysian banks. Daim is in precarious financial straits because he apparently misjudged the impact of Malaysia's economic slowdown on his investments. Depressed prices for petroleum, palm oil, tin, and rubber and a marked slowdown in the important semiconductor and construction industries have sharply cut economic growth. Daim's present financial difficulties and 25X1 involvement in questionable financial activities—possibly including the Bank Bumiputra scandal—are intensifying political problems for Prime Minister Mahathir, who is widely expected to call early elections this spring. Daim is a business associate of Tan Koon Swan, head of the second-largest political party in Mahathir's coalition. Tan is under indictment in Singapore for his role in the collapse of the Malaysian conglomerate, Pan Electric, in which he is the leading stockholder. 25X1

Communist

Soviet Industrial Growth in January

The USSR's industrial performance for January was strong, according to official Soviet statistics. Total production—as inferred by the Intelligence Community—was about 6 percent higher than in January 1985, and most basic materials registered larger increases than they have for years. Steel, plastics, chemical fibers, cement, concrete, timber, and paper registered major gains. The increases this January seem impressive because they are measured from January 1985, when the harshest winter in two decades disrupted industry and transportation. Even so, the Soviets seem to be off to a fast start this year. Industrial performance had some less-than-satisfactory aspects, however. Many of the ministries achieving large gains in output are being criticized in the Soviet press for failure to deliver to customers as scheduled. 25X1

Soviet Winter Grains Damaged

Warm weather in late January reduced protective snow cover and exposed Soviet crops to killing temperatures in important winter grain regions. Severe winterkill apparently occurred in parts of the North Caucasus and Crimea where crops had broken dormancy. Moderate winterkill in Rostov Oblast and the southeastern Ukraine—areas currently without snow cover and experiencing normal temperatures—could worsen if temperatures drop. Other areas devoted to winter grains have not been harmed. Winterkill to date appears somewhat greater than usual and may slightly reduce the winter grain crop—which averages 60 million metric tons, or roughly one-third of total annual grain production. Good growth is likely in unaffected winter grain areas, however, because of high soil moisture levels, and may compensate for losses. Damaged areas, moreover, are often replanted with lower yielding spring grain. 25X1

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Directorate of
Intelligence

Economic & Energy Indicators

28 February 1986

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Economic & Energy Indicators

Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States	2.6	-7.2	5.9	11.6	2.1	1.3	2.1	1.8	7.0	9.0
Japan	1.0	0.4	3.5	11.1	-2.6	11.2	-0.4	-2.9	-11.1	7.1
West Germany	-2.3	-3.2	0.3	2.4	-2.4	12.2	0.8		-11.9	
France	-2.6	-1.5	1.1	2.3	-3.0	4.1	6.2	1.0	30.4	-36.0
United Kingdom	-3.9	2.1	3.9	1.3	11.5	7.6	0.7	2.2	15.2	-24.0
Italy	-1.6	-3.1	-3.2	3.1	7.4	1.1	-2.6	-2.7	31.8	-39.3
Canada	0.5	-10.0	5.3	8.8	0.7	4.5	10.4		10.1	

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985			
					1st Qtr	2d Qtr	3d Qtr	4th Qtr
United States	2.5	-2.1	3.4	6.6	3.7	1.1	3.0	1.2
Japan	4.1	3.1	3.3	5.0	1.7	5.8	2.6	
West Germany	-0.2	-1.0	1.6	2.7	-4.6	5.6	9.2	1.4
France	0.2	1.8	0.7	1.6	-0.6	3.7	2.1	2.0
United Kingdom	-1.4	1.9	3.3	2.3	3.4	4.5	-1.1	
Italy	0.2	-0.5	-0.4	2.6	3.7	3.3	0.8	
Canada	3.3	-4.4	3.3	5.0	3.6	3.9	6.7	

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985			1986
					Year	3d Qtr	4th Qtr	Jan
United States	10.3	6.2	3.2	4.3	3.5	2.4	4.1	4.5
Japan	4.9	2.6	1.8	2.3	2.0	2.1	2.2	1.9
West Germany	6.0	5.3	3.3	2.4	2.2	0.1	1.0	-0.6
France	13.3	12.0	9.5	7.7	5.8	4.4	3.1	1.4
United Kingdom	11.9	8.6	4.6	5.0	6.1	3.1	3.1	6.1
Italy	19.3	16.4	14.9	10.6	8.6	7.3	6.9	2.9
Canada	12.5	10.8	5.8	4.3	4.0	3.2	4.4	6.1

Money Supply, M-1 [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985					
					Year	1st Qtr	2d Qtr	3d Qtr	4th Qtr	Dec
United States [b]	7.1	6.6	11.2	6.9	8.9	10.5	10.9	15.3	11.0	13.1
Japan	3.7	7.1	3.0	2.9	4.6	10.3	-0.3	2.9	-0.3	13.3
West Germany	1.1	3.6	10.3	3.3	4.3	1.4	-0.4	8.1	14.6	43.8
France	12.2	13.9	10.0	7.7		12.4	7.2	10.1		
United Kingdom	NA	NA	13.0	14.7	16.7	1.2	32.4	15.4	25.1	21.4
Italy	11.2	11.6	15.1	12.3		18.0	-0.3	11.5		
Canada	3.8	0.7	10.2	3.2	4.2	4.0	3.5	13.2	14.9	8.3

[a] Based on amounts in national currency units.
[b] Including M1-A and M1-B.

Unemployment Rate [a]

Percent seasonally adjusted

	1981	1982	1983	1984	1985					1986
					Year	2d Qtr	3d Qtr	4th Qtr	Dec	Jan
United States	7.5	9.6	9.4	7.4	7.1	7.2	7.0	6.9	6.8	6.6
Japan	2.2	2.4	2.7	2.7	2.6	2.5	2.6	2.8	2.9	
West Germany	5.6	7.7	9.2	9.1	9.3	9.4	9.4	9.2	9.1	9.0
France	7.6	8.4	8.6	9.6	10.2	9.9	10.2	10.5	10.5	10.5
United Kingdom	10.0	11.6	12.4	12.6	13.1	13.1	13.2	13.2	13.2	13.2
Italy	8.4	9.1	9.9	10.4		10.2	10.6			
Canada	7.5	11.1	11.9	11.3	10.5	10.5	10.3	10.2	10.0	9.8

[a] Unemployment rates for France are estimated.

Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985 1st Qtr	2d Qtr	3d Qtr	4th Qtr	Dec
United States [b]									
Exports	233.5	212.3	200.7	217.6	55.7	52.6	52.6	52.4	17.0
Imports	261.0	244.0	258.2	325.6	84.4	86.4	84.5	90.8	32.9
Balance	-27.5	-31.6	-57.5	-108.0	-28.7	-33.8	-31.9	-38.4	15.9
Japan									
Exports	149.6	138.2	145.5	168.1	40.5	42.6	43.6	47.3	15.8
Imports	129.5	119.6	114.0	124.1	28.9	29.5	29.2	30.3	9.9
Balance	20.1	18.6	31.4	44.0	11.6	13.1	14.4	17.0	5.9
West Germany									
Exports	175.4	176.4	169.5	171.9	41.1	43.3	48.8	51.0	17.4
Imports [c]	163.4	155.3	152.9	153.1	36.4	37.2	41.7	43.6	14.6
Balance	11.9	21.1	16.6	18.8	4.6	6.2	7.1	7.4	2.8
France									
Exports	106.3	96.4	95.1	97.5	22.5	24.4	26.1	28.8	9.6
Imports	115.6	110.5	101.0	100.3	23.6	24.7	26.8	29.2	10.0
Balance	-9.3	-14.0	-5.9	-2.8	-1.1	-0.4	-0.7	-0.4	0.4
United Kingdom									
Exports	102.5	97.1	92.1	93.7	22.7	25.4	25.5	27.3	9.3
Imports	94.6	93.1	93.7	99.1	24.1	25.7	26.2	27.3	9.1
Balance	7.9	4.0	-1.6	-5.3	-1.4	-0.3	-0.7	0	0.2
Italy									
Exports	75.4	73.9	72.8	73.5	17.7	18.3	20.4	22.5	8.5
Imports	91.2	86.7	80.6	84.3	21.5	21.9	21.2	26.1	9.6
Balance	-15.9	-12.8	-7.9	-10.9	-3.8	-3.6	-0.8	-3.6	1.1
Canada									
Exports	70.5	68.5	73.7	86.5	21.9	21.8	21.8	22.5	7.3
Imports	64.4	54.1	59.3	70.6	17.9	18.6	19.6	19.6	6.4
Balance	6.1	14.4	14.4	15.9	4.0	3.2	2.2	2.9	0.9

[a] Seasonally adjusted.
[b] Imports are customs values.
[c] Imports are c.i.f.

Current Account Balance [a]

Billion US $

	1981	1982	1983	1984	1985 1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States	6.3	-8.1	-46.0	-107.4	-24.2	-27.7	-30.5			
Japan	4.8	6.9	20.8	35.0	6.8	13.3	13.1	16.1	4.5	6.8
West Germany	-6.8	3.3	4.2	6.0	1.6	3.1	2.0	7.0	1.9	2.8
France	-4.7	-12.1	-4.9	-0.8	-0.7	0.6	0			
United Kingdom	15.3	8.5	4.5	1.6	-0.5	1.8	1.6	2.0	0.4	1.0
Italy	-8.6	-5.7	0.6	-3.2	-2.9					
Canada	-5.0	2.1	1.4	1.9	0.5	0	-1.1			

[a] Seasonally adjusted; converted to US dollars at current market rates of exchange.

Export Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States	9.2	1.5	1.0	1.4	0.1	2.2	-2.9	-2.1	0	7.1
Japan	5.5	-6.4	-2.4	0.2	-11.9	14.1	5.9	39.1	28.0	-10.0
West Germany	-14.9	-2.8	-3.2	-7.1	-18.8	26.8	37.5	44.6	23.5	50.9
France	-12.0	-5.5	-4.8	-2.9	-14.3	28.3	35.7		10.9	
United Kingdom	NA	NA	-6.2	-5.1	-16.2	57.1	29.2	13.7	16.6	4.4
Italy	-7.8	-3.0	-4.4	-5.2	-13.8	21.4	20.0			
Canada	3.9	-2.0	-1.3	-3.7	0.2	-7.2	8.0	-4.9	-1.5	-2.6

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States	5.3	-2.0	-3.7	1.7	-9.5	-0.4	-0.1	3.1	11.2	2.7
Japan	3.6	-7.4	-5.0	-2.8	-10.9	3.1	2.6	3.0	-9.1	-24.9
West Germany	-8.6	-4.7	-5.2	-4.8	-13.2	19.5	19.4	27.6	15.9	31.3
France	-7.8	-7.2	-7.0	-3.8	-12.5	15.1	18.6		31.2	
United Kingdom	NA	NA	-5.7	-4.6	-15.4	46.1	16.4	8.1	0.3	12.1
Italy	1.0	-5.3	-6.6	-3.7	-9.4	22.6	6.6			
Canada	8.7	-1.1	-3.3	-0.1	-4.3	-2.4	9.3	-4.2	1.0	-1.7

Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985				
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Dec
Trade-Weighted									
United States	10.5	10.6	5.8	9.1	26.0	-11.3	-14.9		
Japan	9.3	-5.7	10.4	6.2	0.9	7.8	11.1		
West Germany	-2.1	7.0	5.8	1.0	-0.2	2.1	8.5		
France	-5.1	-6.1	-4.7	-2.1	0.9	4.8	9.9		
United Kingdom	2.5	-2.1	-5.0	-2.5	-10.5	39.9	16.7		
Italy	-9.2	-5.1	-1.6	-3.1	-1.3	-10.5	-9.7		
Canada	0.3	0.2	2.3	-2.3	-2.1	-10.2	-4.0		
Dollar Cost of Foreign Currency									
Japan	2.7	-12.9	4.6	0	-19.6	9.9	18.6	42.9	7.2
West Germany	-24.6	-7.2	-5.2	-11.5	-28.0	19.0	27.8	32.1	34.1
France	-28.7	-20.8	-15.9	-14.7	-26.7	19.6	28.0	31.6	29.5
United Kingdom	-13.2	-13.4	-13.3	-11.9	-28.6	59.9	44.5	17.8	3.5
Italy	-32.8	-18.8	-12.3	-15.6	-30.3	9.5	15.6	26.3	26.2
Canada	-2.5	-2.9	0.1	-5.1	-10.5	-5.0	2.7	-6.0	-17.9

Money Market Rates

Percent

	1981	1982	1983	1984	1985				1986
					Year	2d Qtr	3d Qtr	4th Qtr	Jan
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	8.04	7.90	7.93	7.95
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66	6.52	6.54	6.50	6.48	
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	5.80	4.86	4.81	4.63
France interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	10.32	9.81	9.10	9.65
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	12.61	11.67	11.60	12.05
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	15.12	14.37	14.52	14.79
Canada finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	9.87	9.32	9.10	
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	8.41	8.29	8.14	8.15	8.19

Agricultural Prices

	1981	1982	1983	1984	1985					1986
					Year	1st Qtr	2d Qtr	3d Qtr	4th Qtr	Jan
Bananas Fresh imported, (Total world, $ per metric ton)	214.0	217.0	232.0	243.0	110.3	110.4	111.6	110.9	108.1	NA
Beef (¢ per pound)										
Australia (Boneless beef, f.o.b. US Ports)	112.1	108.4	110.7	101.1	96.6	100.2	93.3	93.6	99.3	98.5
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	96.6	81.0	80.4	96.1	92.3
Cocoa (¢ per pound)	89.8	74.3	92.1	106.2	98.7	99.2	96.4	98.4	100.8	1.60
Coffee ($ per pound)	1.28	1.40	1.32	1.44	1.43	1.44	1.42	1.33	1.52	2.04
Corn (US #3 yellow, c.i.f. Rotterdam, $ per metric ton)	150	123	148	150	125	133	133	118	117	119
Cotton (World Cotton Prices, "A" index, c.i.f. Osaka, US ¢/lb.)	72.69	74.48	85.71	63.91	57.87	62.27	63.78	56.76	48.68	52.13
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	571	445	502	730	501	610	606	417	369	342
Rice ($ per metric ton)										
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	496	496	481	465	450
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	254	243	236	263	238
Soybeans (US #2 yellow, c.i.f. Rotterdam, $ per metric ton)	288	244	282	283	225	240	236	213	208	218
Soybean Oil (Dutch, f.o.b. ex-mill, $ per metric ton)	507	447	527	727	571	654	658	518	454	457
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	252	219	238	197	157	157	146	152	174	186
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢ per pound)	16.93	8.42	8.49	5.18	4.04	3.69	2.96	4.21	5.30	4.87
Tea Average Auction (London) (¢ per pound)	91.0	89.9	105.2	156.6	90.0	126.9	82.8	72.3	78.1	82.1
Wheat (US #2. DNS c.i.f. Rotterdam, $ per metric ton)	210	187	183	182	169	178	169	154	175	175
Food Index [a] (1980=100)	88	78	86	92	81	83	79	76	84	95

[a] The food index is compiled by *The Economist* for 14 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

Industrial Materials Prices

	1981	1982	1983	1984	1985					1986
					Year	1st Qtr	2d Qtr	3d Qtr	4th Qtr	Jan
Aluminum (¢ per pound)										
Major US producer	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0	81.0	81.0
LME cash	57.4	44.9	65.1	56.8	47.2	49.3	49.3	45.6	44.6	50.6
Chrome Ore (South Africa chemical grade, $ per metric ton)	53.0	50.9	50.0	50.0	43.9	49.9	44.7	41.0	40.0	40.0
Copper [a] (bar, ¢ per pound)	79.0	67.1	72.0	62.4	64.2	62.1	67.6	64.5	62.6	64.2
Gold ($ per troy ounce)	460.0	375.5	424.4	360.0	317.2	300.0	319.8	323.2	326.0	343.1
Lead [a] (¢ per pound)	32.9	24.7	19.3	20.0	17.7	17.3	17.3	18.3	17.8	16.7
Manganese Ore (48% Mn, $ per long ton)	82.1	79.9	73.3	69.8	68.4	69.7	68.4	68.4	67.2	67.2
Nickel ($ per pound)										
Cathode major producer	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	2.7	2.2	2.1	2.2	2.2	2.2	2.5	2.2	1.9	1.8
Platinum ($ per troy ounce)										
Major producer	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	446.0	326.7	422.6	358.2	291.0	269.3	275.4	294.0	325.5	362.6
Rubber (¢ per pound)										
Synthetic [b]	47.5	45.7	44.0	44.4	44.1	46.6	45.7	42.4	41.7	40.7
Natural [c]	56.8	45.4	56.2	49.6	42.0	42.0	41.5	42.4	41.8	40.0
Silver ($ per troy ounce)	10.5	7.9	11.4	8.1	6.1	5.9	6.3	6.1	6.1	6.0
Steel Scrap [d] ($ per long ton)	92.0	63.1	73.2	86.4	74.4	83.7	71.9	72.7	69.2	73.5
Tin [a] (¢ per pound)	641.4	581.6	590.9	556.6	543.2	501.1	541.3	571.0	559.4	NA
Tungsten Ore (contained metal, $ per metric ton)	18,097	13,426	10,177	10,243	10,656	11,515	10,974	10,648	9,488	8,588
US Steel (finished steel, composite, $ per long ton)	543.5	567.3	590.2	611.6	617.8	617.8	617.8	617.8	617.8	617.8
Zinc [a] (¢ per pound)	38.4	33.7	34.7	41.5	35.4	40.0	39.5	33.4	28.6	29.4
Lumber Index [e] (1980=100)	95	84	114	105	103	100	107	103	101	NA
Industrial Materials Index [f] (1980=100)	85	71	82	76	69	70	72	69	66	66

[a] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[b] S-type styrene, US export price.
[c] Quoted on New York market.
[d] Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.
[e] This index is compiled by using the average of 11 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
[f] The industrial materials index is compiled by *The Economist* for 18 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

World Crude Oil Production Excluding Natural Gas Liquids

Thousand b/d

	1981	1982	1983	1984	1985[a]					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
World	**55,837**	**53,092**	**52,633**	**53,685**	**53,462**	**52,380**	**52,356**			
Non-Communist countries	**41,602**	**38,810**	**38,228**	**39,257**	**38,672**	**37,610**	**37,588**			
Developed countries	12,886	13,276	13,864	14,302	14,704	14,617	14,643			
United States	8,572	8,658	8,680	8,735	8,871	8,972	8,954	8,933	8,901	8,936
Canada	1,285	1,270	1,356	1,411	1,463	1,445	1,444		1,450	
United Kingdom	1,811	2,094	2,299	2,535	2,660	2,471	2,399		2,650	
Norway	501	518	614	700	719	728	823		881	
Other	717	736	915	921	991	1,001	1,023			
Non-OPEC LDCs	6,036	6,633	6,823	7,515	7,733	7,802	7,922			
Mexico	2,321	2,746	2,666	2,746	2,711	2,724	2,738	2,721	2,679	2,733
Egypt	598	665	689	827	877	875	890		860	
Other	3,117	3,222	3,468	3,942	4,145	4,203	4,294			
OPEC	22,680	18,901	17,541	17,440	16,235	15,191	15,023	17,861	17,580	17,985
Algeria	803	701	699	638	660	634	616	660	680	650
Ecuador	211	211	236	253	274	271	282	287	290	290
Gabon	151	154	157	152	150	150	153	160	160	160
Indonesia	1,604	1,324	1,385	1,466	1,152	1,167	1,203	1,286	1,200	1,100
Iran	1,381	2,282	2,492	2,187	2,097	2,299	2,335	2,301	2,200	2,400
Iraq	993	972	922	1,203	1,255	1,340	1,482	1,666	1,700	1,650
Kuwait [b]	947	663	881	912	914	800	800	899	950	900
Libya	1,137	1,183	1,076	1,073	1,051	1,057	933	1,234	1,200	1,300
Neutral Zone [c]	370	317	390	410	480	333	306	391	400	360
Nigeria	1,445	1,298	1,241	1,393	1,590	1,351	1,214	1,686	1,760	1,620
Qatar	405	328	295	399	292	297	312	312	300	335
Saudi Arabia [b]	9,625	6,327	4,867	4,444	3,659	2,731	2,564	4,067	4,000	4,500
UAE	1,500	1,248	1,119	1,097	1,123	1,120	1,193	1,242	1,185	1,165
Venezuela	2,108	1,893	1,781	1,813	1,538	1,641	1,630	1,670	1,555	1,555
Communist countries	**14,235**	**14,282**	**14,405**	**14,428**	**14,790**	**14,770**	**14,768**	**14,283**	**14,266**	**14,266**
USSR	11,800	11,830	11,864	11,728	11,920	11,870	11,866	11,367	11,350	11,350
China	2,024	2,042	2,121	2,280	2,450	2,480	2,487	2,496	2,496	2,496
Other	411	410	420	420	420	420	415	420	420	420

[a] Preliminary.
[b] Excluding Neutral Zone production, which is shown separately.
[c] Production is shared equally between Saudi Arabia and Kuwait.

Big Seven: Inland Oil Consumption

Thousand b/d

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States [a]	16,058	15,296	15,184	15,708	15,813	15,452	15,557	15,601	15,411	16,100
Japan	4,444	4,204	4,193	4,349	4,720	3,580	3,833			
West Germany	2,120	2,024	2,009	2,012	1,993	2,034	2,258		1,909	
France	1,744	1,632	1,594	1,531	1,755	1,342	1,310	1,556	1,596	1,504
United Kingdom	1,325	1,345	1,290	1,624	1,881	1,208	1,230		1,361	
Italy [b]	1,705	1,618	1,594	1,513	1,718	1,281	1,417		1,644	
Canada	1,617	1,454	1,354	1,348	1,327	1,285	1,367			

[a] Including bunkers, refinery fuel, and losses.
[b] Principal products only prior to 1981.

Big Seven: Crude Oil Imports

Thousand b/d

	1981	1982	1983	1984	1985					
					1st Qtr	2d Qtr	3d Qtr	4th Qtr	Nov	Dec
United States	4,406	3,488	3,329	3,402	2,545	3,397	3,171	3,662	4,053	3,593
Japan	3,919	3,657	3,567	3,664	3,777	3,118	3,003		3,233	
West Germany	1,591	1,451	1,307	1,335	1,419	1,260	1,248	1,209	1,178	1,150
France	1,804	1,596	1,429	1,395	1,578	1,252	1,421		1,527	
United Kingdom	736	565	456	482	534	518	444			
Italy	1,816	1,710	1,532	1,507	1,453	1,328	1,166			
Canada	521	334	247	244	188	216	162			

OPEC: Crude Oil Official Sales Price [a]

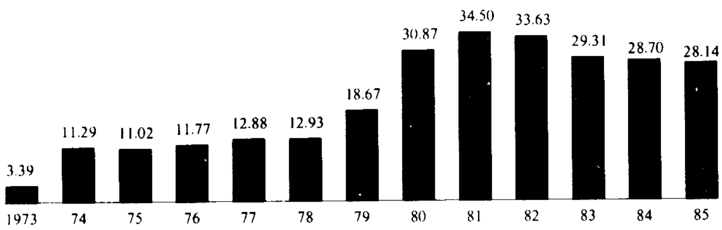
US $ per barrel

	1980	1981	1982	1983	1984	1985				
						Year	1st Qtr	2d Qtr	3d Qtr	4th Qtr
OPEC average [b]	30.87	34.50	33.63	29.31	28.70	28.14	28.25	28.11	28.13	28.15
Algeria 44° API 0.10% sulfur	37.59	39.58	35.79	31.30	30.50	29.66	30.15	29.50	29.50	29.50
Ecuador 28° API 0.93% sulfur	34.42	34.50	32.96	27.59	27.50	26.41	26.82	26.50	26.15	26.15
Gabon 29° API 1.26 % sulfur	31.09	34.83	34.00	29.82	29.00	28.09	28.35	28.00	28.00	28.00
Indonesia 35° API 0.09% sulfur	30.55	35.00	34.92	29.95	29.53	28.62	28.88	28.53	28.53	28.53
Iran										
Light 34° API 1.35% sulfur	34.54	36.60	31.05	28.61	28.00	28.13	28.38	28.05	28.05	28.05
Heavy 31° API 1.60% sulfur	33.60	35.57	29.15	27.44	27.10	27.37	27.41	27.35	27.35	27.35
Iraq [c] 35° API 1.95% sulfur	30.30	36.66	34.86	30.32	29.43	28.27	28.78	28.43	28.43	28.43
Kuwait 31° API 2.50% sulfur	29.84	35.08	32.30	27.68	27.30	27.30	27.30	27.30	27.30	27.30
Libya 40° API 0.22% sulfur	36.07	40.08	35.69	30.91	30.40	30.40	30.40	30.40	30.40	30.40
Nigeria 34° API 0.16% sulfur	35.50	38.48	35.64	30.22	29.12	28.34	28.24	28.37	28.37	28.37
Qatar 40° API 1.17% sulfur	37.12	34.56	29.95	29.49	28.48	28.10	28.10	28.10	28.10	28.10
Saudi Arabia										
Berri 39° API 1.16% sulfur	30.19	34.04	34.68	29.96	29.52	28.20	28.48	28.11	28.11	28.11
Light 34° API 1.70% sulfur	28.67	32.50	34.00	29.46	29.00	28.08	28.32	28.00	28.00	28.00
Medium 31° API 2.40% sulfur	28.12	31.84	32.40	27.86	27.40	27.32	27.48	27.40	27.20	27.20
Heavy 27° API 2.85% sulfur	27.67	31.13	31.00	26.46	26.00	26.25	26.50	26.50	26.00	26.00
UAE 39° API 0.75% sulfur	31.57	36.42	34.74	30.38	29.56	28.24	28.52	28.15	28.15	28.15
Venezuela 26° API 1.52% sulfur	28.44	32.88	32.88	28.69	27.88	27.37	27.69	27.60	27.10	27.10

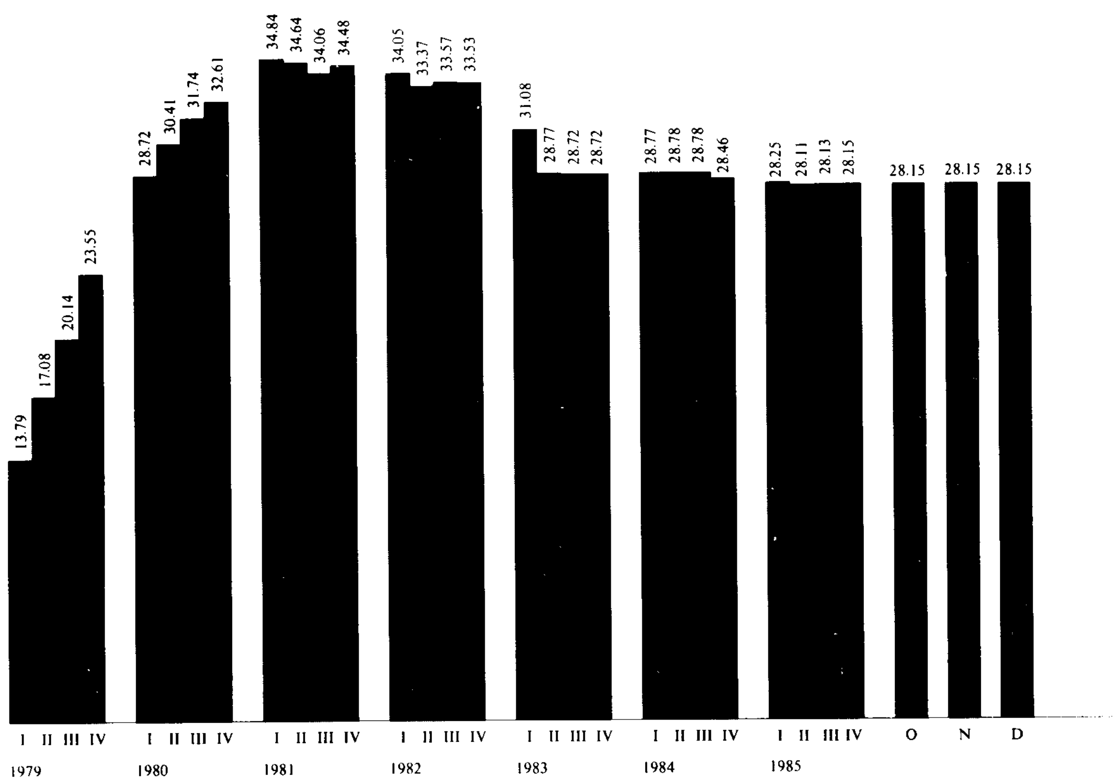
[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil.
[b] Weighted by the volume of production.
[c] Beginning in 1981 the price of Kirkuk (Mediterranean) is used in calculating the OPEC average official sales price.

OPEC: Average Crude Oil Sales Price

US $ per barrel



Annual average



The 1973 price is derived from posted prices, not official sales prices.

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