Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Directorate of Intelligence

~~Secret~~

25X1

5 Articles
34 Briefs

File Copy
Do Not Remove

International Economic & Energy Weekly

25X1

5 December 1986

~~Secret~~

DI IEEW 86-048
5 December 1986

Copy 677

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1
Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1

International Economic & Energy Weekly

25X1

5 December 1986

iii Synopsis

1 Perspective—Foreign Acquisition of US High-Technology Firms 25X1 25X1

3 Iran: Political Repercussions of the Slumping Economy 25X1 25X1

7 Nicaragua: Compounding Economic Problems 25X1 25X1

25X1

17 Sudan: The Economy in Shambles 25X1 25X1

21 Ecuador: Coping With Lower Oil Prices 25X1 25X1

25 Briefs
- Energy
- International Finance
- International Trade
- Global and Regional Developments
- National Developments

25X1

Indicators

Comments and queries regarding this publication are welcome. They may be directed to *Directorate of Intelligence* 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1

International Economic & Energy Weekly

25X1

Synopsis

1 **Perspective—Foreign Acquisition of High-Technology Firms** 25X1

Growing foreign acquisitions of US high-technology firms have raised concerns over increased US dependence on foreign-owned suppliers—particularly in advanced military technologies—and possible leakages of controlled technology to the Soviet Bloc. 25X1

3 **Iran: Political Repercussions of the Slumping Economy** 25X1

Serious shortages of necessities, the result of Iraqi air attacks and low oil prices, are causing unrest among key lower-class supporters of the Iranian regime. If antiregime sentiment continues to grow, Tehran may be forced to divert more resources away from the war to shore up domestic support. 25X1

7 **Nicaragua: Compounding Economic Problems** 25X1

The Sandinistas' economic problems continue to mount. The Sandinistas are using tight regulations and repressive measures to retain political control, while increased Soviet Bloc aid has apparently created an economic safety net. Nevertheless, the dismal economy may spur growing antiregime sentiment, especially if battlefield losses mount as the insurgency heats up. 25X1

25X1

17 **Sudan: The Economy in Shambles** 25X1

Sudan's Government continues to postpone urgently needed structural reforms, opting instead for band-aid economic measures that it hopes will allow it to muddle through. With supplies of essential commodities dwindling and inflation soaring, the living standards of a broad segment of the urban population is declining, increasing the threat of more strikes and protests and the potential for serious political unrest. 25X1

21 **Ecuador: Coping With Lower Oil Prices** 25X1

Ecuador faces severe foreign payments problems and constraints on growth of its oil-based economy in 1987. If oil prices do not begin to rise by the end of this year, we believe President Febres-Cordero's free market reforms will come under increased attack in the leftist-controlled congress. 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1

International Economic & Energy Weekly

25X1

5 December 1986

Perspective

Foreign Acquisition of US High-Technology Firms

25X1

Since January 1985, foreign firms—primarily British, French, West German, and Japanese—have acquired, or are about to acquire, almost 150 US high-technology firms. In addition to chemicals and pharmaceuticals, their main target has been the electronics sector, especially semiconductors, computers, and telecommunications. These acquisitions are driven by a combination of factors, including:

- The desire to obtain advanced US technology to bolster indigenous development capabilities, spurred, in part, by increasingly stringent enforcement of US patent and copyright laws.
- The need to gain access to the US market, especially to secure proximity to customers and to sales, distribution, and service networks—prompted by fears of US import restraints.
- Attempts by cash-rich firms to diversify into the high-growth, advanced technology area.
- The recent depreciation of the dollar, which is allowing foreign companies to acquire US firms at lower domestic currency costs. For example, Fujitsu's $250 million offer for Fairchild is one-third less, in yen terms, than it would have been at the exchange rate of a year ago.

25X1

Foreign interest in the US semiconductor sector—ranging from materials, to devices, to manufacturing equipment—has been particularly strong. While the acquisition of major US semiconductor manufacturers such as Mostek, Zilog, and Zymos have received considerable press, there are a number of smaller deals that some observers see as contributing to the erosion of this strategically important US industry. For example, two US producers of silicon wafers and two lead frame (packaging) producers have already been acquired. Several advanced production equipment manufacturers have also become foreign acquisition targets.

25X1

Although foreign buyouts of US firms are dwarfed in comparison with US merger activity, these acquisitions expose the United States to significant vulnerabilities. Some foreign acquisition efforts could weaken the US infrastructure in selected industries and could potentially leave US companies dependent on foreign-owned suppliers. This is a particular concern for advanced, military technology. This reliance could lead to supply uncertainties, considerably higher prices, and, more important, potential erosion of the domestic technology base needed to support development of next-generation weapon systems. Foreign acquisitions will also complicate technology transfer issues and increase the chances for leakages to the Soviet Bloc. Although relatively few of the US firms acquired thus far are major defense suppliers, many of the companies possess technologies that are useful for military as well as civilian applications.

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Foreign acquisitions of US high-technology firms will probably accelerate—at least for the near term. Armed with substantial financial backing and the advantages offered by the declining dollar, Japanese, West European, and other foreign firms will seek vulnerable US companies—particularly those weakened by slumping markets, smaller firms with restricted product lines, or those strapped by ever increasing R&D and capital investment requirements. At the same time, the explosive increase in the speed, size, and scope of international financial transactions might not only facilitate foreign investment in US firms, but also might disguise the source of this investment, especially if foreign firms begin to use leveraged buyouts. As global financial markets become more complex, US firms could be acquired by investors of unknown identity whose interests are adverse to those of the United States.

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Iran: Political Repercussions of the Slumping Economy

25X1

Serious shortages of necessities, the result of Iraqi air attacks and low oil prices, are causing unrest among key lower-class supporters of the Iranian regime. Tehran has been seeking to recover frozen foreign exchange assets to avoid still more austerity and to shore up its dwindling reserves. The dire economic situation is contributing to political maneuvering among opposing clerical factions over war policy and Khomeini's succession. If antiregime sentiment continues to grow, Tehran may be forced to divert more resources away from the war to shore up domestic support.

Cutbacks and Increasing Tension

Over the past several months, Iraqi attacks and low oil prices have forced Tehran to impose severe austerity. Since midyear Tehran has limited spending almost exclusively to military items, agricultural products, medicine, and fuels. More recently, even formerly sacrosanct food imports have been cut. As a result of Iraqi attacks on oil refineries, Tehran has reduced rations of heating fuel by 60 percent compared with last year and introduced strict rationing of gasoline.

Periodic shortages have been fairly common in recent years, but scarcities of a broad range of goods including many necessities are reportedly becoming routine. Meat is the most frequently mentioned item in short supply, but others recently cited include cheese, tea, cooking oil, butter, gasoline, soap, paper products, and medicines. Even the black market, usually able to provide almost any commodity for a price, is reportedly short of food. Rumors of imminent bread rationing have touched off panic buying in some areas.

Widespread shortages have kicked off a surge in the inflation rate that had been running about 20 percent. Rice prices have doubled since May, and the price of meat has increased 80 percent since August. 25X1

25X1 the cost of living in Tehran is making it very difficult for the urban poor. School children increasingly must share textbooks, notepads, and pens, because shortages of these materials have pushed prices higher than many lower class members can afford. 25X1

Improved Relations With Saudi Arabia

Low oil revenues and deteriorating economic conditions in Iran may be prompting Tehran to try to improve relations with Saudi Arabia in the hope that Riyadh will work for higher oil prices and will discourage Iraqi attacks against Iranian economic targets. Since Iran and Saudi Arabia reached a compromise at the August OPEC meeting, bilateral tensions have eased. Saudis have noted a lack of fanaticism and less intractability on the part of Iranian officials, according to the US Embassy. 25X1

Iranian public statements indicate that the Iranians believe the Saudis have become more accommodating. They view the shift in Saudi oil policy since August and the firing of Oil Minister Yamani as conciliatory gestures. Riyadh, for its part, sees an opportunity to exact concessions on Tehran's policy toward Iraq in return for greater Saudi flexibility on OPEC matters. 25X1 25X1

Saudi Arabia and Iran will probably continue efforts to narrow their differences. They are likely to try to coordinate strategy at the December OPEC meeting, and they probably are prepared to make mutual concessions that would improve the prospects for a price and production agreement. 25X1 25X1 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Shortages of spare parts and raw materials continue to force contraction of Iran's industrial sector, leading to further increases in Iran's 30- to 35-percent unemployment rate. Many factories and small businesses have been forced to make significant cutbacks or shut down completely. [ ] factory output is down 70 percent from last year. Businesses have sought to cut work forces by encouraging early retirement and layoffs. According to the Iranian press, 6,000 workers will be laid off at Iran's largest industrial facility, the Esfahan steel mill. [ ]

Signs of Unrest

Demonstrations and open grumbling throughout the country have recently increased in response to deteriorating conditions. [ ] gasoline rationing recently sparked protests in Iran's three largest cities. Demonstrators blocked thoroughfares and attacked gas stations, prompting authorities to call out the Revolutionary Guards. In Mashad, about 2,000 citizens marched on the governor's building, [ ] Soon after arriving, the protestors were surrounded by Komiteh Guards who checked demonstrators for proof of military service. Those without proof were arrested and sent to the front, some others were reportedly beaten. [ ]

Disregard for authority appears to be increasing, an indication that popular tolerance is wearing thin. Public complaints about economic problems are becoming common, particularly among consumers stuck in ration lines. Residents in one section of Tehran recently attacked government buildings to protest food shortages [ ] In another section, local clerics and their followers ignored an official restriction limiting their participation in an annual religious ceremony and drove off Revolutionary Guards attempting to impose compliance. Robberies and muggings in Tehran have increased [ ]

Financial Options

Tehran could temporarily alleviate its current austerity by drastically drawing down its foreign exchange reserves and expanding its use of credit. We estimate Iran has already drawn down its foreign exchange assets by at least $2 billion this year. Tehran currently has about $2.5 billion in cash reserves and another $4.5 billion in other available assets and gold. Nevertheless, these assets would buy only a few months' respite and would leave the Islamic Republic in a far more difficult financial position. [ ]

25X1
25X1

The replacement in late November of Iran's financially conservative Central Bank director raises the likelihood of a shift from its current cautious policies of husbanding reserves and avoiding foreign loans. Economic woes have already prompted Tehran to seek foreign overdraft facilities and increase its use of short-term trade credits. But [ ] indicate great reluctance by foreign banks to extend significant credit to Iran. More important, Iran's majles—the consultative assembly—is unlikely to give the necessary approval for the Central Bank to seek formal loans because of opposition to borrowing on religious grounds and a determination to maintain Iran's economic independence. [ ]

25X1
25X1
25X1
25X1

With few alternatives, Tehran has increased its efforts to recover frozen assets, particularly from France and the United States. Iran and France are negotiating a settlement on Iran's $1.3 billion loan made before the revolution by the former Shah to the French nuclear firm Eurodif. Some $330 million has been transferred to Iranian accounts; the remainder may be held up over French counterclaims and negotiations for the release of French hostages in Lebanon. About $1.3 billion is being held in escrow accounts set up to handle various US bank and business claims against Iran. Speaker Rafsanjani recently claimed that the release of these frozen assets would lead Iran to encourage the release of US hostages in Lebanon. [ ]

25X1
25X1
25X1
25X1
25X1

Political Maneuvering and Military Strategy

Economic problems and the resulting popular unrest are aggravating the infighting among ruling clerics. A recent editorial in a government-controlled newspaper stridently criticized the management of the economy. Radicals have been using the shortages and revenue shortfalls as an excuse to harass groups that generally

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

support more moderate politicians. Radicals in the majles have pushed bills cracking down on profiteering by bazaar merchants and allowing the government to confiscate property from members of the middle class under the pretext of their former support for the Shah. Moreover, Khomeini's deteriorating health has apparently reduced his ability to act as peacemaker and intensified maneuvering over his succession.

25X1

By jeopardizing support for the regime, economic difficulties have magnified pressure on Tehran to show progress in the war but raised the political risks of a defeat. The huge mobilization undertaken over the past several months was accompanied by declarations that sacrifices are necessary to achieve victory by next spring. Although Iran's vulnerability to Iraqi air attacks puts pressure on the regime to launch the offensive, concern over the state of the economy and the impact of a military defeat in the face of privation on the home front probably played a key role in the decision to postpone the Iranian offensive this fall.

25X1

Outlook

Shortages, inflation, and unemployment will worsen in the coming months. Iraq appears determined to keep attacking oil facilities, especially refineries. Continued effective Iraqi airstrikes would cause shortages of heating fuel to become more severe this winter. Even if Iranian oil exports were to recover, relatively low world crude prices would continue to make it difficult for Tehran to sustain the war at current levels and keep the economy afloat.

25X1

Antiregime sentiment among the lower classes—the backbone of the government's support—probably will increase during the coming months in response to the economic deterioration. Although a major military victory would probably buy Tehran some time, domestic pressure to solve the country's economic problems will continue to build. If economic privations are combined with a major defeat, the regime would probably have to reconsider its aggressive military policy and devote more resources to shoring up domestic support.

25X1

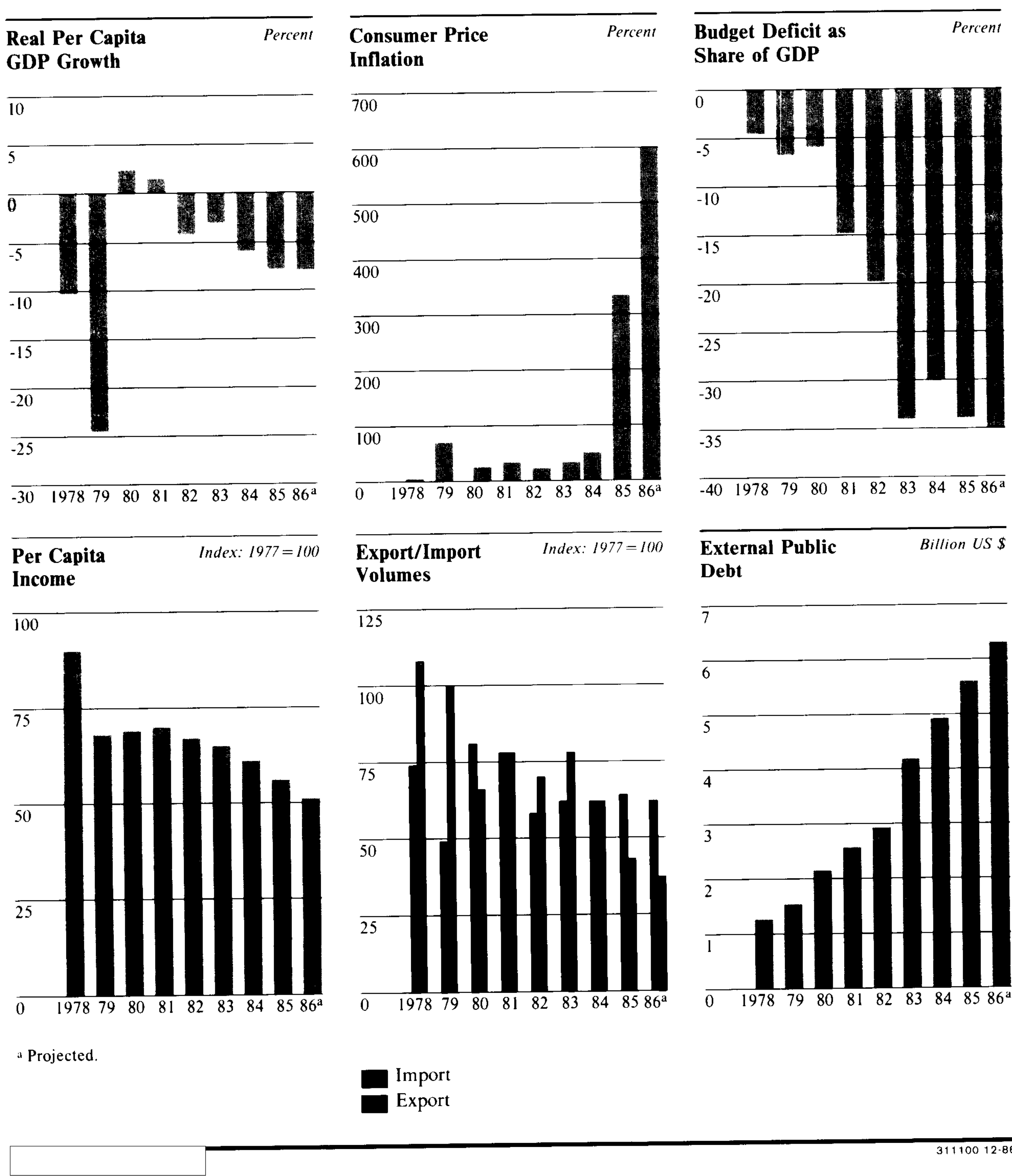
25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Nicaragua: Economic Indicators, 1978-86

Note scale change



[a] Projected.

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Nicaragua: Compounding Economic Problems [1]

25X1

The Sandinistas' economic problems continue to mount. Recent harvests have been the worst this decade, and industrial output and commercial services are also suffering. Overall, per capita income is now one-half prerevolution levels, and government officials expect inflation to top 600 percent this year. Public discontent over food shortages has led to numerous small-scale protests in Managua and other cities since last summer. The Sandinistas are using tight regulations and repressive measures to retain political control, while increased Soviet Bloc aid has apparently created an economic safety net. Nevertheless, the dismal economy may spur growing antiregime sentiment, especially if battlefield losses mount as the insurgency heats up.

Steep Production Declines

The agricultural sector is taking its worst pounding since the major disruptions caused by the Sandinista revolution. Overall, we project that agriculture—which accounts for one-fourth of Nicaragua's GDP, nearly one-half of its employment, and the bulk of its exports—will probably fall by an additional 15 to 20 percent this year. The coffee harvest, which alone accounts for 20 percent of agricultural production, appears to be among the hardest hit. Statistics from INCAFE, the state coffee-trading monopoly, indicate this year's coffee harvest fell to 35,000 metric tons, one-third below last year and about 35 percent below pre-1979 levels. Private producers say this year's cotton harvest, which accounts for about 15 percent of all farm output, was one-third below last year and 60 percent below pre-1979 levels.

Harvests of foods for local consumption are also down sharply, according to Nicaraguan agricultural experts. Food distribution officials report the winter rice harvest was only one-half of that expected and the summer crop was poor. While providing no estimates, official sources indicate that the crucial corn and bean harvests also have been highly disappointing, and that consumer rations would have to be cut.

25X1

Government officials cite bad weather and shortages of manpower and imported inputs for the declines, but, according to US Embassy reporting, private growers place more blame on government controls, the lack of credit, and civil war disruptions. For almost every crop, most private producers say that price and marketing regulations preclude acceptable profits. government mismanagement of state farms and cooperatives has also been an important factor in the decline.

25X1
25X1
25X1

While information on 1986 industrial activity is still sketchy, output apparently continues to fall. Capacity utilization at numerous factories apparently has declined sharply this year. Among the firms hardest hit are food-processing plants and processors of chemicals and wood products, largely because of raw material shortages.

25X1

These conditions are made worse by the continued flight of capital and human resources. During the past year, press and US Embassy reports have indicated that many professionals who have seen their practices disrupted by new Sandinista controls are leaving the country. Despite tough foreign exchange controls, the US Embassy notes that comparison of Nicaragua's trade statistics with partner data indicates that tens of millions of dollars are being diverted by the private sector and government officials using false invoicing techniques.

25X1
25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Costs of the Military Buildup

The military is placing increasing strain on Managua's weakening economy. Military spending now absorbs 60 percent of the government budget and one-third of total GDP.

As military spending soared, vital managerial skills have been allocated to the war, and labor shortages in combat zones have contributed to lower harvests of export crops. Moreover, scarce raw materials and capital goods have been increasingly diverted from development projects, further undermining long-term economic growth. While the regime claims the military expenses have been necessary to fight the insurgency, the active military grew to two-thirds its present size before the insurgency began.

On a net basis, we estimate—based on cost studies prepared by the US Embassy—that the insurgency has cost Managua some $500 million since 1982. The bulk of the loss is from lower productivity and reduced farm exports. Direct costs involve insurgent attacks on infrastructure, state farms, and government-controlled cooperatives. The regime's losses, however, have been more than offset by Soviet Bloc and Cuban aid, which has totaled $2.5 billion in Soviet Bloc and Cuban financial support and military assistance since 1982. Military aid alone ballooned from $6 million in 1980 to $248 million in 1984.

Impact of the US Trade Embargo

Direct losses attributable to the embargo since its inception in May 1985 have reached $75 million, according to Nicaraguan figures and our own analysis. Export losses have driven Nicaragua's hard currency earnings to less than one-half the 1984 levels, and denial of critical imports has stunted production. The US Embassy reports that Managua's banana sales are no longer profitable because shipment to new European markets is costly and the fruit often rots enroute. Moreover, the regime has been unable to find new customers for its seafood and beef, and withdrawal of the US sugar quota means Nicaragua has to sell on the glutted world market at less than one-third the subsidized price. In addition, the lack of imported spare parts, machinery, and other raw materials and intermediate goods has reduced agricultural production and virtually shut down the fishing fleet.

The Sandinistas have been somewhat successful at offsetting the embargo, and its effect probably will be substantially lowered in the future. Immediately following the imposition of the embargo, Soviet Bloc countries responded to Sandinista pleas by providing over $100 million in increased economic assistance, much of that in hard currency. Since last year the Soviet Bloc has continued to boost financial support, partly in response to Nicaraguan pleas for protection from the embargo.

Growing External and Internal Deficits

Depressed economic activity is further undermining Nicaragua's international accounts. Recent official Nicaraguan projections indicate that exports will amount to less than one-third of imports and that the trade deficit will exceed $600 million this year. Managua is faced with the nearly impossible task of borrowing or rescheduling more than $1.1 billion during 1986 to finance its imports and to stay current on debt obligations.

As a result, Nicaragua is virtually ignoring its debts.

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1

Nicaragua's 1986 Economic Plan also indicates that, to help keep their military and political programs going, the Sandinistas have continued to rely on printing currency to cover deficit spending. Meanwhile, on the black market the cordoba has plummeted from 500 to the dollar at the beginning of the year to about 2,500 to the dollar now. Although a government-controlled exchange house is buying dollars at about one-half the black-market rate, the regime has resisted a major devaluation and the official rate remains greatly overvalued at 70 to the dollar.

25X1

New Distribution Controls and Consumer Shortages

As production and trade continue to deteriorate, the regime is assuming direct control over more of the wholesale and retail network, and has further tightened food rationing. The Ministry of Internal Commerce (MICOIN) has launched two separate, highly publicized campaigns this year designed to force consumers and merchants to observe state-authorized distribution channels and prices. The new controls include highly restrictive licensing procedures and a cadre of uniformed and plainclothes inspectors authorized to impose fines, confiscate goods, and suspend commercial licenses. Using these new controls, MICOIN has forced thousands of independent merchants out of business, according to Embassy reporting. Despite well-publicized emergency shipments from the Soviet Union, food shortages remain serious. A number of staples—including rice, beans, bread, and cooking oil—have been practically unavailable.

Despite increasing government controls, inflation is spiraling. Last month the Minister of Agriculture reported that, during the 12 months ending in October 1986, official prices for rice had increased 82 percent, chicken 252 percent, beans 314 percent, bread 1,147 percent, corn 3,923 percent, and tortillas by 7,600 percent. In these circumstances, regime economists reluctantly admit that overall inflation is running between 600 percent and 700 percent on an annual basis.

25X1

Growing shortages and government controls have led to unprecedented consumer disturbances:

- Two government market inspectors were killed in separate incidents early this year as they tried to enforce Sandinista policies against the black market, according to the US Embassy.
- In June four police detachments were needed to restore order when a crowd attacked a MICOIN inspector trying to arrest a woman for illegally selling beans.
- Shortly thereafter, an Embassy source reported that hungry consumers hijacked a government corn truck near Managua and made off with its cargo.
- During July and August the Embassy reported that peasant groups took corn and Soviet rice during raids on state farms.
- In September a patrol car was smashed by angry vendors as police attempted to close a clandestine food market just north of Managua.
- In November the US Embassy reported that local journalists were pelted with stones and commodities when attempting to prepare stories on new illegal markets sprouting up around Managua.

25X1

The Soviet Safety Net

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Nicaragua: Foreign Financial Gap, 1978-86

Million US $

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Current account balance	**−25**	**180**	**−392**	**−563**	**−505**	**−559**	**−631**	**−801**	**−908**
Trade balance	93	227	−353	−422	−316	−349	−415	−545	−608
Exports, f.o.b.	646	616	450	500	408	429	385	297	232
Coffee	200	158	166	136	124	154	122	123	127
Cotton	141	136	30	122	87	110	134	91	40
Other	305	322	254	242	197	165	129	83	65
Imports, f.o.b.	553	389	803	922	724	778	800	842	840
Net services and transfers	−118	−47	−39	−141	−189	−210	−216	−256	−300
Debt amortization due	68	117	130	97	113	157	166	197	220
Financial gap	**−93**	**63**	**−522**	**−660**	**−618**	**−716**	**−797**	**−998**	**−1,128**
Official capital disbursements	111	115	371	424	458	369	412	525	650
Other capital and errors and omissions	−242	−256	−186	164	−29	−112	−91	−95	−100
Debt rescheduling [a]		138	135	92	7	269	278	179	200
Increase in arrears				37	83	228	208	272	250
Change in reserves	−224	60	−202	57	−99	38	10	−117	−128
Other financial items									
External debt yearend	1,261	1,531	2,147	2,566	2,918	4,185	4,922	5,601	6,300
Debt service									
Owed	133	202	225	266	293	336	394	496	530
Paid	133	64	90	192	203	106	79	69	60

[a] Includes conversion of Central Bank short-term liabilities from previous arrears into medium-term debt.

25X1

25X1

We calculate that probable increases in foreign financial support will not be enough to reverse Managua's economic slide in the near term. we project Soviet Bloc financial support to increase by more than $150 million during 1986 to a total of some $600 million—probably just enough to maintain imports at the depressed 1985 level. In our estimation, however, little if any of this will be available to increase productive imports for industry and agriculture because of compensating reductions in Nicaragua's export earnings, the continued decline in Western financial support, and higher prices for most nonoil imports.

25X1

Looking Down the Road

Because the key determinants of economic policy making—political concerns and the war—almost surely will not change, we believe economic activity will continue to fall through 1987 at about the same

25X1
25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

rate experienced over the past two years. The slide could be even greater as anti-Sandanista insurgent activities intensify the drain on the Sandinistas' limited resources. In these circumstances, Managua's ability to keep the economy afloat and consumption at acceptable levels will increasingly depend on the Soviet Bloc's willingness to continue to underwrite the economy. [ ] 25X1

We see only a remote chance that the Sandinistas would adopt measures needed to increase business confidence and restore trade and financial flows from the West. [ ] tolerance of the private sector is only a short-term tactical accommodation. [ ] the Sandinista leaders share a common economic goal—the creation of a centrally controlled economy in a Marxist-Leninist state. [ ] 25X1 25X1 25X1

As state domination continues to grow, the critical shortage of managers and a growing official corruption will constrain the economy further. [ ] [ ] government inefficiency is rampant, particularly in retail and wholesale distribution channels and in state farms and industries. According to US Embassy [ ], state graft is more prevalent now than at any time in recent memory. [ ] 25X1 25X1 25X1 25X1

In our assessment, the dismal economic situation will become an increasing point of vulnerability for the Sandinista regime. As living standards continue to erode, we believe chances are growing that government policy moves could spark more widespread consumer reactions, including serious food riots or even work disruptions over the next year. The growing economic plight, particularly if combined with increasing battlefield losses, will continue to erode internal confidence in the Sandinistas, and could eventually translate into increased popular support for the insurgents. Moreover, based on tactics to date we believe there is greater likelihood the Sandinistas will be viewed by many Nicaraguans as both unresponsive and repressive. [ ] 25X1

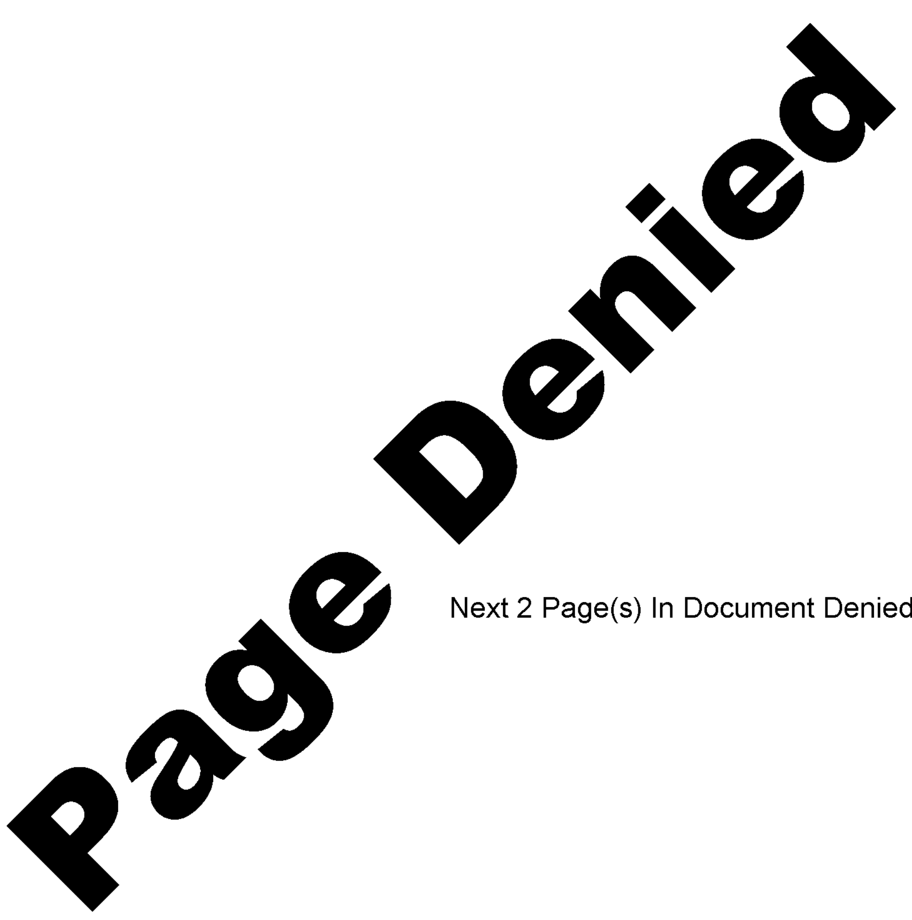
[ ] 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1
Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8



Next 2 Page(s) In Document Denied

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Sudan: The Economy in Shambles

25X1

Sudan's Government continues to postpone urgently needed structural reforms, opting, instead, for band-aid economic measures that it hopes will allow it to muddle through. Neither new aid nor a self-initiated economic rebound appears likely, however, and the Sudanese economy—or at least that segment supported by government payrolls and subsidies—continues to deteriorate. With supplies of essential commodities dwindling and inflation soaring, the living standards of a broad segment of the urban population is declining, increasing the threat of more strikes and protests and the potential for serious political unrest.

25X1

Debt and Mounting Arrears

Sudan's official economy is virtually bankrupt. The budget deficit is growing rapidly with total expected 1987 revenues of $1.1 billion and official expenditures totaling $2.2 billion. Moveover, debt arrears total over $2 billion—the 1987 debt payment alone is $815 million, or 74 percent of total revenues.

Khartoum hopes to cover some of the deficit through foreign assistance, but the government's unwillingness to address seriously the repayment of arrears totaling over $400 million owed to the IMF has stymied efforts to organize a new multilateral aid package. Consultations between the Fund and the Sudanese Government occur on a periodic basis, but, without any meaningful reforms on Khartoum's part, these discussions are likely to lead nowhere. As a result, neither a Paris Club rescheduling nor a consultative group meeting is likely in the near term.

Sudan's system of multiple exchange rates and confusing foreign exchange regulations is causing the government to lose revenues. Artificially high exchange rates have depressed exports, especially cotton, which was the number-one export and foreign exchange earner in the past. Cotton exports have also suffered from crop losses and low world prices. Worker remittances through official channels have dropped from approximately $30 million per month in 1981 to about $4 million currently, in part because of the unfavorable exchange rate offered recipients. Moreover, economic conditions in the Gulf states have led to layoffs and wage cuts for foreign workers. Shortages of needed imported inputs have hurt industry, which is operating at only 20 percent of capacity.

Sudan's Current Account, 1986-87 *Million US $*

	1986 [a]	1987 [b]
Current account balance	**−951**	**−968**
Trade balance	−567	−551
Exports, f.o.b.	408	404
Cotton	173	169
Other	235	235
Imports, c.i.f.	975	955
Service balance	−748	−763
Receipts	67	52
Remittances	50	35
Other	17	17
Payments	−815	−815
Official transfers	364	346

[a] Estimated.
[b] Projected.

25X1

25X1

25X1

25X1

Living Standards Deteriorate

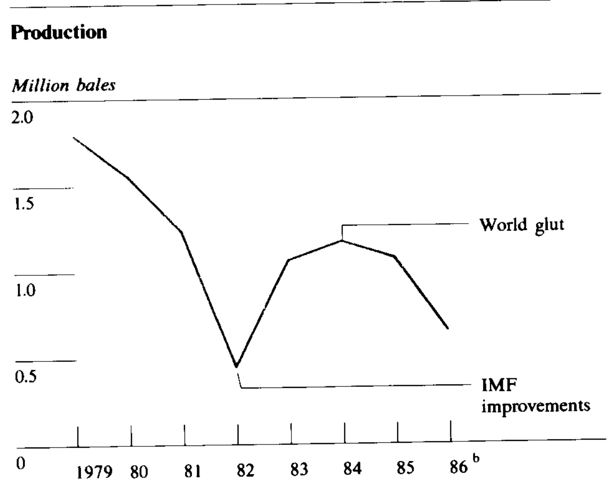
Meanwhile, the US Embassy reports that the cost of living is the source of frequent complaints by residents of Khartoum. Excessive government spending and

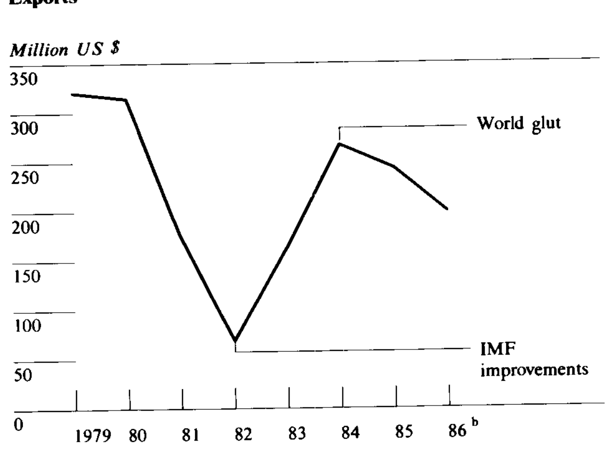
Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Sudan: Cotton Production and Exports, FY 1979-86[a]

Note scale change



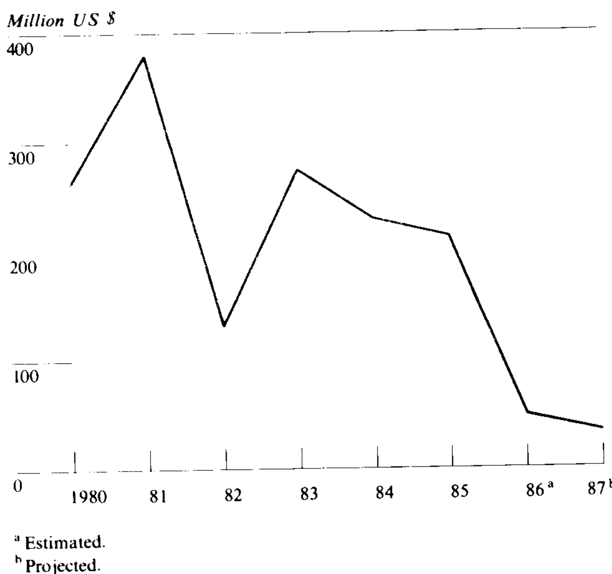


[a] Data for fiscal year (FY) ending 30 June.
[b] Estimated.

311103 12-86

25X1

Sudan: Worker Remittances, 1980-87



[a] Estimated.
[b] Projected.

311104 12-86

shortages of consumer and industrial goods are fueling inflation, currently running at an annual rate of 70 percent.

25X1

Shortages of fuel, electricity, meat, and other consumer items resulted in five days of student rioting in Khartoum this fall. The government faces a growing threat from both the approximately 1 million residents and perhaps another million squatters that have fled civil war, drought, or famine. Currently, the US Embassy reports that Khartoum food markets have adequate supplies of local produce, but imported commodities including canned goods, soft drinks, and cigarettes are in short supply, obtainable only through the black market. In outlying areas, away from government price controls, commodities are available but at much higher prices.

25X1

According to US Embassy reporting, Sudan's oil refinery is temporarily shut down for lack of crude oil supplies. Saudi Arabia, Libya, and other donors have in the past supplied oil or funds to buy oil, but are withholding further donations until Khartoum comes

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

through with substantial economic reforms. Sudan, with enough in storage to last only until the end of the year, is scrambling to secure future petroleum supplies.

Government Response

Aid donors are insisting on a comprehensive economic reform package before they supply any more aid. Key elements of this package include:

- Reform of the multiple foreign exchange rate system.
- Reducing the budget deficit.
- Curtailing the system of commodity subsidation and parastatal support, which drains government revenues.

Prime Minister Sadiq al Mahdi appears to lack the will and the political skills to bring about the reforms needed to revamp the Sudanese economy. A few of the changes that have taken place so far—a slight improvement in the exchange rate for exporters and remittance transfers, and the sale of a few small parastatals—are not far reaching enough to be effective. They are designed primarily to give donors and the IMF the aura of progress. More significant reforms are not under serious consideration at this time because Sadiq fears a public outcry against the austerity measures they would entail.

Outlook

Sudan's economic prospects appear bleak for the foreseeable future. The outlook for a rebound in cotton earnings and worker remittances—two principal hard currency sources—remains limited by the weak cotton market and poor economic conditions in the Gulf states. Debt arrears recently triggered provisions of the Brooke Amendment cutting off access to new US economic and military assistance. Meanwhile, with government inaction, hard currency shortages will only continue to increase, further depressing imports of commodities and heightening the risk of civil disturbances. Currently, there are few signs that the government can or will take significant steps to head off this deterioration.

25X1

25X1

25X1

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Ecuador: Coping With Lower Oil Prices

25X1

Ecuador faces severe foreign payments problems and constraints on growth of its oil-based economy in 1987 if international oil prices do not begin to rise by the end of this year. The 1986 collapse in oil prices will probably cost Ecuador more than $1 billion in anticipated export revenue this year. International creditors—although increasingly concerned about Ecuador's ability to meet its financial obligations—appear willing to provide the support necessary to keep the economy from plunging into a major recession. President Febres-Cordero responded to the economic crisis in early August by implementing a series of reforms—particularly of the foreign exchange system—designed to reduce Ecuador's heavy dependence on petroleum exports. Structural changes take time, however, and the economic fortunes of the administration will remain largely determined by oil price fluctuations, availability of external financing, commodity prices, and ability of government institutions to sustain the reform effort.

Before the Fall

Shortly after coming to power in 1984, Febres-Cordero enacted numerous free market reforms designed to stimulate the economy and to attract foreign investment. He eliminated or lowered direct and indirect subsidies on many products, allowed domestic interest rates to be determined by market forces, reduced import duties, encouraged foreign direct investment through favorable profit and tax legislation, and introduced plans to privatize certain state-owned enterprises. Ecuador's economic performance improved in 1985—GDP increased by 3.2 percent, and inflation was reduced to 28 percent. Overall debt service—including amortization—was reduced from 65 percent of exports to a more manageable 31 percent during 1985. In addition, Ecuador rescheduled $4.8 billion in public-sector debt last December, extending the repayment period to 12 years and lowering the interest rate to 1.375 percentage points over LIBOR.

Economic Squeeze

The drop in oil prices—from an annual average of $26 per barrel in 1985 to a projected average of $12 per barrel this year—caused a major revision in Ecuador's payments outlook, and in Quito's budget resources. By late spring Quito had estimated it would need $350 million in new foreign lending to cover the financing gap in its balance of payments. In May the United States provided a bridge loan to tide the economy over the final stages of negotiations for an IMF standby agreement completed in August.

25X1

The decline of oil prices will also cost the government about one-fourth of its budget revenues. As a consequence:

25X1

- Real GDP will grow about 1 percent this year,
- Debt service is projected at 45 percent of exports of goods and services for 1986 and may reach over 50 percent by the end of Febres-Cordero's term in office in 1988.
- The manufacturing sector may fail to grow at all this year because of higher domestic costs of imported industrial inputs, higher domestic interest rates, and decreased domestic demand.
- The public-sector budget deficit will reach an estimated 5.0 percent of GDP this year, forcing reductions in planned outlays for social programs.

25X1

25X1

The August Reforms

In response to pressure from local exporters and in an effort to obtain new foreign credits, Febres-Cordero announced an economic reform package in August designed to enhance Ecuador's international creditworthiness. The foreign exchange system was overhauled, unifying the official rate with that of the open market—a devaluation of 35 percent. The Central

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Ecuador: Selected Economic Indicators, 1982-86

	1982	1983	1984	1985	1986 [a]
	Percent				
Real GDP growth	1.2	−3.1	4.1	3.2	1.0
Agriculture	2.0	−14.6	6.7	2.5	3.3
Petroleum and mining	−2.9	26.9	11.9	9.7	4.0
Manufacturing	1.5	−0.1	−2.1	−1.8	0.2
Consumer price growth	16.4	48.4	31.2	28.0	25.0
	Million US $				
Current account	−1,195	−104	−248	−85	−720
Balance of trade	146	940	1,055	1,147	380
Exports, f.o.b.	2,327	2,348	2,622	2,870	2,080
Imports, f.o.b.	2,181	1,408	1,567	1,723	1,700
Interest payments	767	714	849	787	788
Capital account	524	178	308	184	670
Net official international reserves	−460	−58	20	25	−50
	Share of GDP *(percent)*				
Public-sector balance	−6.7	0	−0.3	1.9	5.0
Current account deficit	−11.6	−1.4	−2.5	−0.9	−6.9

[a] Estimated.

25X1

Bank quickly intervened to prevent the value of the sucre from decreasing too rapidly, but its recent strengthening has minimized the need for further government intervention. In addition, interest rate ceilings on deposits and loans have been eliminated to decrease capital flight and encourage savings. Import duties on more than 150 items—raw materials, foods, capital goods, and luxury items—have been lowered by 50 percent to reduce smuggling and import costs of selected items. Foreign exchange risk surcharges and advance deposit requirements have also been removed for imports.

These measures allowed Ecuador to conclude two major financial agreements on 15 August—an IMF standby accord and a compensatory financing facility totaling $140 million, and an agreement with commercial creditors to reschedule $1.4 billion of its private foreign debt under more favorable terms. In addition, the reforms facilitated the signing last month of a syndicated commercial bank loan for up to $220 million. The actual amount of the loan will depend on the level of oil prices. This oil facility will allow Ecuador to cover its 1986 payments deficit.

25X1

Impact of Reforms

The initial effects of the devaluation have favored the export-oriented economy centered in the city of Guayaquil—Febres-Cordero's home base of political support. According to US Embassy reporting, the value

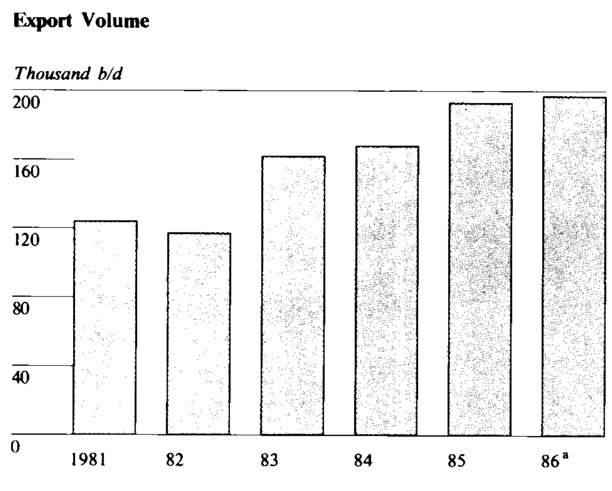
25X1

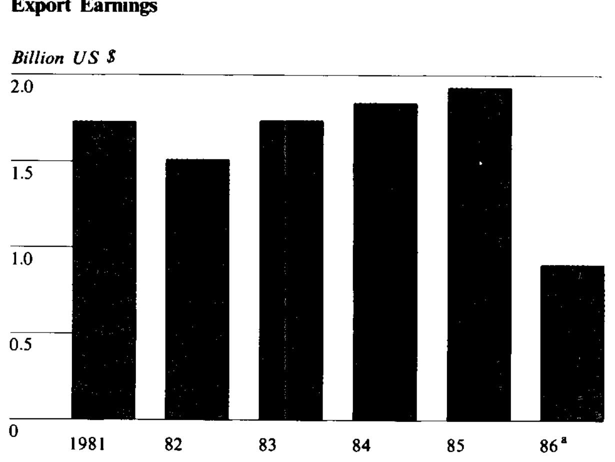
Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Ecuador: Crude Oil Market, 1981-86

Note scale change





[a] Estimated.

311098 12-86

25X1

of nonoil exports jumped by 68 percent in one month, with shrimp, bananas, coffee, and other agricultural commodities accounting for the bulk of the increase. Industrialists and manufacturers who depend on domestic sales, however, have complained that the devaluation has made imported inputs more expensive, driving up their production costs and retail prices. Moreover, the industrial sector—which is located mainly near Quito and consists primarily of textiles, food processing, and assembly operations—has traditionally been highly protected.

Financial reforms have also put pressure on local business interests by increasing borrowing costs. As of October, local interest rates had increased 3 to 6 percentage points over August levels. According to US Embassy reporting, banks are being urged by the administration and the association of private banks to refrain from hiking interest rates further. While there has been no indication of an increase in savings deposits resulting from higher interest rates, the local business community has reacted strongly against higher loan rates and tight credit. Many local businessmen are now blaming the government for the economic slowdown caused by tight monetary and credit policy, according to US Embassy reporting.

25X1

Outlook

Economic prospects for 1987 depend on oil price levels and the ability of adjustment measures to stimulate economic growth in nonoil sectors. if oil prices remain at $12 per barrel, Ecuador faces an external financing gap of $168 million next year. Interest payments alone are projected to reach an equivalent of 30 percent of exports. Government officials have announced plans to renegotiate the terms of last year's rescheduling of public-sector debt beginning 10 December in an effort to ease the debt service burden, according to US Embassy reporting. We believe that real GDP may increase

25X1
25X1
25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

by as much as 2 percent in 1987, based on prospects of higher oil production and combined growth in agriculture, fishing, and manufacturing. [ ] 25X1

Despite efforts to diversify the economy, the outlook still depends heavily on world oil price trends. As a result of the current OPEC production agreement, Ecuadorean officials expect oil prices to reach between $16 and $18 per barrel. In addition, Ecuador has privately stated its intention to produce at about 32,000 b/d above its OPEC production quota in order to boost exports to 180,000 b/d. Even at $18 per barrel, however, the probable rise in interest rates would leave a $100 million financial gap to be financed through external borrowing. If oil prices were to plunge again, Ecuador would be faced with a major financial crisis, requiring extensive new external borrowing to cover deficits and continuous debt reschedulings to meet interest payments. Highly unpopular austerity measures would be required to rein in the economy. [ ] 25X1

The IMF has recently added to pressure on the administration by delaying disbursement of funds under the standby agreement. According to US Embassy reporting, Ecuador has failed to meet targets on international reserves and domestic credit, and has increased government expenditures, causing a marked rise in the public-sector deficit. An IMF official told the Embassy that the administration lacks the political will to implement a serious adjustment program in response to lower oil revenues. Although we believe that Quito may get back on track with its targets by early next year, relations with the IMF and international creditors could become troubled again in 1987 if Ecuador fails to follow through with its austerity measures. [ ] 25X1

[ ] 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Briefs

Energy

OPEC Production Update

Preliminary data suggest that OPEC crude oil production averaged about 18 million b/d in November, an increase of about 200,000 b/d from October levels and 1.3 million b/d over the November quota. Iran increased production by about 500,000 b/d after a sharp drop in October related to war damage, while Iraqi production fell slightly because Saudi pipeline work curtailed exports to the Red Sea. Despite continued calls for a price of $18 per barrel, the Arab producers—led by Saudi Arabia—continue to produce above their quotas. As the OPEC ministers prepare for the 11 December meeting, Saudi reluctance to lower output and OPEC's unwillingness to address the problems of overproduction will hinder efforts to raise oil prices.

25X1

25X1

OPEC: Crude Oil Production, 1986

Million b/d

	November Quota	October	November
Total	**16.760**	**17.8**	**18.0**
Algeria	0.669	0.7	0.7
Ecuador	0.221	0.3	0.3
Gabon	0.160	0.2	0.2
Indonesia	1.193	1.2	1.2
Iran	2.317	1.4	1.9
Iraq	1.800 [a]	1.8	1.6
Kuwait [b]	0.921	1.5	1.5
Libya	0.999	1.0	1.0
Nigeria	1.304	1.3	1.3
Qatar	0.300	0.4	0.4
Saudi Arabia [b]	4.353	5.1	5.0
UAE	0.950	1.3	1.3
Venezuela	1.574	1.6	1.6

[a] Iraq has no official quota; figure reflects production at the time the quota was made.
[b] Includes production from the Neutral Zone.

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1

Iraqi Difficulties Financing Pipeline in Saudi Arabia

Iraq is having difficulty lining up financing for the construction of a second pipeline across Saudi Arabia. According to the US Embassy in Baghdad, the three firms—from West Germany, Japan, and Italy—bidding on the $1.5 billion project are still trying to obtain financing guarantees from their respective export credit agencies. The Embassy also reports that foreign subsidiaries of a US company bidding to supply turbines were recently denied guarantees by Western export credit agencies. Despite these problems, Iraq is likely to forge ahead with the project—construction is scheduled to begin next spring—and pay higher financing costs if necessary.

25X1

25X1

Argentina and Iran Discussing Oil Trade

Argentine oil industry representatives were slated to visit Tehran this week to discuss the purchase of up to 50,000 b/d of Iranian crude, worth up to $250 million a year at current world prices. Although Iranian officials are pushing Argentina to redress a trade imbalance expected to reach $500 million this year, Tehran is dangling the possibility of eventually doubling its purchases from Buenos Aires if Argentina takes the oil, according to Embassy reporting. Buenos Aires is reported to have balked at similar Iranian proposals in the past, but its need to diversify grain sales in the light of a sharp dropoff in Soviet purchases this year is probably causing it to reconsider. A net oil exporter, Argentina would almost certainly process any crude it purchased and resell it in regional markets.

25X1

25X1

Tokyo Plans Continued Cuts in Coal Production

MITI's Coal Industry Advisory Council last week recommended continued cuts in Japan's domestic coal production—a policy Tokyo will probably adopt. Previous coal policy aimed at supporting the highly inefficient domestic industry—and the miners who live in remote areas with few other job opportunities—while slowly phasing out domestic production. It appears this new plan will accelerate the phaseout—an outcome pushed by Japanese coal users because foreign coal costs two-thirds less than domestic coal. According to the report, domestic coking coal production will be phased out completely by 1990 and steam coal production will

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

be gradually reduced from 12 million metric tons currently to about 10 million tons annually by 1991. As a result, MITI expects coal imports to increase by about 5 million tons by 1990. US firms, however, are not likely to capture much of the increase because Canadian and, more so, Australian prices are more attractive. In addition, China plans to use aggressive pricing tactics to boost its coal exports over the next few years. 25X1

International Finance

New Brazilian Debt Problems

A sharp decline in Brazil's trade surplus and growing domestic political pressure may lead to another confrontation with creditors. The trade surplus dropped from a monthly average through August of $900 million to $200 million in October—only 25 percent of monthly interest payments on Brazil's debt. November's figure is likely to be lower, according to press reports. Foreign investment is at a 15-year low and new borrowing has virtually stopped, according to the Embassy. Brasilia is rapidly drawing down international reserves —by as much as $3 billion in the fourth quarter—to meet debt servicing obligations. As a result international bankers are publicly counseling Brazil to seek a new IMF agreement. Leaders of the principal party in the governing coalition are demanding a moratorium on debt service payments. Finance Minister Funaro says he is prepared to negotiate but acknowledges the possibility of a moratorium as a last resort. Brasilia probably hopes to negotiate a Paris Club accord soon to restore access to official export credits, and it will probably approach commercial creditors for lower interest payments or new money. Its longstanding opposition to a formal IMF program, however, probably will impede a quick settlement with creditors. Brasilia may centralize foreign exchange transactions, as it did in 1982, but is unlikely to cut imports sharply in the face of domestic shortages. It probably will also be reluctant to devalue significantly to spur exports. 25X1 25X1 25X1 25X1

Egyptian/IMF Talks End Without Standby Agreement

Following inconclusive discussions in Cairo, the IMF now estimates that March 1987 is the earliest time by which a standby agreement and Paris Club rescheduling can be negotiated. The IMF believes such a delay may cause severe cash flow problems for Cairo and prevent it from funding critical imports and debt payments. The Fund's extreme pessimism over closing the unfunded payments gap, even with a standby program in place, together with its warning that a formal standby may be inappropriate, suggests a hard bargaining stance by the IMF. As a result, any quick resolution of differences between the two sides is unlikely. Cairo, meanwhile, has made it clear that in the absence of a standby agreement it will seek additional cash support from Egypt's friends. According to the US Embassy, Egyptian officials expect as much as $500 million in new US aid. They also have warned the US Ambassador that failure to support the Mubarak regime may provoke a crisis in bilateral relations. 25X1 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Comments on Indonesia's Balance of Payments

Foreign commercial bankers are concerned that Jakarta is not moving vigorously enough to obtain up to $4 billion in loans from the IMF, according to US Embassy reporting. At least this amount will be needed to help finance a current account deficit that we calculate could reach $7 billion next year. The bankers believe that the IMF loans, and the accompanying economic policy adjustments, are necessary for Jakarta to maintain its good, but sagging, international credit rating and continued access to foreign commercial credit. In the US Embassy's judgment, Jakarta may delay the politically embarrassing step of seeking financial help from the IMF until after the April 1987 parliamentary elections. Without IMF credits or a sharp rise in world oil prices, we believe Jakarta will probably be forced to reschedule some of its $40 billion foreign debt by late 1987.

25X1

25X1

Panama Reaches Compromise on Debt Rescheduling

Panama and the World Bank have reached a compromise on the timing of politically sensitive reforms of the social security system making disbursal of a $100 million second structural adjustment loan (SAL) possible before the end of the year. The US Embassy reports that only Cabinet approval is necessary for the World Bank to approve the loan and disburse the funds.

25X1

25X1

Delvalle should have little trouble achieving a quick consensus within the Cabinet. The compromise with the Bank will give the President and the Defense Chief time to line up the necessary support in the legislature, which will consider the measures next March. Formal Bank approval of the SAL package would allow disbursement of the final $39 million of the commercial bank refinancing of 1985-86 public-sector debt this month. This new World Bank and commercial creditor financing will enable Panama to meet the public-sector deficit target contained in the current IMF standby accord. Delvalle would then be able to resume negotiations with creditor banks for a rescheduling of $1.2 billion in maturities due between 1987 and 1990.

25X1

25X1

World Bank Suspends New Credits to Uganda

The World Bank recently has suspended new credits to Kampala, cut off the remaining $4 million of a $35 million industrial-sector project, and criticized President Museveni's policies as obstacles to economic rehabilitation, according to US Embassy reporting. The government has increased interest rates only slightly, leaving them well below the rate of inflation; has introduced a single exchange rate that effected a 300-percent revaluation; and has programed spending that will increase the FY 1986/87 budget deficit to three times the record level of FY 1985/86. Although Western donors and some of his own advisers have repeatedly warned Museveni of his policies' detrimental effect on aid flows and the economy, he remains wedded to his expressed desire to protect the "little man" and he is still strongly influenced by xenophobic, leftwing ideologues in the government. As a result, he probably will intensify efforts to garner aid from Third World and Eastern Bloc sources.

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Senegal's New IMF Agreement

The IMF approved a new $90 million standby agreement and structural adjustment facility for Senegal in mid-November. The agreements are designed to bolster Dakar's ambitious FY 1986/87 economic reform program, which aims at boosting economic growth to about 4 percent, lowering inflation from 9 percent to less than 7 percent, and reducing the current account deficit from an estimated 13.2 percent of GDP in 1985/86 to about 9 percent of GDP, according to press reports. To reach these goals Dakar is planning to increase incentives for agricultural production, renew efforts to collect back taxes, and privatize some parastatals. Senegal's peanut exports—its major source of foreign currency—have in recent years suffered from prolonged drought and an insect plague. In our view, the ability of Senegal's farmers to rebound from these natural disasters is one key to the success of the economic reform program. Dakar also faces a tough battle in selling the reform measures to powerful interest groups—such as the Islamic brotherhoods—that are profiting from the present system.

25X1

25X1

International Trade

25X6

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X6

France Halts Soviet Oil Purchases

The French Government has temporarily suspended imports of oil and oil products from the USSR to protest against France's growing trade deficit with the Soviets. French Trade Minister Noir stated that the embargo will last into early 1987. The French trade deficit with the USSR is expected to increase to about $1.2 billion this year from about $770 million in 1985. The move—which does not affect natural gas, France's main Soviet import—is part of a long-running trade dispute between the two countries. While the suspension will send a signal to Moscow, the Soviets will probably have little difficulty finding other buyers—due to the competitive price of their oil—and some Soviet oil and products will probably find their way to France through other West European countries.

25X1

25X1

Japan Limiting Commercial Ties to Cuba

The Japanese Ambassador to Cuba told the US Interests Section recently that MITI had cut the term of export insurance sales to Cuba from one year to six months. The move follows a visit to Japan last month by the president of the National Bank of Cuba Japanese exports to Cuba have risen markedly since 1984, when Tokyo resumed export insurance sales. Cuba's recent failure to meet its debt payments, however, together with Tokyo's reduction of export insurance, may dampen the enthusiasm of Japanese exporters to trade with Cuba. Havana is trying to compensate for its declining hard currency trade with the developed West by looking increasingly to South American suppliers such as Brazil. Cuba's money problems, however, probably will also hinder trade with developing countries, except those willing to barter.

25X1
25X1
25X1
25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Hong Kong Imposes Limited Economic Sanctions Against South Africa

On 21 November Hong Kong imposed sanctions against South Africa that will have little effect on their bilateral economic ties. The territory banned crude iron and steel imports, asked for a voluntary ban on new investments in South Africa, and officially discouraged tourism. The ban excludes existing trade contracts and imports of finished steel and iron products, and landing rights of South African Airways. Furthermore, the Hong Kong Government refused to ban coal imports—Hong Kong's largest import from South Africa—that were worth $91 million last year. This coal provides 40 percent of the territory's needs and accounts for 5 percent of Pretoria's coal exports. Hong Kong could buy more coal from China, but the territory's two utilities want to retain their low-priced long-term contracts with South Africa. Hong Kong Government officials have privately acknowledged to US Consulate officers that the sanctions are largely symbolic. Moreover, the officials admitted, Hong Kong lacks the enforcement capability to ensure compliance.

25X1

25X1

National Developments

Developed Countries

Canadian Financial Reforms To Limit Access

The province of Ontario and the federal government are planning to expand bank participation in the securities industry as a step toward broader financial services reform, but foreign firms will face capital and investment restrictions. The Ontario Securities Commission has delayed the release of draft regulations for 1987 that were expected to allow Canadian financial institutions to acquire up to a 50-percent stake in securities dealers. Dealers pressing for limits closer to 100 percent have prompted Ontario to reconsider. The regulations are also expected to keep foreign investment below a 30-percent share in each firm and foreign capital below 30-percent in the securities industry as a whole. Each wholly-owned foreign subsidiary will probably be limited to a 1.5-percent capital stake in the securities industry. Ottawa's State Minister for Finance has said that federal proposals, to be announced later this year, will accommodate greater bank participation in securities, but will also strengthen regulation of the banking system and keep it competitive in fast-changing financial services markets. Although provincial and federal plans focus partly on promoting domestic competition, foreign- participation will remain limited until Canadian officials believe domestic institutions can compete effectively.

25X6

25X1

25X6

25X6

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1

25X1

Japanese Steel Facing a Bad Year

Japan's steelmakers are moving to stem the mounting flow of red ink. The five major Japanese steel companies estimate their combined losses at $250 million during the first half of the fiscal year (FY) that ended on 30 September, twice the losses suffered in the recession during FY 1983. Moreover, most Japanese steelmakers believe the situation will worsen as the year goes on. Industry spokesmen attribute the losses chiefly to the yen's sharp appreciation, which has cut the yen price of steel and triggered an increase in Japan's steel imports. To cut the losses, Japanese steelmakers are reducing executive bonuses, laying off workers, and shifting production to more profitable product lines. Production is also being cut back; output this year probably will reach only about 98 million metric tons compared with over 105 million in 1985. Dividend payments have been suspended for the first time since 1978. Despite these efforts, the second half looks bleak. Production is running at an annual rate of only about 95 million tons, down 5 million tons from the levels prevailing early in the year. In addition, domestic steel prices will probably be lower during the second half of the year as imports and the strong yen continue to apply steady pressure. The longer term outlook also is poor. Industry analysts report that the major companies believe production could remain in the 90- to 95-million-ton range next year.

25X1

25X1

25X6

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X6

West Germans Prepare for Crucial Wage Negotiations

One week before the beginning of formal wage negotiations in the auto and mechanical industries—which will set the tone for most other wage negotiations—the employers' association rejected the IG-Metall union's demand for a 3.5-hour reduction in the workweek with no cut in pay. Citing the recent forecast by West Germany's Council of Economic Advisors of only 2.2-percent economic growth in 1987, the employers' spokesman ruled out discussions of nonpay issues in the face of economic slowdown. The union, however, is arguing that a shorter workweek is necessary to cut unemployment, which is still above 2 million. The union will have a difficult time achieving its goal in this pay round, in part due to new legislation that makes it much more costly to implement selective strikes—a strategy that was crucial to labor's partial success in the 1984 round. The union position is also weakened by the OECD's conclusion that the 1.5-hour workweek reduction agreed to last time had only a modest impact on hiring.

25X1

25X1

Irish Industry Urges Deficit Reduction

The Confederation of Irish Industry (CII) is calling for urgent action to reduce the public deficit. The CII argues that Ireland's high budget deficit and massive national debt—8.5 and 145 percent of GNP, respectively—are stifling manufacturing output and investment. In addition, spokesmen say industry has lost competitiveness because of the weakness of the US dollar and the British pound, the currencies of Ireland's major trading partners. The CII called on Dublin to reduce the deficit by $540 million—2.5 percent of GNP—in each of the next two years, and to make similar reductions in future years until the deficit is eliminated. The industrialists are also urging Dublin to allow private investment in state

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

enterprises, to cut electricity and telecommunications charges, and to suspend social insurance payments on new employees—measures that, paradoxically, would worsen the deficit. The government is considering the CII recommendations but is likely to balk at large spending cuts that could disrupt the one-seat majority Fine Gael–Labor coalition and force early elections.

25X1

Less Developed Countries

Brazil's Ambitious Development Plan

25X1

Brasilia's effort to keep inflation in check will be undermined by the government's national development plan, which aims to increase investment to spur long-run growth. Announced by President Sarney in July, the $100 billion program is designed to create 1.6 million new jobs per year and sustain an average annual GDP growth rate of 7 percent through 1989. According to press and US Embassy reporting, the new National Development Fund will be financed by new surtaxes on luxury goods. The Fund was expected to raise $1 billion in seed money in 1986, half earmarked for social development projects—nutritional, educational, and housing programs for the poor—while the remainder would be targeted for infrastructure investment. Despite the goals, the US Embassy reports that the government will have difficulty raising even $500 million through these tax levies in 1986. The likely resort to borrowing from the Treasury to provide startup funding for the program would increase inflationary pressures. Moreover, the government's pursuit of ambitious social goals runs counter to Brasilia's pledge to turn the chronic budget deficits into a surplus by 1989.

25X1

Mexico Outlines a Growth Budget

25X1

Mexico City has announced it will increase spending by more than 100 percent next year in an effort to stimulate the economy, but high domestic and foreign debt payments will siphon off more than one-half of the total outlay. According to Mexican officials, the new budget emphasizes large, labor-intensive construction projects and public works. To help finance higher expenditures, policymakers will count on lower tax rates and larger writeoffs to encourage private spending and thus expand the tax base. Meanwhile, according to the US Embassy, President de la Madrid is publicly stressing his resolve to cut inflation and domestic interest rates next year. Stubbornly high inflation and interest rates will dampen the effectiveness of these policies. Privately, Mexican officials have already lowered GDP growth estimates from 3 to 4 percent to 2 percent. Chronic problems with tax collection and the private sector's failure to respond to tax incentives would derail efforts to reduce the budget deficit. De la Madrid recognizes that tougher measures are needed, but such economic decisions will be increasingly difficult as the 1988 presidential election approaches.

25X1

Venezuelan Economic Footdragging

25X1

President Lusinchi is considering new stabilization measures, according to the US Embassy, but may be unwilling to take the tough actions needed to restore equilibrium to Venezuela's deteriorating economy. The shortfall in oil revenues for

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

1986 has caused the Central Bank's foreign exchange reserves to decline almost $3 billion from the $13.7 billion level of last December and has widened the government deficit. Embassy sources say measures under consideration include devaluation and increases in the price of public-sector goods and services, but Lusinchi has denied rumors he will authorize a sharp devaluation. He is concerned about the potential inflationary impact of such unpopular measures on his major political constituency—organized labor. He may opt for partial fixes such as a small devaluation and limited increases in the prices of gasoline and electricity. To compensate labor for such price increases, Lusinchi may mandate increases in fringe benefits, but he is likely to resist demands for across-the-board pay hikes out of fear of triggering a wage-price spiral.

25X1

Peruvian Economic Growth Continues

Peru's GDP rose 6.9 percent in the first nine months of 1986 as compared with the same period last year, according to preliminary figures. Most observers believe robust growth will continue at least until mid-1987, largely because of anticipated gains in consumer spending. President Garcia's strategy of granting real wage increases—the minimum wage has doubled since he took office in July 1985—has allowed the economy to compensate for a 20-percent drop in exports and a near standstill in net foreign lending. Garcia warned a domestic business congress recently, however, that the economy will lose momentum in late 1987 unless the private sector begins to invest soon. Although business leaders reportedly share his views, we believe Garcia's efforts to persuade industrialists to repatriate flight capital and expand their operations will fall short unless he can offer them tax breaks or provide greater legal assurances that business can retain their profits and assets over the long term.

25X1

25X1

North Yemeni Economic Pressures Building

President Salih may accept the resignation of Minister of Economy Wajih to mollify North Yemeni businessmen critical of the government's handling of the economy. Wajih, the focus of growing discontent over deteriorating economic conditions, tendered his resignation last week after the government closed down more than 100 stores and moneychangers for not complying with foreign exchange and pricing guidelines, Yemenis protested vehemently last month against storeowners who had not complied with the guidelines. military personnel and civil servants are also unhappy with the pricing system at government-run commissaries and are leaving government service in growing numbers. Wajih's resignation would only temporarily satisfy Salih's critics. The government will be unable to improve the country's economic situation until at least 1988, when it expects to begin earning money from oil exports. Salih's hold on power remains firm, but he is likely to face increasing challenges, especially if the military is hurt by his economic policies.

25X1

25X1

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Businessmen Exit Afghanistan

approximately 130 Afghan businessmen with significant holdings have left the country with their assets since General Secretary Najib's ascension to power in May. Other businessmen still in Kabul have transferred their assets to financial institutions in the West in recent months, according to the US Embassy. businessmen feel that, even though Najib so far has not changed government policy, it is only a matter of time before he begins to nationalize the private sector. The exodus of businessmen is undoubtedly hampering the regime's efforts to stimulate new private investment. Many of the businessmen were involved in foreign trade and foreign currency exchange. The regime will probably find it more difficult to maintain a continuous flow of needed imports, and foreign exchange is likely to be in short supply as well.

25X1 25X1 25X1 25X1

Malaysian Bank Recovery Plan Will Hurt Chinese

Kuala Lumpur's plan to resolve the financial problems of deposit-taking cooperatives (DTCs) will hurt Malaysia's Chinese community at a time of growing ethnic tensions, according to the US Embassy. The Central Bank suspended operations of 24 DTCs last July after discovering massive bad loans and insider dealings. The government announced last month that only one DTC will be allowed to reopen and two will be liquidated. Depositors of the remaining DTCs will receive only 60 to 80 cents on the dollar and have limited access to their funds for a three-year period. By choosing not to bail out the DTCs—used predominately by Chinese depositors—Kuala Lumpur has fueled the discord caused by the government's official economic policy of favoring ethnic Malays. It has also embarrassed the leadership of the Malaysian Chinese Association (MCA), the major Chinese partner in the ruling coalition, because the largest of the DTCs is run by the MCA.

25X1 25X1

China and Britain Continue Progress Over Hong Kong

Last week's meeting of the Sino-British Joint Liaison Group resolved several issues left unsettled by the Hong Kong accord:

- Hong Kong will maintain its associate member status in the International Maritime Organization. The two sides also agreed on the methods for continuing the maritime conventions applicable to Hong Kong.
- Hong Kong will continue its participation in the International Telecommunications Union and will run its own telecommunication services after 1997.
- Use of Hong Kong Certificates of Identity will continue after 1997, easing the concerns of the roughly 1 million Hong Kong residents who use this international travel document.
- A pension scheme for civil servants was discussed to maintain the stability and efficiency of Hong Kong's civil service.

The steady progress being made at the Joint Liaison Group meetings has helped to maintain business confidence in the territory.

25X1 25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Communist

China Experimenting With Bankruptcy

A new bankruptcy law enabling Beijing to close down debt-ridden state factories is an attempt to improve industrial efficiency and reduce state subsidies. In contrast to the original, hotly debated version reviewed by the National People's Congress last June, the new law approved last week applies only to state-owned enterprises in selected cities. Press articles indicate that the new law differs significantly from Western concepts of bankruptcy—assets of closed enterprises will remain state property and the government will play a major role in relocating workers. This weaker version—apparently the first in a set of industrial reforms with which Beijing will experiment in 60 cities—will help the leadership assess and, if necessary, refine its policies before implementing them nationwide. Beijing will probably use the bankruptcy law as a club to compel factories to improve operations and accept further reforms. The leadership is not likely to shut down many enterprises any time soon because of concern about the possible public reaction to widespread job losses.

25X1

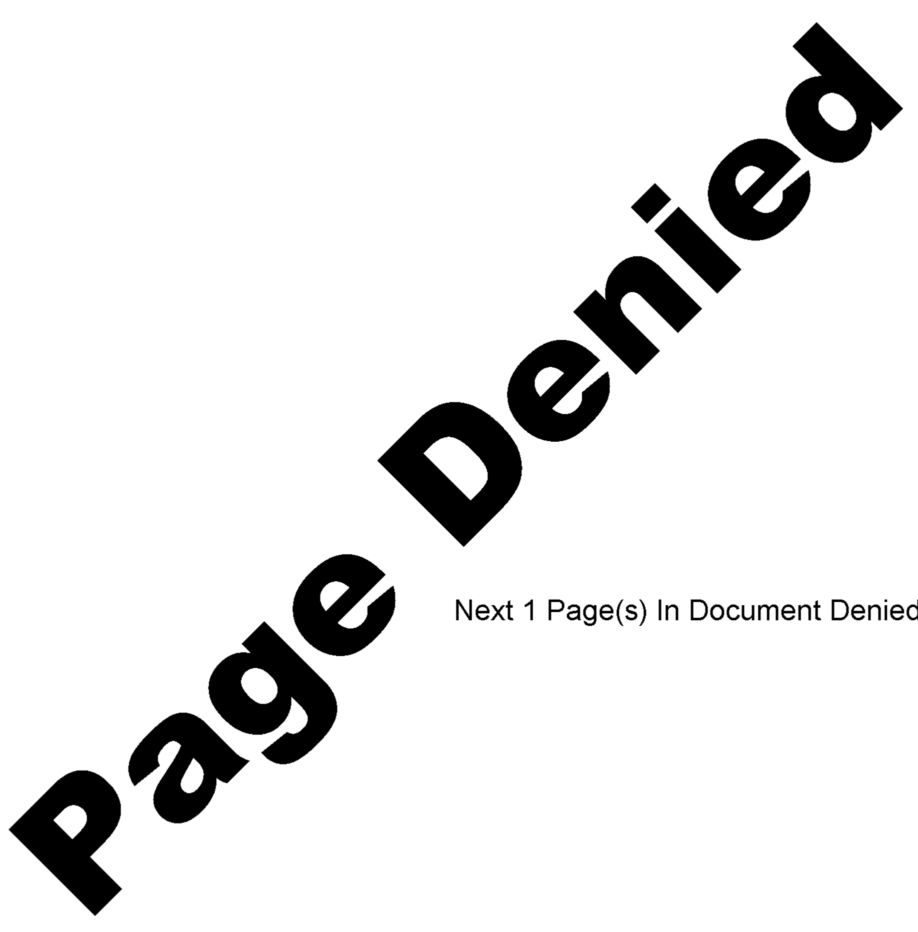
25X1

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

25X1
Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8



Next 1 Page(s) In Document Denied

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8

Declassified in Part - Sanitized Copy Approved for Release 2012/01/09 : CIA-RDP97-00770R000100680001-8