



Directorate of
Intelligence

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**International
Economic & Energy
Weekly** 

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23 March 1984

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23 March 1984

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**International
Economic & Energy
Weekly** [Redacted]

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Comments and queries regarding this publication are welcome. They may be directed to [Redacted] Directorate of Intelligence [Redacted]

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**International
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Synopsis

1

Perspective—*Marcos, the IMF, and Political Stability*

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Manila's political and economic problems present President Marcos with tough choices if he is to retain power until presidential elections in 1987 and secure sufficient external financial support to keep the Philippines on a sound economic footing. We believe Marcos will seek to dilute economic restructuring programs demanded by international creditors in the hope of avoiding serious domestic unrest.

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International Financial Situation: Political Update

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Leaders in Argentina, the Philippines, and Venezuela are taking different tacks to minimize political backlash from their debt problems.

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Bolivia: Bleak Economic Prospects

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Despite a promising start, President Siles' tenuous political position has led him to backslide on economic reforms necessary to resolve the country's financial problems.

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Guyana: Economic Crisis Clouds Burnham Regime

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Guyana, now in its 20th year under the dictatorship of Forbes Burnham, has become a sociopolitical tinderbox because of the unraveling of the economy in recent years. Burnham has turned to the Soviet Bloc for additional assistance, but we doubt that Guyana will receive anything more than token economic and technical aid.

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Hong Kong: Growing Despite Uncertainty

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Despite investor concern last year over Hong Kong's reversion in 1997 to Chinese control, the economy grew by 6 percent and is expected to perform even better this year. A breakdown in Sino-British talks or a Chinese misstatement of their intentions, however, could reignite the financial problems experienced last year.

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USSR: Favorable Hard Currency Position [Redacted]

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The USSR held its hard currency borrowing last year to a minimum, despite a fall in oil prices and a 3-percent increase in merchandise imports. The net hard currency debt has stayed at about \$10 billion, and Moscow's hard currency position is likely to remain good at least through 1984. [Redacted]

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**International
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23 March 1984.

Perspective

Marcos, the IMF, and Political Stability [Redacted]

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Manila's political and economic problems present President Marcos with tough choices if he is to retain power until presidential elections in 1987 and secure sufficient external financial support to keep the Philippines on a sound economic footing. Conditions demanded by international financial institutions are designed to set the stage for long-term economic development, but they would usher in several years of slow or negative growth and would provoke opposition from key constituencies of his regime. As a result, we believe Marcos will seek to dilute economic restructuring programs demanded by international creditors in the hope of avoiding serious domestic unrest. [Redacted]

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From Marcos's perspective, because the magnitude and timing of the long-term benefits of reform cannot be predicted with any certainty, there is little incentive to adopt policies that he knows will immediately weaken his political position. [Redacted]

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Marcos's stubbornness is due partly to his concern that the devaluation will be ill received by the military, whose budgets have suffered repeated cutbacks in recent years and whose support is critical to his tenure. [Redacted] the October devaluation led to a 35-percent decline in the purchasing power of the military's budget. [Redacted]

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Marcos also faces National Assembly elections in May and fears his party could be humiliated at the polls. Devaluation could lead to the near collapse of Manila's overprotected domestic manufacturing sector and to rising unemployment in the politically volatile capital. He also is no doubt anxious to avoid the price increases that followed the 21-percent devaluation of the peso last October—inflation rose at an annualized rate of 100 percent in the fourth quarter. At the same time, the large margin of victory Marcos believes is necessary to restore credibility to his regime will require that the ruling party spend large sums of money on pork-barrel projects when the economy can least afford it. Marcos, in fact, could risk alienating the IMF by repeating a practice from the 1960s—exceeding informal targets on government expenditures and monetary growth so as to ensure a sizable election victory. [Redacted]

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As the elections approach, Marcos also has to fend off charges from the left that he has sold out the Philippines to foreign interests. Urban workers—some of whom are sympathetic to Communist Party propaganda that Marcos is a puppet of the United States and international financial organizations—will bear the brunt of austerity measures. If these accusations gain broader acceptance in politically strategic Manila, Marcos may prove even more recalcitrant in his dealings with his international creditors. [redacted]

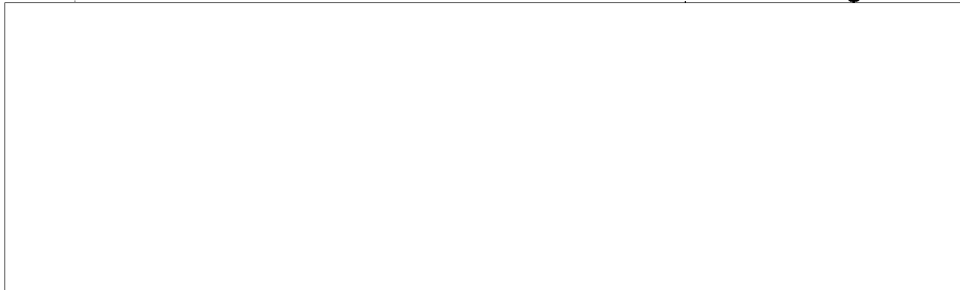
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Marcos also risks jeopardizing the political and financial support he receives from staunch political allies—such as agricultural-marketing overlords Eduardo Cojuangco and Roberto Benedicto—if he bends to IMF and World Bank pressures to weaken state-controlled agricultural monopolies. He may consider them too powerful to challenge. Recent efforts by the government to reform the sugar monopoly demonstrate that Marcos intends to do little to restore free market activities to that industry in the near term. [redacted]

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Meanwhile, Marcos's problems with Manila's commercial creditors are growing more acute because of his decision to stall the IMF over the exchange rate.

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Even if Manila adopts the painful measures required by the IMF and the World Bank, it is in for a rough transition period during the rest of the 1980s. The Philippines' demographic profile alone—which will add 700,000 new entrants to the labor force each year—ensures negative per capita economic growth during the period when economic reforms take hold. In addition, rescheduled debt payments will begin to bunch toward the end of the decade. If an export rebound is slow in coming, this could fuel another round of rescheduling negotiations by 1987, when Marcos's term in office ends. [redacted]

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The period of slow or negative economic growth will provide the Communist Party of the Philippines, its military arm, and its overtly non-Communist front groups with an unusually favorable environment for soliciting new recruits, particularly in the distressed urban sector. Manila's budget austerity at the same time will continue to erode the military's already weak counterinsurgency capabilities. For these reasons, no matter how the current impasse is resolved, it appears that, not only the government, but the commercial banks, the Fund, and the World Bank face an anxious decade managing the Philippines' finances. [redacted]

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Briefs

Energy

✓
Decline in OPEC
Production

OPEC production averaged 17.4 million b/d in February, marking the first time in seven months that the cartel's output slipped below its self-imposed ceiling. Strong seasonal demand for OPEC crude—spurred by a cold snap in the United States—had kept OPEC output high through January. Saudi production fell 500,000 b/d from month-earlier levels as Riyadh completed its second round of stockpiling crude oil in floating storage. The former Aramco partners also reduced purchases after the Saudis forced them to lift a financially unattractive ratio of light-to-heavy crude oils. Iranian production slipped slightly. Iran and Japan continued to haggle over terms for direct-deal contracts, and Japanese buyers reduced liftings of Iranian crude by over 150,000 b/d. Nigeria was the only cartel member to register a production gain in February. Nigerian output rose 200,000 b/d as Lagos continued to produce in excess of its OPEC-mandated ceiling without the cartel's approval.

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OPEC: Crude Oil Production

Million b/d

	Quota	1982	1983 ^a	1984	
				January	February ^b
Total	17.5	18.9	17.7	18.0	17.4
Algeria	0.725	0.7	0.7	0.6	0.6
Ecuador	0.2	0.2	0.2	0.2	0.2
Gabon	0.15	0.2	0.2	0.2	0.2
Indonesia	1.3	1.3	1.3	1.5	1.4
Iran	2.4	2.4	2.4	2.2	2.1
Iraq	1.2	1.0	0.9	1.0	0.9
Kuwait	1.05	0.7	0.9	0.9	0.9
Libya	1.1	1.2	1.2	1.1	1.1
Neutral Zone	^c	0.3	0.4	0.5	0.5
Nigeria	1.3	1.3	1.2	1.4	1.6
Qatar	0.3	0.3	0.3	0.4	0.4
Saudi Arabia	^d	6.3	5.0	5.1	4.6
UAE	1.1	1.2	1.2	1.2	1.2
Venezuela	1.675	1.9	1.8	1.7	1.7

^a Estimated.^b Preliminary.^c Neutral Zone production is shared equally between Saudi Arabia and Kuwait and is included in each country's production quota.^d Saudi Arabia has no formal quota; it acts as swing producer to meet market requirements.

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Change in Mexican Petroleum Reserve Estimates

Pemex Director General Beteta has announced a slight increase in Mexico's proved petroleum reserves—72.5 billion barrels as compared with the 1981 estimate of 72 billion barrels. Pemex attributed this net increase primarily to discoveries in 1982 in the Bay of Campeche and discoveries last year in the on-shore Reforma trend in Chiapas and Tabasco. [redacted]

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Preliminary results of an internal Pemex study show that probable petroleum reserves will be cut by at least one-half from the 90 billion barrels claimed in 1981. Estimates of probable offshore Campeche reserves alone were cut from 48 billion to 24 billion barrels. The reduction in probable oil reserves and the modest increase in proved reserves suggest that Pemex may be trying to reconcile its reserve announcements with the reality of Mexico's oil availability. [redacted]

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Abu Dhabi Loses Japanese Sales Despite Discounts

Despite extensive negotiations with Japanese firms, efforts by the Abu Dhabi National Oil Company (ADNOC) to renew crude oil export contracts at 1983 levels have failed. Japanese firms have signed contracts to buy 122,000 b/d in direct deals this year, a decrease of about 35 percent from last year's volume. Although contract terms vary somewhat, ADNOC generally agreed to extend credit ranging up to 90 days—compared with the standard of 30 days—according to the US Embassy. Requirements to use vessels stipulated by ADNOC and restrictions on reselling crude also reportedly were dropped. The Japanese pressured Abu Dhabi into the concessions by dropping liftings sharply in January. [redacted]

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Greek-Soviet Gas Pipeline Feasibility Study

Greece and the Soviet Union have signed a contract to conduct a feasibility study for a 1,200-km natural gas pipeline from the southern USSR to the northern Greek industrial area. [redacted] The study—which is to include cost projections for constructing a Greek gas distribution network—is to be done by the Soviet State Committee for Foreign Economic Relations and is expected to take a minimum of two years to complete. [redacted] the parties are discussing possible gas deliveries of 2 billion cubic meters per year by the early 1990s. The agreement follows a recent Soviet-Finnish pact to increase Soviet gas sales to Finland and continued Soviet gas-marketing efforts in Turkey. Because Turkey and Greece are key steppingstones for suppliers in the Middle East to enter the larger West European market, an extension of the Soviet pipeline network into these countries could diminish sales prospects for any Middle Eastern project. [redacted]

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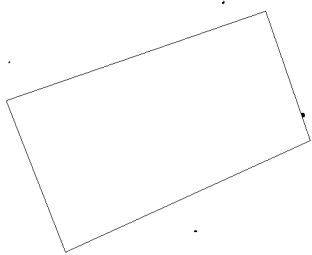
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*South Africa Activates
First Nuclear
Power Plant*



One of the two reactors at the \$2 billion Koeberg facility near Cape Town last week was activated and is operating initially at about 5 percent of capacity while performance and safety tests are carried out. The plant is scheduled to operate at 50 percent of capacity within two months and reach its full 920-megawatt capacity within six months. If the second reactor goes onstream later this year as scheduled, the twin units will make western Cape Province a net supplier of power to the rest of the country. The region currently obtains a significant share of its power from plants up to 1,500 kilometers away in the Transvaal. When fully on line, Koeberg's reactors will be capable of supplying 8 to 10 percent of South Africa's electric power needs and will ease the workload on the country's coal-fired and hydroelectric power plants that are experiencing water shortages because of drought. [redacted]

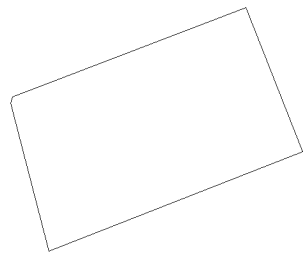
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The startup is a year behind schedule, largely because of time needed to repair damage from a sabotage attack in December 1982 by the African National Congress, the country's principal black liberation movement. Security at the site has since been tightened sharply, but powerlines leading from the plant remain vulnerable to attack. South Africa has placed the facility under IAEA safeguards and has permitted on-site inspections. Although the French consortium that built the reactors has fueled and supplied one reload for each of the reactors, South Africa expects in the future to use fuel made in a domestic uranium enrichment plant now under construction. The government recently agreed to begin talks on international safeguards for this plant. [redacted]

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*Indonesia To Boost
Local Participation in
Oil Services*



Jakarta will prohibit processing abroad of seismic data on Indonesia in another bid to expand domestic capabilities and increase local earnings in the oil service sector. Indonesian officials have informed foreign oil companies that they expect to begin enforcing the rule when four or five firms are in operation. This could come soon because three foreign firms have plans to set up seismic processing joint ventures in Indonesia in addition to the three firms already operating there. The ban will immediately affect Singaporean firms, which have been processing seismic data for Pertamina as well as for other foreign oil companies. [redacted]

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International Finance

Polish Strategy on Debt Negotiations

[redacted] high-level Polish officials are urging the regime to discontinue negotiating debts with Western governments as a group and to strike separate deals with individual governments. They believe that Warsaw should begin making debt service payments to those governments that are more willing to accommodate Polish concerns. These officials want to put this strategy into effect if Polish negotiators are unable to reach agreement with Western government representatives at the meeting scheduled to begin this week. [redacted]

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The Poles have tried unsuccessfully in the past two years to break up creditor unity, and they may be eager to exploit what they see as a growing rift between the United States and other creditor governments. Consequently, Warsaw may appear more conciliatory at the meeting this week in hopes that the West Europeans will urge the United States to accept a West German proposal for multiyear rescheduling. Although the West Europeans want to break the impasse over Polish debt rescheduling, none seems eager to extend large, new credits immediately or to deal with Warsaw on a bilateral basis. [redacted]

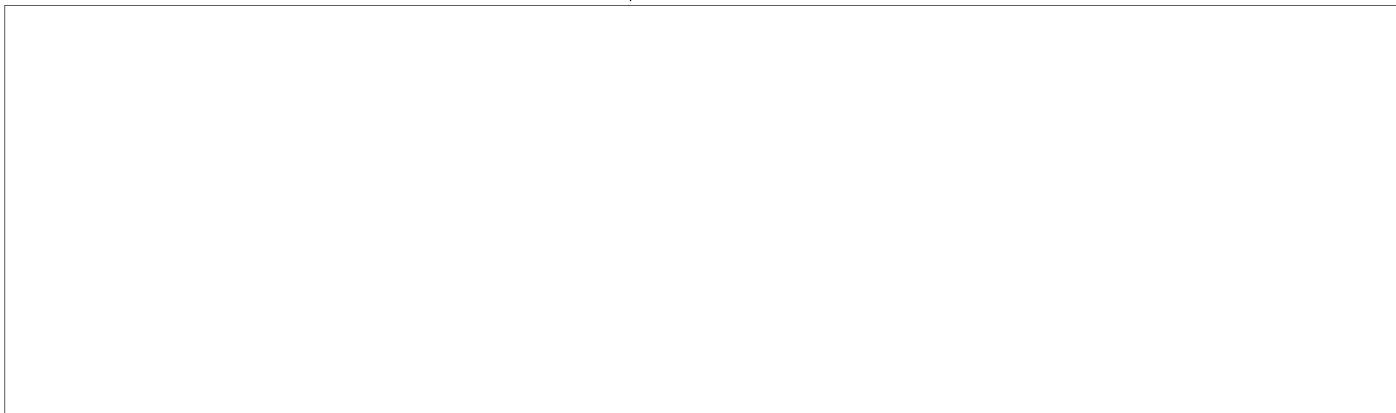
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Yugoslav Debate on IMF Credit

The Federal Assembly this week approved a \$380 million standby credit with the IMF. The IMF program, which the government accepted on 1 March after heated debate, provides for lifting a price freeze on 1 May, raising interest rates to the level of inflation in gradual stages, and devaluing the dinar. Yugoslavia's acceptance of these terms will qualify it for financial assistance from Western banks and governments. Even though party and state leaders have endorsed the IMF program, the government still faces strong regional opposition to its other efforts to stabilize the economy. Regional critics, especially those who fear recentralization, oppose Belgrade's proposals to curtail investment credits for selected unprofitable enterprises, to restrict government budgets at the federal and local levels, and to encourage greater foreign investment. Last fall, opposition in the Assembly forced Belgrade to back down on several austerity measures. [redacted]

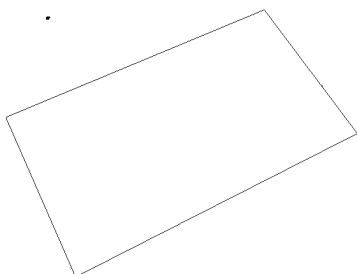
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Growing Concern Over Floating Australian Dollar

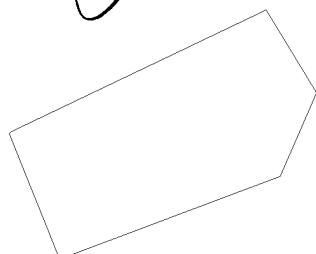


The Hawke government floated the Australian dollar last December to strengthen its control over the domestic money supply, but the general strength and volatility of the currency since then is causing concern among Australian exporters and import-competing industries. For one thing, there have been wide daily swings in the dollar's value. Against the Japanese yen, for example, the Australian dollar depreciated by 5 percent in only 11 days before appreciating by 7 percent over the next two months. In addition, since the float, the dollar has appreciated by 4 percent against both the US dollar and the Japanese yen, making Australian goods more expensive abroad and foreign goods cheaper locally. Together with an inflation rate that is more than double the OECD average, Australia's competitiveness—based on exchange rates adjusted for inflation differentials—has declined nearly 10 percent in the past 10 months, and is now lower than at any time in the last five years. Several unions and industry groups already have warned the government that a continuation of this trend will result in campaigns for additional protection from import competition. Neither Hawke nor Paul Keating, the conservative-minded Treasurer, would welcome moves to increase current levels of protectionism; Australia already has one of the most protected markets in the OECD.

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Suriname Financial Problems Grow



The economic consequences of the recent bauxite workers' strike have added a new sense of urgency to Paramaribo's search for foreign assistance. the government now expects earnings from the export of bauxite and related products to fall more than 25 percent below its original projections this year as a result of the monthlong strike. Together with the suspension of other revenue measures as part of the strike settlement, the budget deficit this year could reach almost \$200 million.

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The US Embassy reports growing concern among Surinamese businessmen that the Central Bank will be unable to provide foreign exchange for imports. The government already has suspended all import licenses issued before August 1983, and some importers have been denied new licenses. Business concerns are likely to mount if Paramaribo drains credit available to the

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private sector by financing the budget deficit largely with Central Bank loans, as it did last year. Moreover, Suriname's foreign exchange reserves probably are sufficient to cover less than one month's worth of imports, and even tighter import restrictions will be necessary. Paramaribo has failed to secure any substantial amount of hard currency assistance since December 1982. Surinamese officials are counting on a quick infusion of IMF funds, but Bouterse may well lack the resolve or political dexterity to institute the unpopular austerity measures needed to obtain IMF support any time soon. [redacted]

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Global and Regional Developments

Collapse of EC Conference

The EC summit in Brussels ended in failure on Tuesday when Prime Minister Thatcher refused to compromise on demands that the United Kingdom's annual EC budget payments be cut substantially. The impasse prevented agreement on vital budget reform measures, which increases the chances of EC bankruptcy this fall. Failure came despite eleventh-hour efforts by President Mitterrand, who chaired the meeting, to forge a compromise. This is the second time in four months that EC leaders have failed to resolve the EC's financial crisis. Last-minute confusion was heightened when Irish Prime Minister FitzGerald walked out of the meeting over a proposal to cut EC milk production. After the meeting EC Foreign Ministers voted to block \$630 million now owed London from its 1983 budget rebate. [redacted]

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Thatcher probably will recommend to her Cabinet the unprecedented step of withholding British payments to the Community. Such action would violate the EC treaty and further isolate the United Kingdom from other Community members. The collapse of the summit marks a personal defeat for Mitterrand. He may be discouraged with his EC partners, and he probably will not push outstanding US-EC trade disputes as aggressively as he might have if the Community had been able to set its house in order. Mitterrand may now be more sympathetic to the importance of transatlantic ties because European unity appears to have been dealt another blow. [redacted]

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Moscow Reentering the Grain Market

The director of the Soviet grain-purchasing agency told a Western news service during his recent visit to the United States that the USSR probably will buy several million more tons of grain than it already has purchased from the United States. He also said that Soviet purchases in the current market year are unlikely to exceed 12 million tons. [redacted] USSR purchased as much as 1 million tons of corn from the United States earlier this month for delivery during April and May. [redacted]

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Purchases of the magnitude implied by the Soviet official suggest that Moscow anticipates Argentina, because of its port congestion and shipping delays, will be unable to meet the rest of the USSR's corn requirements during the market year that ends 30 June. Soviet grain officials had said in the past few months that the USSR would purchase only the minimum amount required under the grain agreement with the United States. This amount was fulfilled in January.

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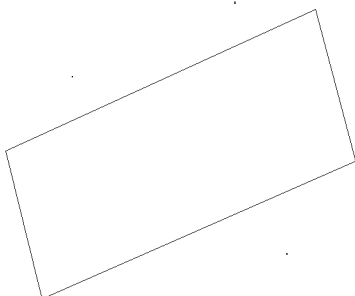
The recent purchases would raise total US grain sales to the USSR to slightly more than 9 million tons. [redacted]

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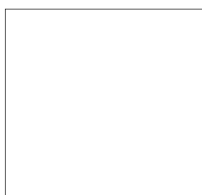
*Nakasone To Pledge
New Aid Package
in Beijing*

Prime Minister Nakasone, during his visit to China over the next several days, will reiterate Japan's long-term commitment to China's economic modernization and announce a seven-year 470-billion-yen (\$2.1 billion) development credit, according to the Japanese press. The size of this second aid package—Japan extended a five-year \$1.3 billion credit in 1979—reflects the excellent state of Sino-Japanese relations and Japan's interest in drawing China toward the West and away from the Soviet Union. The credits will be used for transportation, communications, and energy projects. Although most of the aid will be untied, Japanese firms will be aggressive in seeking the business the yen credits generate. [redacted]

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To solidify its position as China's leading economic partner, Japan is working out details for Export-Import Bank loans to support coal and oil development. Although the latter projects are keyed in part to Japan's interest in diversifying sources of supply for energy, Japan currently does not need the output from the coal development projects. Over time, increased imports of Chinese coal could make it more difficult for US suppliers to compete in the Japanese market. The Japanese also have agreed to exchange notes with the Chinese for a one-time export of nuclear reactor equipment. The notes reportedly include provision for on-site "visits" by Japanese officials—the first time the Chinese have agreed to visitation of nuclear plants by foreign personnel. The two countries are continuing to work toward a nuclear energy cooperation agreement. [redacted]

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*Japanese Semi-conductor Quality
Slipping*

Leading Japanese microelectronic firms are shipping growing numbers of defective integrated circuits (ICs) and circuit packages to US and West European customers. Hitachi of Japan, for example, recently supplied defective high-speed-logic IC device packages to a US company, possibly causing a delay in the introduction of the US company's latest line of mainframe computers. In another case, Hitachi shipments of 64K DRAMS to Olivetti of Italy were found to have high failure rates [redacted] the problem could force Olivetti to reconsider its projected \$26 million microelectronic purchases from Hitachi this year. Also, sophisticated microelectronics packaging from Kyoto Ceramics, the world's largest IC ceramic-package supplier, has been plagued by poor quality control; up to 30 percent of their shipments to a US firm have been rejected because of fabrication flaws. [redacted]

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As production has increased, Japanese firms apparently have been unable to maintain past levels of testing and screening—costly practices that helped Japan establish a reputation for quality. [redacted]

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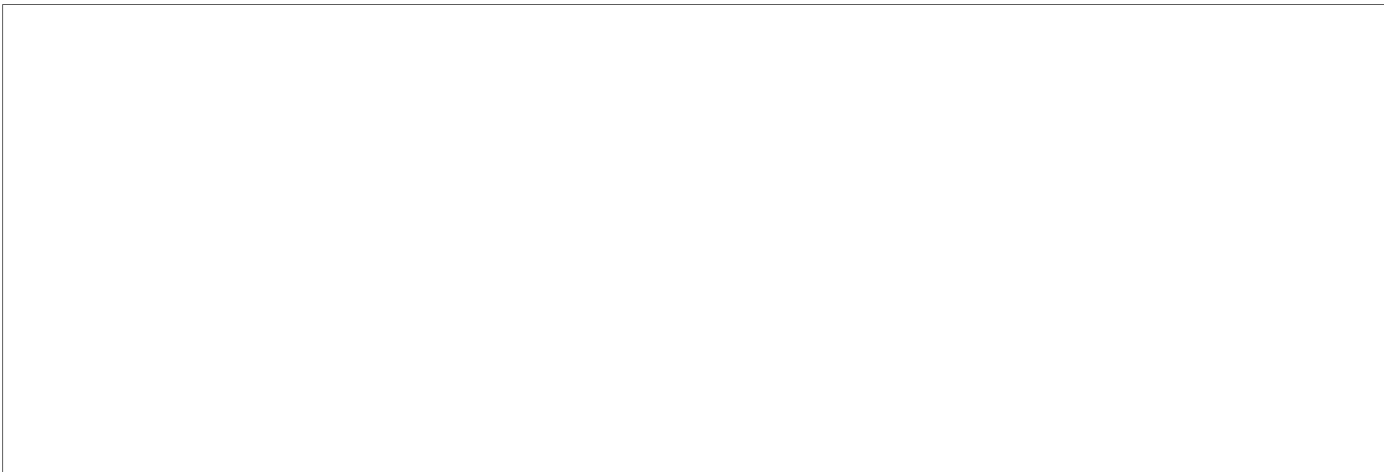
[redacted] Japanese microelectronics firms are pressured by the government to

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microelectronics firms are pressured by the government to supply first the needs of Japanese customers before shipping products abroad. In an effort to satisfy both domestic and foreign demand, the Japanese may have been forced to lower the high production standards that existed earlier.

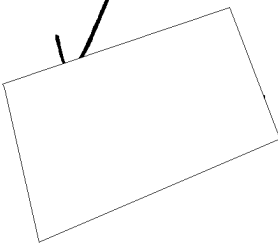
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National Developments

Developed Countries

Israeli Wage Negotiations



The Histadrut labor union organization, which represents virtually all Israeli workers, probably will win most of its demands in negotiating a new two-year labor relations agreement with the Manufacturers' Association. The current agreement expires at the end of this month. US Embassy sources indicate that both sides agree on a cost-of-living formula that calls for quarterly adjustments, with advance payments made if the consumer price index rises by more than a specified rate. The major sticking points are likely to be the Histadrut's demand for no declines in real wages and a minimum wage set at 50 percent of the average wage. The Histadrut has already publicly dismissed the proposal made last week by Finance Minister Cohen-Orgad for a six-month freeze on prices, wages, and exchange rate adjustments.

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Meanwhile, new regulations issued by the Bank of Israel to prevent Israelis traveling abroad from using credit cards to circumvent foreign exchange controls will probably be widely ignored. According to the regulations, credit cards will be valid for only six months, purchases will be limited to \$2,000, and credit card companies must prepare monthly reports on clients who violate the regulations while abroad. The Israeli Government is notoriously lax in enforcing such laws.

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Increased Opposition in the United Kingdom to Miners' Strike



The coal miners' strike, which is in its second week, is another test of Prime Minister Thatcher's efforts to curb militant unions. The leadership of the National Union of Mineworkers ordered the walkout after the government decided to close 20 unproductive mines, costing some 20,000 jobs. The strike has idled most of the United Kingdom's 174 coal mines, but press reports state that support for the strike among the miners is sporadic and halfhearted. Workers at some large coalfields recently voted to reject the strike call and continue to work. The government has obtained a court injunction forbidding strikers from picketing anywhere except at their own workplaces, but union president Scargill has said the "flying pickets" would do their work until all mines are closed. There already has been some violence between strikers and miners who want to work, and the union faces large fines if it defies the injunction.

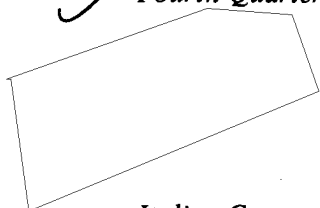
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Thatcher is likely to prevail because the rank and file is split over the strike. Scargill's bargaining position also is weakened by the large surpluses of coal in the United Kingdom. In addition, he has alienated some miners by failing to call a nationwide strike vote. The Trades Union Congress, which represents all of the United Kingdom's unions, has thus far stayed out of the dispute. The Congress still is smarting from its defeat earlier this month, when Thatcher banned union membership at the government's signals communications facility. If opposition to the strike increases in the Mineworkers Union, the Congress is likely to be more reluctant to support Scargill. Without some evidence that other unions endorse their efforts, the miners may have to call off the strike soon.

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Japan's GNP Up in Fourth Quarter

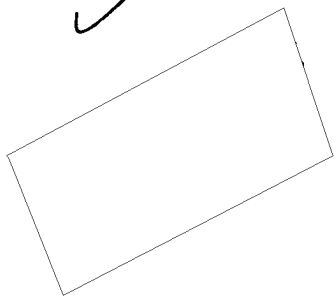


Japan's GNP grew at a 3.6-percent annual rate in the fourth quarter of 1983, putting real growth for the year at 3.0 percent—the lowest annual rate since 1975. Domestic demand contributed three-fourths of the growth, with personal consumption and private investment both up. The fourth quarter's performance assures that Japan will hit the official target of 3.4-percent growth for fiscal year 1983, which ends 31 March.

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Italian Communists To Protest Limit on Wage Increases



According to press and Embassy reporting, the Communist-dominated CGIL labor union—the nation's largest—and the Communist Party (PCI) are planning to muster 1 million demonstrators in Rome on 24 March to protest the government decree limiting wage increases. Issued last month to break a deadlock in government-labor-management negotiations over labor costs, the decree limits cost-of-living wage adjustments to 9 percent and sets a 10-percent ceiling on increases in administered prices. As a concession to labor, it provides some minor tax relief to low-income workers.

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Successful implementation of the new measures is now uncertain. The PCI is putting up stiff opposition in Parliament, and some Republican coalition members are concerned about possible adverse effects of the revenue and

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expenditure measures on Rome's large budget deficit. If the measures are fully implemented, we believe they—coupled with the lira's recent appreciation against the dollar and voluntary restraints by retailers on food prices—could slow inflation to about 11 to 12 percent this year, down from 15 percent in 1983. Even so, this would still be the highest rate among the Big Seven and above the government's target of 10 percent this year. [redacted]

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*Australian Record
Wheat Exports*

The Australian Wheat Board, [redacted] is increasing projections for exports for the fiscal year ending September 1984 to a record 13 million metric tons—almost double last year's total. The rebound in overseas sales is the result of the Wheat Board's aggressive marketing of this year's record 21-million-ton harvest, which follows the worst drought in over a century. The boost in sales will increase export earnings by nearly \$1 billion and will help improve Australia's current account deficit, which stood at \$4 billion last year. [redacted]

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New British Budget

The Thatcher government last week presented the first budget of its second term. Although there were few surprises—largely because of the government's four-year planning cycle—the package contains significant tax-reform measures, including progressive reductions in both corporate tax rates and depreciation allowances for capital investment. The lower depreciation allowances, coupled with removal of a 1-percent payroll surcharge that has helped finance national health insurance, will reduce the tax system's current strong bias in favor of investment in plant and equipment. Although the budget contains no measures specifically designed to reduce the United Kingdom's 13-percent unemployment rate, Prime Minister Thatcher and her colleagues probably hope that these measures over time will spur employers to hire additional workers. [redacted]

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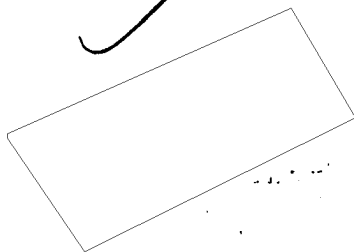
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In presenting the budget, Chancellor of the Exchequer Lawson set forth the government's economic strategy for the next five years. London intends to continue whittling away at inflation—with a 3-percent target for 1989 compared with about 5 percent at present—and to reduce the budget deficit as a percentage of GDP from 3.25 percent in the fiscal year just ending to 1.75 percent by the end of the planning period. Monetary growth targets also are to be lowered progressively; the government projects real growth will average 2.25 percent during the period. These ambitious targets generally are consistent with the program that Thatcher set forth after her election in 1979, but, by establishing tough standards now, the government is leaving itself open to criticism from the opposition should it fall short of its goals. [redacted]

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Tokyo To Develop a Deep Sea Submersible

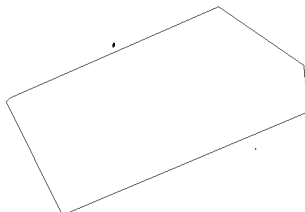


The Japanese Government has decided to develop a three-man submersible vessel capable of diving to a depth of 6,000 meters. The decision was made after the recent discovery of extensive seabed mineral deposits in the Japan Sea. Tokyo hopes to exploit these deposits and those in deeper waters to reduce Japanese dependence on imports of critical raw materials such as manganese, copper, and zinc. The submersible, which will cost over \$50 million, can also be used in a variety of scientific and military applications. Japanese press reports indicate that Mitsubishi Heavy Industries and Kobe Steel have developed a special titanium alloy suitable for the pressure hull. The Soviet Union is interested in obtaining a 6,000-meter submersible and in the past has sought Japanese cooperation in developing such a submersible. [redacted]

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French Trade Deficits



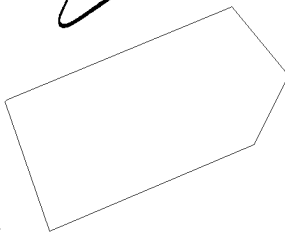
In both January and February, France recorded trade deficits of over \$500 million on a seasonally adjusted basis, a sharp reversal of the improvement in the final quarter of 1983 when trade was nearly in balance. The January deficit was due mainly to a surge in imports, apparently because of oil restocking. Imports returned to yearend levels in February, but exports fell by \$500 million. If the trend continues, this year's trade deficit would be near last year's level of \$6 billion and probably would lead to a continuation of economic austerity. [redacted]

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Less Developed Countries

Nicaraguan Economic Problems



Mined harbors and a bad coffee harvest are the latest economic headaches plaguing the Sandinistas. Since insurgent-laid mines at Nicaraguan ports have begun damaging merchant ships, 17 commercial vessels are known to have canceled calls. Some of these ships were scheduled to load cotton and coffee—Nicaragua's main cash crops—for export. A disappointing coffee harvest this year will cut further into hard currency earnings. Coffee sales—which last year provided \$160 million, or one-third of total exports—will earn only about \$100 million this year, according to the US Embassy. Cash reserves are so low that foreign commercial banks are requiring Managua to use its gold holdings as collateral for ordinary trade financing. [redacted]

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Brazilian Stabilization Program Imperiled by Rising Inflation



After subsiding substantially during the last two months of 1983, inflation surged in January and February at annual rates exceeding 200 percent. The IMF had wanted Brazil to hold inflation down to 100 percent this year. The US Embassy notes that, because of Brazil's extensive indexation system, rising prices will make it extremely difficult for Brasilia to meet the IMF's fiscal and monetary targets for the first quarter of this year. Failure to meet these targets probably would require renegotiation of the revised IMF agreement. [redacted]

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[redacted] Unless inflation begins to fall substantially

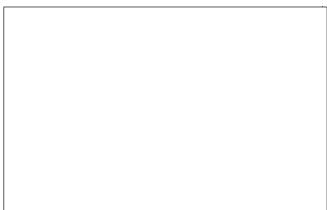
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within the next couple of months, we foresee the possibility of a new confrontation with the IMF and another major financial crisis in Brazil.

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Egyptian Exchange Rate Adjustments



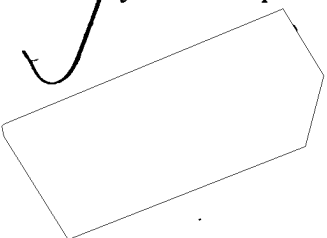
The Egyptian Government has introduced new foreign exchange regulations in an attempt to attract more worker remittances and tourist expenditures into the Central Bank's foreign exchange pool. According to US Embassy reports, the new regulations allow for the exchange of dollars to Egyptian pounds in the four public-sector banks at the rate of \$1.00 for LE 1.12 instead of the old "incentive" rate of \$1.00 for LE 0.84. Accompanying the new regulations will be a renewed crackdown on unofficial foreign exchange dealers. In the meantime, reports in the official press indicating that the new rate may soon be extended to joint-venture banks in the private sector were denied by government ministers.

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These moves are designed to ease recurrent foreign exchange shortages that have made it difficult for the government to meet its debt service obligations and have forced public-sector companies into the parallel exchange market. Rationalization of Egypt's exchange system would also be a prerequisite for an IMF standby loan should one become necessary later this year. The new rate remains about 6 percent below the parallel market rate, and the gap will widen further as rumors of more changes lead holders of foreign currency to wait for the regulations to be clarified.

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Indian Ports Closed by Labor Dispute

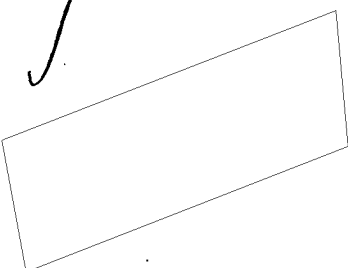


A weeklong strike by workers at India's 10 major ports has brought three-fourths of India's foreign trade to a halt. The dockworkers' agreement with the central government expired last December, and union leaders may have expected Prime Minister Gandhi to be more accommodating to their demands for higher wages and benefits in this election year. Instead, she has declared the strike illegal and asked the Navy to help unload essential supplies. So far, the military's role has been limited. Moves to resume negotiations are under way. Indian industrial production, which is heavily dependent on imported petroleum, would be crippled if the strike continues.

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China Tightens Foreign Trade Controls



China's announcement on 9 March of tightened foreign trade controls completes several months of adjusting trade responsibilities between local and central authorities. Western businessmen may encounter initial confusion and delay in negotiations for purchases or sales of goods. Most major import and export goods have been handled by the national foreign trade organizations. They continue to control imports of grain, sugar, chemical fertilizers, rolled steel, and timber and exports of crude oil, coke, cotton, and some grains. Other commodities—such as silk and coal—are handled by national-level industrial ministries or corporations.

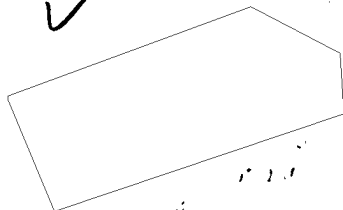
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The new policy aims to correct abuses stemming from a decentralization of trade over the past five years. Many local authorities imported unneeded goods or sold imports at a profit to other localities. Local efforts to expand exports resulted in intraregional competition for foreign markets that cut prices. Subsidies to exporters to make their products competitive became very costly, especially in Guangdong Province, with its strong export links to Hong Kong. Local authorities apparently will continue to be able to trade in some goods but will require guidance from Beijing.

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*Yugoslavia Requests
Additional CCC
Credits*

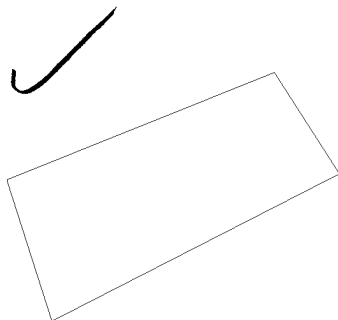


The US Embassy in Belgrade reports that Yugoslavia has requested an additional \$60 million in US Commodity Credit Corporation (CCC) credits for the purchase of cotton, hides, and skins. Belgrade originally requested \$340 million in CCC credits for fiscal year 1984 but received only \$125 million because of limits on CCC funding. Approval of the new request probably would help Yugoslavia improve its hard currency trade performance because the imports would be processed into textiles, footwear, and leather goods—important Yugoslav exports to the West. The financing would also increase US cotton sales to Yugoslavia. With the aid of CCC credits last year, the United States reportedly captured a 40-percent share of the cotton market, which had previously been dominated by the Soviet Union.

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*Improving Hungarian
Financial Outlook*



The US Embassy reports that Hungary is making good progress obtaining foreign credits to meet medium- and long-term debt repayments of \$1.5 billion this year. US bankers say that a \$150 million loan syndication is fully subscribed and could be increased to \$200 million. The Hungarians also are close to reaching agreement with the World Bank on project loans totaling \$200 million, and Japanese banks are arranging a cofinancing package that will provide about \$300 million. Earlier this year the IMF agreed to provide Hungary a standby credit of nearly \$440 million.

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The enthusiastic response of bankers to Hungary's loan requests brightens its financial prospects for this year considerably. Hungary's foreign borrowings probably soon will reach its original goal of \$1.1 billion, and a projected current account surplus of about \$400 million would close the remaining financial gap. Budapest reportedly is considering seeking another syndication later this year from commercial banks to build up its foreign exchange reserves.

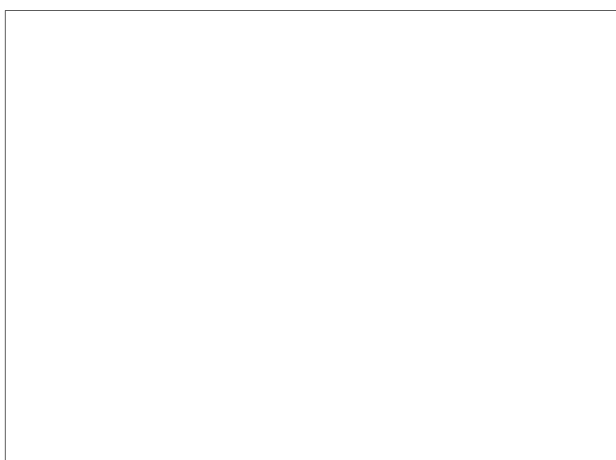
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**International Financial Situation:
Political Update** [redacted]

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This article is part of our series focusing on the economic and political aspects of the international financial situation. [redacted]



- Unrest will probably flare up again in **Brazil** with inflation surging at more than a 200-percent annual rate. Unless it is reduced substantially by April or May, we think Brasilia will face intense demands for a break with the IMF and for a moratorium on debt repayment.
- The US Embassy reports that **Peru's** four major labor confederations agreed to stage a 24-hour national strike this week to demand changes in government economic policies.
- Because of **Jamaica's** dismal economic situation, Prime Minister Seaga will ask Parliament to postpone for up to a year the local elections scheduled for this month, [redacted]
- Students in the **Dominican Republic** protested in the capital and at least seven provincial cities last week against government negotiations with the IMF, according to the US Embassy. [redacted]

Major Developments

[redacted] the Argentine Government is making tough demands on US bankers during talks regarding overdue interest payments. According to US Embassy officials, their informal discussions with Economy Minister Grinspun indicated the hardness and emotional content of his position. In addition, the Argentine economic press has been reporting that there are hardline and moderate schools of thought on overall debt negotiating strategy within the ruling Radical Party. [redacted]

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[redacted] We do not know the current state of play, but the press coverage and other sources indicate that—at the very least—competing pressures exist within the government. [redacted]

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At the same time, President Alfonsin faces growing discontent in the military and more determined opposition from key civilian groups. Officers reportedly are upset about organizational changes and proposed budget cuts, as well as press attacks on the military for human rights abuses. [redacted]

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[redacted] On the labor front, Alfonsin's proposal for reforming the unions has been defeated in the Senate by a coalition of Peronists and conservatives, according to press reports. The proposal would have forced the heads of the Peronist-dominated unions to face new internal elections. [redacted]

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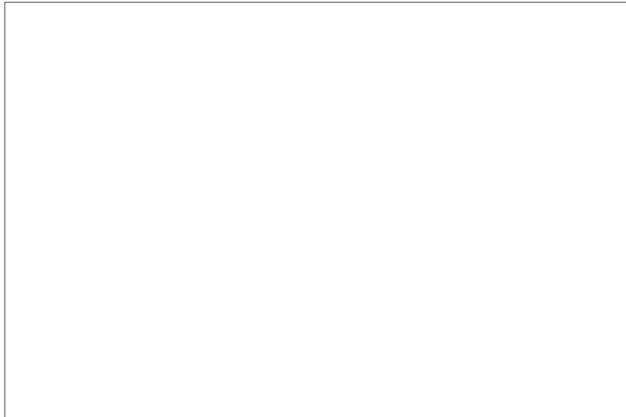
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23 March 1984

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Opposition to Alfonsin is beginning to coalesce as indictments and trials of officers accused of human rights violations move forward, reforms are debated, and summer vacations end. The President probably realizes that the euphoria from his election victory is dissipating and that the success of future legislative initiatives will require greater concessions. The Peronists are encouraged by the defeat of the labor reform bill, and they are likely to take a strong stand in congressional debates, the budget, IMF negotiations, and other sensitive issues. We believe unrest will spread among the military unless the President can ease public criticism and prevent human rights investigations from reaching the middle-level officers. [redacted]

By getting IMF approval early this month to hold off floating the peso until 1 June, **Philippine** President Marcos has avoided the political risks of a devaluation before the 14 May legislative elections.



Meanwhile, the investigation of Aquino's assassination is moving closer to implicating Armed Forces Chief of Staff Ver, a development that could have grave political consequences for Marcos. In our judgment, Ver is willing to take any action he believes necessary to protect his interests, including the elimination of witnesses who could implicate him. If Ver interferes with the investigative board's proceedings, we believe Marcos would have to choose between sacrificing Ver or suffering even more severe political repercussions as a result of appearing to protect those responsible for the killing. [redacted]

The US Embassy in **Venezuela** reports that the economic program President Lusinchi has fashioned over the past month tries to accommodate the demands of various interests. Consequently, it does not satisfy any group fully and is unlikely to overcome the country's financial problems. Reduced interest rates are aimed at mollifying the private sector, while food subsidies and the requirement that all firms expand employment by 10 percent are designed to appeal to labor. To satisfy foreign banks, the program includes permission for private firms to use a preferential exchange rate for servicing foreign debt, a devaluation of the bolivar, and steps to increase agricultural production. Although foreign banks have characterized the new program as a positive first step, they—as do we—believe tougher fiscal and monetary measures as well as reduced government controls are necessary to cut the budget deficit and shift resources from consumption to investment. [redacted]

More than a week of rioting by an outlawed Muslim sect in northeastern **Nigeria** early this month diverted the government from its attempts to deal with corruption and the economy. The Army finally restored order, but there are rumors of more such outbreaks to come. We believe General Buhari will use whatever force he deems necessary to prevent more disturbances because any appearance of faltering government control could serve as a pretext for a coup by middle- or junior-level officers. According to the Embassy, many of them are already upset by Buhari's slowness in achieving economic recovery. The government is trying to find more revenues, but raising oil output in a weak market could depress prices, and Lagos remains reluctant to meet the IMF's prescription for a devaluation. Press reports indicate that the new regime is now beginning to realize that its adjustment program will have to be even more austere than the one put forth by the government it overthrew. [redacted]



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Bolivia: Bleak Economic Prospects

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Since assuming office in late 1982, President Hernan Siles Zuazo has faced the difficult task of resuscitating Bolivia's ailing economy. Despite a promising start, President Siles' tenuous political position has led him to backslide on economic reforms necessary to resolve the country's financial problems. Economic output last year, meanwhile, plunged at least 12 percent, and consumer prices rose 330 percent. Moreover, failure to reconcile with its creditors has left Bolivia virtually bankrupt.

Bolivia faces bleak economic prospects again this year. La Paz probably will be unable to pursue reforms necessary to deal with inflation, debt refinancing, and longer term economic revitalization. Even if Bolivia makes a good faith effort to implement an IMF program, economic recovery this year would be slight. There is a small chance that Siles could pursue nationalistic economic policies that could push the country to the brink of economic collapse.

Siles' Policy Response

Siles, who took office in October 1982, inherited a severely weakened economy. With five different governments in three years, La Paz has been unable to implement economic reforms. Initially, the government undertook some reforms to restore fiscal discipline. For example, it lowered subsidies on gasoline, utilities, and many food staples. In November 1982, La Paz established a unified exchange rate to bolster the trade accounts and required that foreign exchange be remitted to state control to pay for essential imports. Siles also banned nonessential imports and introduced foreign exchange controls to restrain capital flight. These early reforms paved the way for a successful renegotiation of \$570 million in outstanding debts owed to Argentina and Brazil, as well as an extension of debt payments to international bankers.

Because of his tenuous political position, however, Siles backed away from implementing unpopular economic reforms for most of 1983. Despite initial price hikes, gasoline and food price subsidies remained sizable, and the government failed to prepare a budget. Moreover, the government granted wage increases to calm labor agitation. Policy backsliding prevented reconciliation with the IMF, causing Bolivia to experience growing difficulties in meeting foreign obligations.

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Because of Siles' inability to exert strong management, the economic crisis deepened:

- The budget deficit last year was reduced slightly to an estimated 20 percent of GDP last year.
- The inflation rate skyrocketed to 330 percent in 1983.
- GDP fell at least 12 percent because of declining domestic demand and natural disasters.
- Official unemployment in the four largest cities rose to 14 percent in 1983 from 12 percent in 1982.
- Declines in mineral exports and increases in food imports caused a \$30 million trade deficit, swelling the current account deficit by 20 percent to \$375 million.

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Deteriorating economic conditions aroused considerable social unrest at the close of 1983. Miners protested food shortages, and public servants denounced the government's refusal to grant bonuses and improve social security benefits to compensate for the increasing cost of living. Peasants, angry over price increases, blocked roads in La Paz Province in efforts to pressure the government to provide them with additional seeds and machinery. Citizen groups in the capital organized mass demonstrations in protest against food shortages and reduced urban transport services.

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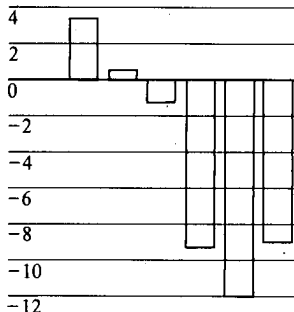
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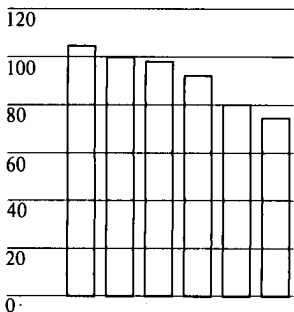
Bolivia: Selected Economic Indicators, 1975-84

Note scale change

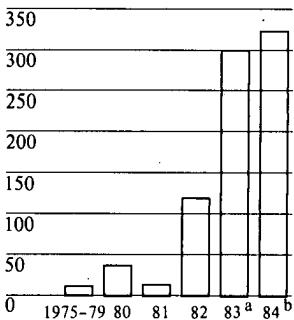
Real Economic Growth
Percent



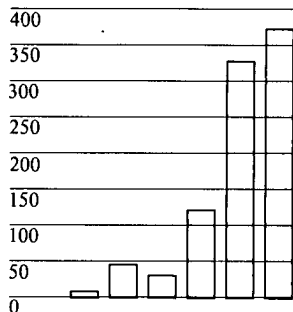
Mineral Production
Index: 1980=100



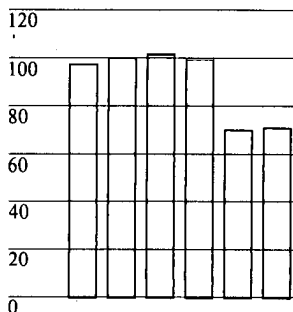
Money Supply Growth
Percent



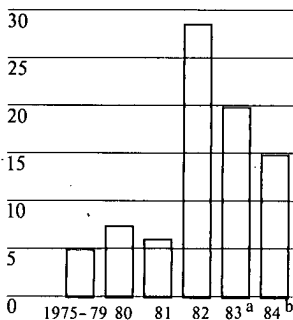
Consumer Price Inflation
Percent



Agricultural Output
Index: 1980=100



Government Deficit as a
Share of GDP
Percent



^a Estimated.
^b Projected.

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Bolivia's Economic Mismanagement

General Garcia Meza, who took power in a July 1980 coup, laid the foundations for Bolivia's economic disintegration. Under his regime, government spending exploded for self-serving political purposes, mainly financed by printing money. In early 1981 Garcia Meza tried a series of moves aimed at regaining IMF support and securing foreign loans. By April, however, spending restraints had given way to large wage increases and increased consumer subsidies to avoid political unrest.

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In September 1981 a subsequent military government sought to restore international creditors' confidence and regain assistance from the IMF by undertaking monetary and credit reforms. By March 1982 these reforms had succumbed to pressures from Bolivian interest groups for economic concessions. During the next four months, the budget deficit rose 300 percent, public credit to state enterprises increased 100 percent, and the money supply grew 125 percent.

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In August 1982 General Vildoso, the last military ruler, recognized that tough measures were necessary to end the inflationary spiral. The continuing economic and political crisis hastened the installation of the civilian constitutional government of President Siles in October 1982.

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A New Beginning?

Last November, under pressure from international bankers and domestic business groups, Siles decreed new reforms to stabilize the economy, improve the payments account, and qualify for IMF assistance. To gain political support for these measures, La Paz first announced a 72-percent increase in minimum wages on 5 November. This was quickly followed by (a) a 60-percent devaluation to

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Bolivia: Balance of Payments

Million US \$

	1975-79 Average	1980	1981	1982 ^a	1983 ^a	1984 ^b
Current account balance	-227	-166	-312	-310	-375	-355
Trade balance	-14	262	229	110	-30	-15
Exports, f.o.b.	606	942	909	720	620	625
Of which:						
Tin	297	378	343	278	240	250
Natural gas	70	221	337	394	350	340
Imports, f.o.b.	620	680	680	610	650	640
Net services and transfers	-213	-428	-541	-420	-345	-340
Interest payments, net	74	242	310	280	262	250
Arrears	3	0	50	250	430	300
Capital account balance	238	19	319	209	185	235
Of which:						
Direct investment	15	41	60	37	45	50
Long-term loans	391	441	434	305	390	375
Short-term capital	-12	-20	148	-36	31	48
Foreign exchange reserves (at end of year)	170	106	100	156	146	135
Total debt	1,534	2,515	2,836	3,112	4,800	5,000

^a Estimated.^b Projection. Assumes La Paz backs away from austerity program.

500 pesos per US dollar, (b) a reduction in food and gasoline subsidies, and (c) a 50-percent hike in transport fares and electric power tariffs. To assuage the critical public reaction to these moves, La Paz announced income tax reductions and new credits for farmers, industrialists, and exporters.

An IMF representative in La Paz expressed disappointment with the November measures, according to the US Embassy, because they did not go far enough. To qualify for a \$300 million IMF Extended Fund Facility, Siles would have to make deep cuts in the budget deficit, tighten monetary policy, and close the gap between the official and the free market exchange rate. Although La Paz has continued discussions with the IMF to secure desperately needed foreign funds, substantial differences persist.

Bleak Prospects for 1984

In our judgment, Bolivia faces bleak economic prospects this year but could start the necessary economic rebuilding process. Much will depend on the Siles government's ability to implement economic reforms in the face of labor and political opposition and then on the level of export earnings and the availability of new foreign credit. We foresee three possible scenarios.

Policy Paralysis Continues. We believe it is most likely that—based on historical precedent and our estimate of Siles' potential room for maneuver—La Paz will back away from its austerity program. In

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this case, strong labor objections and the resistance of influential state corporations to economic reforms will prevent the government from scrapping \$150 million in subsidies and scaling down the budget deficit to 4 to 5 percent to meet the IMF's demand. As a result, inflation will remain above 300 percent, the economy will continue depressed, and unemployment will stay high. On the external side, the overvalued peso will impede the government's export drive and encourage contraband trade. Consequently, La Paz will make only limited progress in reducing the current account deficit. Discussions with the IMF will remain at an impasse, precluding refinancing the debt over a longer term and a resumption of aid and credit flows. [redacted]

Reconciliation With the IMF. In this scenario, Siles makes a good faith effort to implement economic reforms under IMF guidance, even though there may be some backsliding to assuage public discontent. To begin economic reconstruction, La Paz would reduce the budget deficit by restraining wage increases and strengthening controls over state corporations. To restore production incentives, La Paz also would raise prices for essential commodities and continue devaluations to encourage exports and hold down imports. As a result, bankers would provide debt relief, and development assistance would again begin to flow. Even in this instance, economic recovery would be unlikely, but the foundation is laid for future progress. Although inflation would surge in the first half of 1984 as subsidies were removed, prices would start to decline by the end of the year as shortages eased. Until Bolivian mineral exports strengthen, there would be only limited improvement in the current account. [redacted]

Nationalistic Backlash. There is a small probability that heightened political pressure on Siles could result in strongly nationalistic economic policy. Under this scenario, La Paz would reject any agreement with the IMF. Instead, social and political pressures would lead the Siles government to increase spending in an effort to revive the economy. Expansionary economic policies would probably force inflation above 400 percent. Reduced domestic production and dwindling foreign ex-

change would result in widespread shortages, increased barter, numerous business failures, and massive unemployment. Traditional allies would suspend official aid, private bankers would refuse to renegotiate the debt, and La Paz could retaliate with debt repudiation. [redacted]

Political Realities and Dangers

In charting his economic course, Siles is well aware of the political ramifications. Last year he contended with several military coup conspiracies and is now especially sensitive to the ways his economic policy choices could contribute to renewed plotting. [redacted]

Under our most likely scenario, Siles would stand the best chance of prolonging his tenure in office, even though the economic costs would be high. He would continue to face pressures from both labor and business, but economic concessions would mitigate serious unrest. In contrast, pursuing reform policies would lead quickly to a major confrontation with labor. Not only would this play into the hands of military coup plotters, but it would also rouse nationalistic sentiment by causing domestic hardships in apparent exchange for international banker assistance. Alternatively, if Siles opted for a strongly nationalistic economic program, the devastating effects would eventually override the short-term political gains and lead to deep dissatisfaction with the government. [redacted]

We believe the military is most likely to dominate economic policy making if Siles is forced from office, although the same dilemmas would remain. Even nationalistic military governments in Bolivia, however, historically have felt driven to win US acceptance in order to demonstrate their legitimacy

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and gain foreign financial assistance. Thus, we would expect a regime dominated by the military to try to appear responsive to US encouragement for economic adjustment measures. Such a government, therefore, would probably continue to deal with the economic situation, much as Siles has—on a short-term, ad hoc basis.

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Implications for the United States

US commercial interests are being hurt by Bolivia's severe economic deterioration. American sales to Bolivia shrank by one-half to \$99 million in 1982 and an additional one-fourth in 1983. Already deep in arrears, Bolivia has failed to meet adjusted payments schedules to international banks. Moreover, we remain concerned about prospects for more nationalistic policies. In a recent concession to labor, La Paz awarded the State Mining Company exclusive gold exploitation rights, notifying a largely US-owned gold mine that its operating contract will not be renewed at the end of this year.

Mounting debt servicing difficulties have also led Bolivia to join countries like Nicaragua in calling for joint Latin American action or debt repudiation.

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Bolivia will increasingly seek out any source of financial support to prop up its ailing economy. The Siles administration can no longer rely on economic assistance from Washington and other Western donors, who are now demanding economic reforms and eradication of the cocaine trade. La Paz now claims it has received promises of financial assistance from the Soviet Union. Finance Minister Baptista claims the USSR has offered Argentina an advance for wheat sales that would be used to pay its gas debt to Bolivia. Although such an action would be unusual for the Soviet Union, it would strongly enhance the Soviet image and exert pressure on Western governments to support financially strapped Bolivia.

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23 March 1984

Guyana: Economic Crisis Clouds Burnham Regime

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Guyana, now in its 20th year under the dictatorship of Forbes Burnham, has become a sociopolitical tinderbox because of the unraveling of the economy in recent years. By the end of 1983, Guyana's economic output had fallen 35 percent below the peak 1976 level—the steepest economic decline of any Latin American country during this period. Signaling despair of economic or political improvement, large numbers of Guyanese have emigrated. Burnham's corrupt coterie and his ethnically concentrated security forces have been protected from much of the economic decline, but the majority of the citizenry has become absorbed with day-to-day survival.

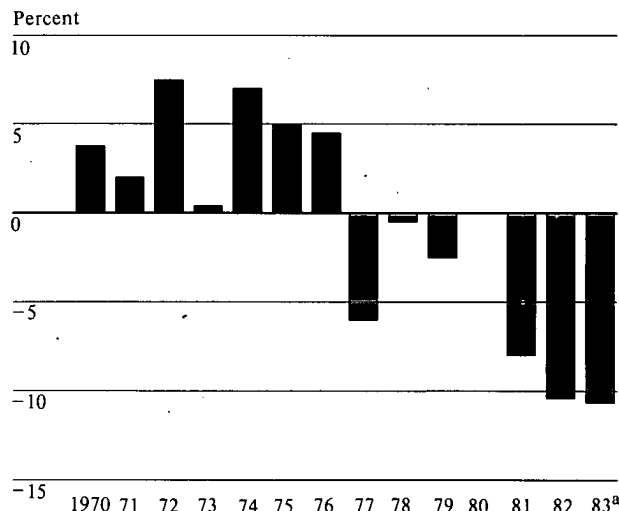
Facing continued deterioration in the economy and the possibility of political unrest, Burnham has turned to the Soviet Bloc for additional assistance, but we doubt that Guyana will receive anything more than token economic and technical aid in addition to limited arms and training. Burnham's staying power probably turns on his continued ability to deliver privileges to his security forces and their families.

The Dismal Economic Record

Despite a wealth of natural resources, Guyana's economic output has declined an average of 6 percent annually since 1976. The output of key exports—bauxite, alumina, sugar, and rice—has suffered from pervasive corruption, mismanagement, and costly labor disputes. Undeterred by mounting inefficiency, Burnham has expanded state control of the economy, shrinking the recorded share of the private sector to 15 percent of

[Redacted]

Guyana: Real GDP Growth, 1970-83



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^a Estimated.

[Redacted]

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national output while driving much economic activity underground. In the process, control of the economy has shifted steadily to Burnham's Afro-Guyanese followers, leaving other ethnic groups—who make up a majority of Guyana's approximately 700,000 citizens—with little effective political or economic clout.

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Recent Economic Performance

The pace of general economic deterioration has quickened in the past two years. Production has

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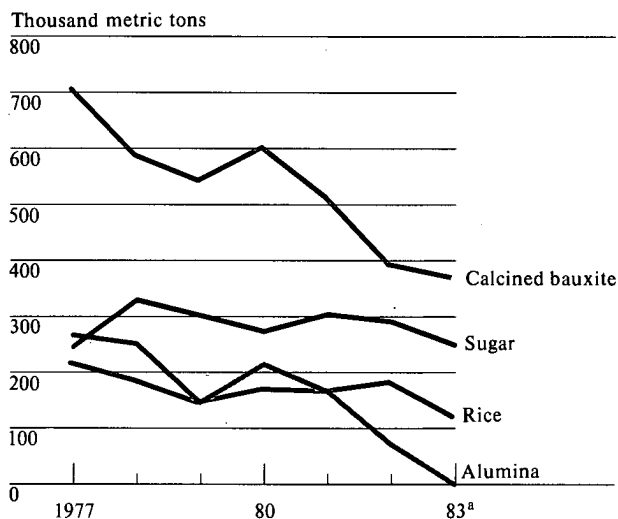
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been stifled by greater shortages of imported spare parts, equipment, and fertilizers; at the same time, foreign buyers increasingly have turned to suppliers offering better quality, more reliable delivery, and lower prices. Burnham's resort to priming the money pump to cushion the operating losses of state enterprises has accelerated inflation. Although the latest official statistics showed an increase in the urban price index of only 23 percent in 1982, this figure excludes goods traded on the burgeoning black market. [redacted]

Local production problems and soft world demand have accelerated the decline of Guyana's bauxite and alumina industry. Long the country's major supplier of foreign exchange, this sector has become a net user of hard currency. Guyana's sole alumina plant has been closed since mid-1982, awaiting the availability of foreign exchange required for renovation. In an effort to cut huge operating losses in the industry, the labor force—largely made up of Burnham's Afro-Guyanese followers—was cut by one-third last year despite the political risk involved. Much of the market share loss may be irreversible. China, for example, has taken a large share of Guyana's US market for refractory-grade bauxite. [redacted]

The large agricultural sector has confronted similar problems. The Guyanese Government has looked unrealistically to sugar to replace bauxite/alumina as the country's chief foreign exchange earner. Heavy rains, sporadic strikes by the predominantly Indo-Guyanese labor force, and worsening shortages of imported inputs caused sugar output last year to drop 14 percent to its lowest level since 1977. More than a year after accepting the sugar industry's carefully framed plan for revitalization, the government has implemented few of the plan's provisions. Once the rice bowl of the Caribbean, Guyana in recent years has seen its exports steadily shrink. Low producer prices have deterred the independent, mostly Indo-Guyanese farmers from planting rice, and mismanagement and corruption have undermined the operations of the government's processing and distribution monopoly. Foreign buyers increasingly are deterred by poor quality, unreliable supply, and highly uncompetitive

Guyana: Selected Commodity Production, 1977-83



^a Estimated.

[redacted]
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prices. The sharp deterioration in output—the US Embassy estimates that output last year fell to its lowest level since 1976—has taken on added significance because the government's halting of wheat imports in 1983 has made rice the country's main staple. [redacted]

Other sectors are particularly battered by shortages of imported inputs. In recent years, as many as half of Guyana's private firms have ceased production altogether. Most of the manufacturing firms still in business are involved in assembling products for reexport. Despite high foreign demand, Guyana's once promising timber and shrimp industries are experiencing many of the problems that have hobbled other sectors. [redacted]

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The Burgeoning Black Market

As the legitimate private sector has dried up, the black market has expanded. Many observers estimate that the black market now is larger than the official economy. Manufacturers and retailers, unable to obtain licenses and foreign exchange legally, have turned to illicit sources for imports. Illegal exports of rice, gold, diamonds, shrimp, and currency have increased. Consumers, who initially looked to the black market as a source of luxury items, increasingly are turning to it for necessities. Although this activity deprives the regime of desperately needed customs duties and commodities for export, efforts to clamp down have been ineffective in the face of widespread corruption and collusion at all levels of government. Moreover, extensive networks and widespread expertise, developed with the spreading black market, have begun to be used for drug trafficking, heretofore a negligible activity in Guyana. [redacted]

Deprivation Fuels Social Unrest

Guyana's economic unraveling has reduced the living standards of the bulk of the population, especially the majority Indo-Guyanese, who also face growing victimization by Burnham's ruling party and security forces. Although Guyana's shortages of food, drugs, transportation, electricity, and water are endemic, deprivation became even more widespread in 1983. Crime has increased, with robbery and assault falling most heavily on the Indo-Guyanese, whose traditional distrust of banks has caused them to hoard cash in their homes. The educational system, once the region's best, has disintegrated and has been replaced by a curriculum of indoctrination and mass games on the North Korean model. [redacted]

The Guyanese people have endured increasing misery over the years without serious protest, although they have grown cynical toward government exhortation to work for "self-sufficiency" and to resist "imperialist plots." [redacted] survival increasingly consumes

the attention of most Guyanese, who believe—accurately—that the country's leaders, while preaching sacrifice, secretly indulge their taste for banned commodities. [redacted]

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Bleak Outlook in 1984

Without substantial inflows of concessional aid and genuine organizational and management changes—neither of which seems on the horizon—Guyana's economic slump will deepen. The World Bank-sponsored Caribbean Sub-Group Committee on Economic Development (CGCED) meeting in Washington last month offered little hope for assistance, according to US State Department reports. The openly hostile attitude of Guyana's representative was evident and reportedly appeared to erode any residual sympathy for Guyana's plight. Representatives of potential donors insisted that Guyana conclude an IMF agreement as a prerequisite to assistance. Burnham's relations with the IMF have been stormy, however, and prospects for reestablishing a program this year are remote. Past IMF programs have foundered on Guyana's repeated failures to meet agreed fiscal and monetary targets; the last agreement became inoperative after only three months and was finally canceled in 1982. Negotiations for reinstating support have dragged on for two years as Burnham refuses to jeopardize his power base by restructuring the economy along the lines mandated by the IMF. [redacted]

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Aid on the scale necessary to revive Guyana's moribund economy is highly unlikely to come from the Soviet Bloc. The loss of Grenada as a possible future site for air and naval facilities might increase Soviet interest in Guyana. The development of useful facilities, however, would require a long-term investment, not only in the facilities, but in stabilizing Guyana's economy—a commitment we doubt the Soviets would judge worthwhile, at least as long as Burnham remains in power. Moscow is probably reluctant to become too closely involved with a leader whose economic mismanagement has made his political future uncertain. [redacted]

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Cuba does not have the capability to provide substantial assistance. Should Fidel Castro, in the wake of Grenada, decide to try to breathe new life into his relationship with Burnham, he is likely to focus on offering those kinds of assistance that would help Burnham maintain his grip on power while costing Cuba little—image-building projects, such as roadbuilding and medical teams.

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Guyana's hapless citizens almost certainly will experience deeper misery, even malnutrition, in 1984, and the prospects for social and political unrest will grow. Burnham is likely to respond by calling on international agencies for humanitarian aid and continuing to blame his problems on US-inspired economic destabilization. We believe that Guyanese passivity could give way to sudden rebellion at any time—particularly as the living standards of the relatively more privileged Afro-Guyanese decline. Indeed, Afro-Guyanese bauxite workers struck to protest food shortages in the spring of 1983. Burnham quickly sent riot police and troops to the area to forestall disturbances. In the absence of widespread civil unrest, we believe Burnham's grip on power will depend on how long he can continue to provide his security forces and their kin with the perquisites that have ensured their loyalty so far.

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**Hong Kong: Growing
Despite Uncertainty** []

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The Hong Kong economy in 1983 was a study in contradictions. An export surge brought about an upturn in real economic growth from the depressed level of 1982. The financial markets, however, spent much of the year in disarray as investor confidence waned in the face of a Chinese takeover in 1997. []

At the moment, economic prospects for 1984 are excellent. Manufacturers' order books are already filled through July, and foreign demand continues to increase. The financial markets have been stable since last October, but an underlying air of uncertainty remains. Domestic investment in plant and equipment has fallen over the past few years, a poor sign for long-term growth. Any of several possible events—including a breakdown in Sino-British talks or a Chinese misstatement of their intentions, however, could reignite the financial problems experienced last year. []

Emerging in Stride

Hong Kong emerged from 1983 in excellent economic condition. The economy achieved a healthy 5.9-percent real growth—twice the level predicted by government officials early in the year. Exports again provided the engine of growth, rising 15 percent in real terms. The surge left Hong Kong manufacturers with order books filled through July. The yearend unemployment rate of about 4 percent remained even with the December 1982 figure but down from the peak of 5.1 percent registered in the first quarter of 1983. The local stock market closed the year on a strong note, and there is evidence that the capital flight experienced earlier in the year has ceased. The Hong Kong dollar appears stable once again. []

The strength shown at yearend belied the turmoil experienced during the year. Several of the Colony's largest firms—those most heavily involved in the depressed property market—filed for bankruptcy, taking a number of small creditors with them and sending large creditors looking for financing of their own. Two major conglomerates—Eda and Carrion—went under with outstanding debts totaling more than \$2 billion. Hong Kong Land, the Colony's largest property company, posted its first loss in years and was forced to arrange a \$230 million standby credit to meet its short-term obligations; its total debt outstanding is estimated at about \$2 billion.¹ Nor were the property companies the only ones hard hit. Several of Hong Kong's largest textile producers are still dangerously close to bankruptcy, despite the recent closing down of a host of medium and small textile plants. []

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Concern over "the 1997 issue"—the date of Hong Kong's reversion to Chinese control—caused periodic panic in the financial markets. A nervous movement of funds out of the Hong Kong dollar—one of the world's more stable currencies between 1978-81—weakened the currency in early 1983 and pushed it through the psychological barrier of HK \$7/US \$1 in May. Despite open market intervention by both the Hong Kong Government and the Bank of China (BOC), the Hong Kong dollar dropped to a record HK \$9.6/US \$1 during September, sending the inflation rate back into the double-digit range. The stock market also responded to investor uncertainty, fluctuating sharply throughout the year. Between July and October the market lost 40 percent of its value. []

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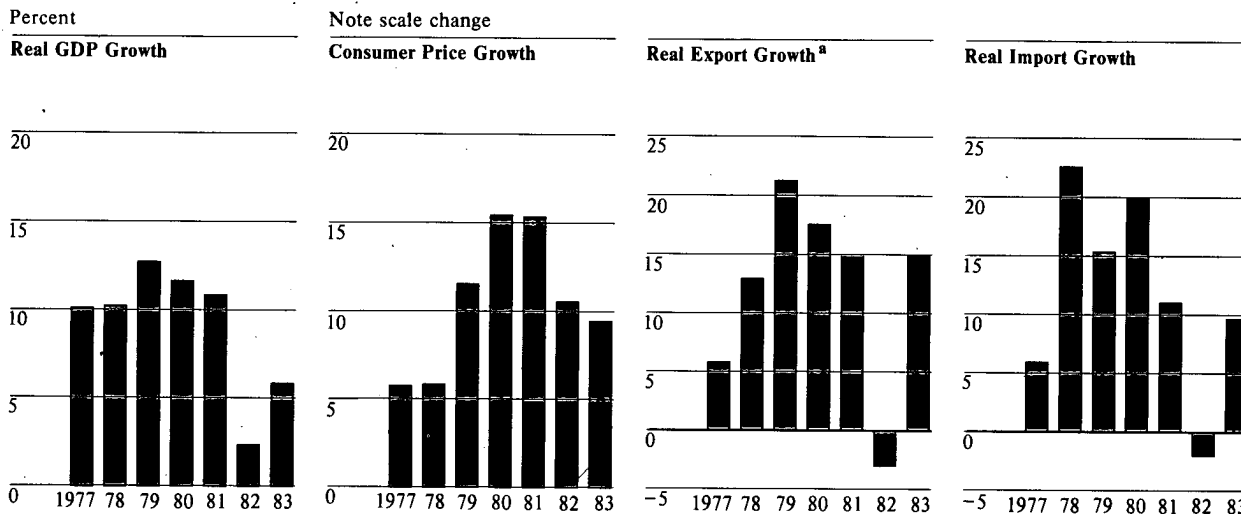
¹ All values are in US dollars. []

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Hong Kong: Economic Indicators, 1977-83



^a Including reexports.

[Redacted]

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Coping With Uncertainty

Problems in the financial markets forced the Hong Kong Government to move away from its traditional laissez faire philosophy. In October the government abandoned freely fluctuating exchange rates, after the Hong Kong dollar plunge set off panic buying in which local residents rushed to exchange currency for goods. Now the exchange rate is effectively pegged at HK \$ 7.8/US \$1, and interest rates are allowed to fluctuate in response to market pressures. When first instituted, speculators doubted the government's willingness to risk slowing the economy by permitting sharp interest rate increases. As a result, they continued to unload Hong Kong dollars in anticipation of a devaluation. When the government proved willing to accept overnight interest rates as high as 40 percent, the pressure subsided, and capital has been moving back into Hong Kong dollars. [Redacted]

The government was forced, for the first time, to take over a failing financial institution—Hang Lung Bank. There is no central bank in Hong

Kong, and hence no lender of last resort. Traditionally, the Colony's large commercial banks have filled this void. In the prevailing air of uncertainty, however, even the large commercial banks were unwilling to come to Hang Lung's aid, forcing the government's hand. [Redacted]

In fiscal matters the Colony has also made adjustments. For the first time ever, the government allowed the domestic budget to remain in deficit for two consecutive years; a third deficit is now expected. The fiscal year 1983 budget (April 1983–March 1984) will be about \$450 million in the red compared with \$600 million during Fiscal Year 1982. Expenditures on public housing and transportation remained high while revenues tapered off. Inflows from land sales—the largest revenue earner in the late 1970s—remained depressed, as did tax revenues. Government attempts to counter the declines included sharp increases in alcohol, tobacco, and airport taxes. The maximum average rate of tax payable on earnings from any source was hiked from 15 to 17 percent. [Redacted]

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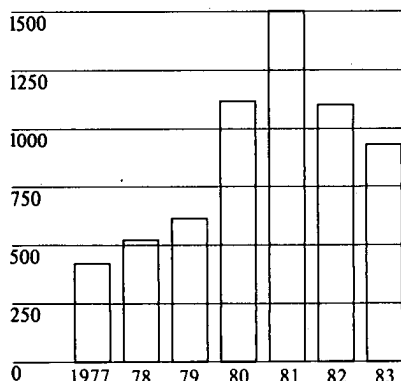
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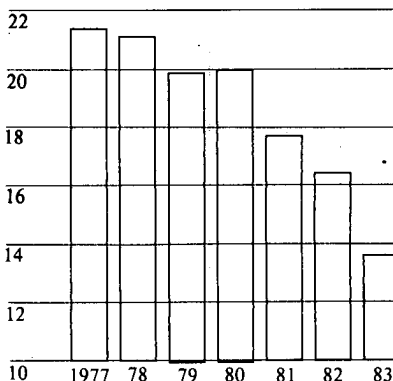
Hong Kong: Financial Market Instability Indicators, 1977-83

Note scale change

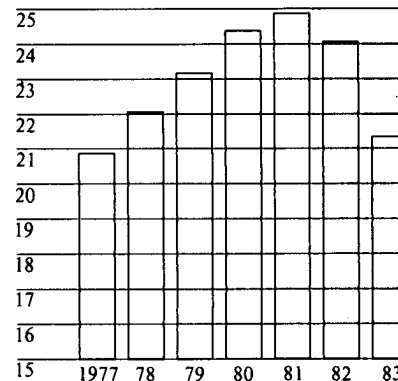
Average Share Price on Stock Market
Index: July 1964=100




Average Exchange Rate
US cents per HK\$



Domestic Investment as a Share of GDP
Percent




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The government also has been forced to become more responsive to local sentiment. In the past, Hong Kong's local populace has generally accepted whatever economic legislation the authorities imposed. Last October, however, despite an increasing deficit, the government bowed to local pressure and removed a 10-percent tax on interest earned on Hong Kong dollar deposits. More recently, a proposed increase in licensing fees on taxicabs was rescinded after the drivers took to the streets in protest. The work stoppage precipitated the worst rioting since 1967. 

Help From the Mainland

China became increasingly involved in Hong Kong's economic affairs in 1983. Early signs of China's willingness to throw its economic weight behind the Colony came when Beijing made several unsuccessful attempts to support the weakening currency. Beijing also moved to increase its industrial presence by establishing the Everbright Corporation, a "nongovernmental company" with

status equivalent to that of a state ministry. Initially contrived to facilitate China's acquisition of Western technology, more recent indications are that the company will play a major role in supporting the Hong Kong economy. Since its establishment in August 1983, the company has been active in both the local stock and real estate markets. In the latter, Everbright's recent \$130 million purchase of a residential complex was one of the largest the failing property market has seen in a year. 

Other instances in which Beijing proved willing to prop up Hong Kong's industrial sector include:

- Establishment last year of China's first industrial joint venture in Hong Kong—a woolen finishing and dyeing factory. Discussions are under way for two other possible projects—a brewery and a cement plant.

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- Directives to authorities in Shanghai, the major Chinese commercial center, to become more economically involved in Hong Kong.
- Increased lines of credit by the Hong Kong branch of the BOC and its affiliates to business and housing. [redacted] BOC is becoming a major competitor for both Hong Kong and China business.
- The registration of China's largest trading company in Hong Kong—China Resources Company (CRC)—as a private limited liability company under Hong Kong law. The official explanation for the change was that it enabled the company to operate more freely in Hong Kong. Locally, however, the move was viewed as an attempt to demonstrate China's willingness to operate under Hong Kong's legal system. [redacted]

the year is out. A currency realignment in 1984, however, is unlikely. The government fears that any attempt to adjust the exchange rate could set off a new, perhaps uncontainable, round of speculation. [redacted]

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How the financial markets perform in 1984 depends to a large degree on the success the government has in clearing several upcoming hurdles. Each round of British-Chinese talks on the 1997 issue, for example, will provide a potential catalyst for instability. Beijing and London are aware of how closely progress on the talks is followed in Hong Kong and have taken measures to ensure that each round ends on a favorable note. So far, however, progress has been made only on the most straightforward issues. Now that more contentious issues are coming up for consideration, it may become increasingly difficult to conclude each round with positive statements. [redacted]

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The Coming Year

On purely economic grounds, the Colony's prospects for 1984 are excellent; we expect real growth of about 8 percent. Exports to date have been spurred largely by purchases by the United States, up 25 percent in real terms last year. Continued economic recovery in Europe and Japan should lend an additional boost in 1984; Hong Kong goods remain a bargain at the current exchange rate. Success in the export market will continue to stimulate domestic retail sales and, at the same time, guarantee growth for the Colony's important commercial sector. With the exchange rate holding firm, consumer price increases should not exceed 8 percent, the lowest rate in five years. [redacted]

In September the Colony could face an additional crisis. Beijing has stated that it will unilaterally spell out a plan for Hong Kong's future at that time if the Sino-UK negotiations have failed to reach any conclusion. By establishing the September 1984 deadline, Beijing hoped to push London into an early settlement. It is becoming increasingly apparent, however, that any detailed bilateral agreement will take much longer. As the September deadline approaches, we believe that the Colony is likely to grow more uneasy and that any misstatement by local, UK, or Chinese officials could have negative spillover effects on local markets. To remove the specter, Beijing will probably attempt to get British cooperation in making a joint statement concerning progress made so far. Failing that, the Chinese may claim that sufficient progress has been made to warrant forgoing any unilateral declaration. If the talks proceed without major problems up to the September deadline, there is a good chance that an innocuous statement by the Chinese will be interpreted favorably in the Colony's financial markets. [redacted]

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The financial markets have performed well so far in 1984. Stock prices remain near their two-year high. Moreover, rumors of capital flight and possible currency devaluation have been deflated by falling interest rates and continued heavy purchases of Hong Kong dollars. Recently, in fact, the government has been under pressure to revalue. Nevertheless, an air of uncertainty remains, and we expect to see periodic downward pressure on both the foreign exchange rate and local stock prices before

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Over the longer run, we believe that continuing, and potentially destabilizing, problems will have a negative impact on the economy. Real investment in fixed assets fell 6 percent last year after a decline of 1 percent in 1982. Real imports of capital goods were down 10 percent in 1983. Without a surge in investment spending, the Colony may lose much of the dynamic character that brought record growth during the past two decades. Indeed, Financial Secretary Bremridge recently warned that, without an investment increase this year, Hong Kong's growth rate may fall several percentage points below its potential as early as 1985.

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USSR: Favorable Hard Currency Position

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Soviet trade data for the first nine months of 1983 indicate that the USSR held its hard currency borrowing last year to a minimum despite a fall in oil prices and a 3-percent increase in merchandise imports. This was achieved by boosting military deliveries to the LDCs and increasing the volume of oil exports enough to offset the drop in prices. The net hard currency debt has stayed at about \$10 billion, and Moscow's hard currency position is likely to remain good at least through 1984.

surplus in the January-September period was about \$2.5 billion compared with \$2.2 billion in the first nine months of 1982. We believe, however, that for the year as a whole export growth was less than that of imports, leading to some decline in the trade surplus.

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Background

Moscow has tried to limit its hard currency debt since 1976, after a surge in Soviet borrowing to finance imports of Western technology and equipment caused the Soviet payments position to deteriorate. The USSR cut imports of Western equipment—which in real terms fell by one-fifth between 1976 and 1980—and benefited from spiraling world prices for its oil exports. The Soviets were able to limit borrowing despite sizable increases in agricultural imports in 1979-80.

Most of the small rise in export earnings appears to have been due to increases in arms deliveries and arms-related commercial exports to the LDCs, which account for roughly one-fourth of total Soviet hard currency receipts. In January-September these deliveries rose sharply over the first nine months of 1982 as the USSR moved to resupply both Iraq and Syria with military goods.¹ Our calculation for the full year assumes that Soviet arms deliveries in the last quarter of 1983 were at about the same high level as in fourth-quarter 1982.

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In 1981 Moscow experienced a continuing rise in agricultural import needs in the face of stagnating oil prices. As a result, the trade surplus plunged, and debt rose sharply. Although imports of machinery rose substantially in 1982 as deliveries for the Siberia-to-Western Europe pipeline began, Moscow was able to turn its payments position around by sharply boosting the quantity of hard currency oil exports and taking advantage of an improved harvest to reduce agricultural imports.

We estimate that hard currency oil exports totaled 1.3 million b/d in 1983, up by about 100,000 b/d over the previous record high in 1982. With the average price of crude oil and oil products down about 10 percent, however, the value of Soviet hard currency oil exports for the year probably remained close to the \$15 billion level of 1982. The rise in the volume of Soviet oil sales was made possible by an increase in oil imports from the OPEC countries in partial payment for past arms deliveries and perhaps by some drawdown of domestic stocks. As far as we now know, the USSR did not again reduce its oil exports to the Communist countries.

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1983 Trade Developments

The USSR in 1983 apparently experienced a small decline in its hard currency merchandise trade surplus. According to Soviet and Western data, the

Most of the modest increase in hard currency imports probably came from purchases of machinery and equipment and of crude oil. Western data indicate that Soviet imports of machinery and

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¹ Syria is considered to be a hard currency customer of arms but not of other commodities.

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23 March 1984

USSR: Equipment Orders Placed With Hard Currency Trading Partners

Million US \$

	Total	Oil and Natural Gas Projects	Chemical and Petrochemical Equipment	Metalworking and Metallurgical Equipment	Other Projects
1975	4,650	525	1,660	305	2,160
1976	6,000	1,700	1,020	1,820	1,460
1977	3,800	300	1,630	640	1,230
1978	2,800	825	700	350	925
1979	2,675	190	610	935	940
1980	2,600	400	410	805	985
1981 ^a	6,870	4,320	465	590	1,495
1982	3,745	1,330	505	800	1,110
1983 ^b	2,100	810	365	225	700

^a The value for 1981 includes about \$4 billion in orders for the gas export pipeline project. Some of this—such as pipelayers—is included under categories other than oil and natural gas equipment.

^b [redacted] information for 1983 is not complete.

[redacted]

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equipment increased—although nowhere near as much as in 1982, when these imports jumped about 30 percent. Much of the 1983 increase in such imports probably reflects deliveries of equipment contracted for in 1981-82. Among the more important orders in these two years were:

- The roughly \$4 billion for compressors and other equipment for the Siberia-to-Western Europe gas pipeline.
- Some \$600 million in equipment for the Astrakhan' sour gas project placed with French and West German firms.
- \$540 million for a turnkey steel plant from Austria.
- \$287 million for a rolling mill from West Germany for the Oskol steel complex.
- \$165 million for a diazinon insecticide plant from French and West German firms.
- \$110 million for two butadiene plants from Japan.

West Germany, France, Japan, and Italy continued to account for the bulk of the orders. The US share of orders dropped from about 10 percent in 1980 to 2 percent in 1982, reflecting US sanctions and Soviet concern about the reliability of the United States as a supplier. [redacted]

Oil imports from Iraq, Libya, and Saudi Arabia, largely in repayment for Soviet deliveries of arms, last year rose by roughly \$200 million. The oil from Saudi Arabia was in payment for Iraqi obligations to the USSR. We estimate the volume of these imports at about 186,000 b/d as compared with 165,000 b/d in 1982. In addition, the USSR imported in 1983 about 61,000 b/d of crude oil from soft currency countries (Syria and Iran) as compared with 32,000 b/d the previous year. [redacted]

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Agricultural imports, on the other hand, may have fallen to \$9 billion or less in 1983, compared with \$10 billion in 1982. Hard currency imports of grain dropped by an estimated 4 million metric tons to 32 million tons worth about \$5 billion; imports of sugar also declined. Imports of large-diameter pipe, which increased substantially in 1982—largely reflecting the start of construction of the Siberia-to-Western Europe gas pipeline—and of nontubular steel also were down last year. [redacted]

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USSR: Estimated Hard Currency Balance of Payments

Million US \$

	1975	1980	1981	1982	1983 ^a
Current account balance	-4,607	1,904	-100	4,206	4,000
Merchandise trade balance	-4,797	1,714	200	4,606	4,200
Exports, f.o.b.	9,780	27,784	27,978	32,052	32,500
Of which:					
Additional military deliveries to LDCs, f.o.b. ^b	1,500	4,200	4,200	5,900	7,000
Imports, f.o.b.	14,577	26,070	27,778	27,446	28,300
Net interest	-570	-710	-1,300	-1,500	-1,300
Other invisibles and transfers	760	900	1,000	1,100	1,100
Capital account balance	6,520	1,630	5,840	-1,240	1,000
Gross drawings ^c	6,371	2,865	6,200	2,650	3,900
Government backed	1,972	2,195	2,000	2,850	3,100
Commercial	4,399	670	4,200	-200	800
Repayments	969	3,050	3,200	3,415	3,600
Government backed	730	1,915	2,000	2,100	2,300
Commercial	239	1,135	1,200	1,315	1,300
Net change in assets held in Western banks	-395	-235	-140	1,575	500
Gold sales	725	1,580	2,700	1,100	1,200
Net errors and omissions ^d	-1,913	-3,534	-5,740	-2,966	-5,000

^a Estimated.

^b These estimates exclude the value of arms-related commercial exports [redacted] to individual LDCs, which we estimate at about \$2 billion in 1982. They are based on the reported export residuals in published Soviet data on trade with LDCs (that is, the difference between Soviet-reported

aggregate exports to the LDCs and Soviet reporting on exports to individual LDCs). The export residuals were reduced by the estimated value of Soviet exports of major arms systems to non-hard currency paying LDCs on an f.o.b. basis. The estimates exclude the value of follow-on services, which may be substantial.

With the surplus on total hard currency trade estimated at about \$4.2 billion and net expenditures on interest and other invisibles at about \$200 million, the USSR realized a current account surplus of \$4 billion, down only slightly from 1982. Gold sales—which hit 200 tons valued at \$2.7 billion in 1981—were down to less than 100 tons worth an estimated \$1 billion for the second year in a row as Soviet financing needs remained small. [redacted]

The errors and omissions category rose substantially, reflecting in part increased credits and deferred payments to cover military and other sales to the LDCs. Moscow also apparently rescheduled some LDC debt. For example, according to press reports, the USSR agreed in September 1983 to allow Peru to postpone for six years repayment of \$167 million falling due in 1983. [redacted]

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USSR: Estimated Hard Currency Debt to the West ^a

Million US \$

	1975	1976	1977	1978	1979	1980	1981	1982 ^b	1983 ^b
Gross debt	10,577	14,707	15,609	16,375	18,050	17,865	20,865	20,100	20,400
Commercial debt	6,947	9,662	9,858	9,515	10,480	10,015	13,015	11,500	11,000
Government and government-backed debt	3,630	5,045	5,751	6,860	7,570	7,850	7,850	8,600	9,400
Assets in Western banks	3,125	4,735	4,425	5,975	8,800	8,565	8,425	10,000	10,500
Net debt	7,452	9,972	11,184	10,400	9,250	9,300	12,440	10,100	9,900

^a Yearend data.^b Estimated.

Financing

Moscow probably was able to reduce its net hard currency debt by about \$200 million in 1983, compared with a reduction of \$2.3 billion in 1982. Although the USSR's net liabilities to commercial banks rose by more than \$1 billion in the first nine months of the year, mainly due to a \$1.5 billion drop in Soviet assets, it is likely that as in previous years the USSR sharply boosted its assets in the last quarter of the year. The Soviets apparently are reluctant to end a year with bank deposits equivalent to less than four months' imports.

Assuming the fourth-quarter growth in assets approximated \$2 billion—the increase in the last quarter of 1982 was \$2.6 billion—Soviet assets would have hit a record \$10.5 billion by the end of 1983, up from \$10 billion at the end of 1982. Gross commercial debt—which declined slightly in January-September—could well have remained below the yearend 1982 level. Western government-backed debt, on the other hand, probably rose as machinery and equipment imports continued to rise. Thus, we estimate that total gross debt increased somewhat to \$20.4 billion, whereas net debt, because of the probable increase in assets, dropped slightly to \$9.9 billion.

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Moscow's favorable hard currency position is likely to continue at least another year. The 1984 foreign trade plan announced by Planning chief Babaykov in December implies that Moscow intends—as it hoped to last year—to reduce trade with the West—perhaps by as much as 10 percent. Although the USSR probably will not achieve the reduction in hard currency imports from the West implied in the plan this year, we believe it will—barring a bad harvest—be able to continue to hold the line on them in 1984. Agricultural import requirements could remain at about the 1983 level if the harvest is fair to good this year.

Purchases of Western machinery and equipment could level off or decline. Although substantial deliveries of equipment for projects contracted for in the past few years are still to take place, deliveries for the Siberia-to-Western Europe gas pipeline are almost completed. Ongoing negotiations for Western equipment for the Tenghiz natural gas facility are unlikely to be concluded soon, ruling out sizable deliveries this year. Moreover,

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orders for nonenergy equipment fell in 1983 to \$1.3 billion—not much more than half the average for 1979-82. Soviet purchases of large-diameter pipe are unlikely to increase unless additional pipeline construction—which peaked in 1982 with work on the new export line—is initiated. The Soviets may be aided in holding down imports of pipe by bringing onstream their first domestic large-diameter pipe producing facility. [redacted]

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On the export side, Moscow could well experience some difficulties. Net hard currency oil sales are likely to level off, or even decline somewhat, as domestic production stagnates and deliveries to Eastern Europe remain high. [redacted]

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[redacted] the USSR, which reduced oil exports to Eastern Europe in 1982, will delay further cuts. Exports of natural gas could increase as deliveries begin through the new Siberia-to-Western Europe pipeline. Other commodity exports are likely to show little if any growth in 1984. In a number of industries (for example, nonferrous metals and timber), domestic production is stagnating and domestic requirements are rising, squeezing the exportable surplus. [redacted]

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Even if hard currency exports stagnate and a poor agricultural year necessitates higher imports than now foreseen, the Soviets can manage. With substantial gold reserves—estimated in excess of \$20 billion at current prices—and production running in excess of consumption and exports, Moscow could easily cover a sizable portion of its financing requirements through increased gold sales should the need arise. Moreover, the USSR has already lined up substantial Western-government backed and commercial credits to support imports of plant and equipment and of large-diameter pipe. In addition, after a five-year absence, Moscow has recently made a series of successful forays into the Euromarket. [redacted]

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