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International Economic & Energy Weekly

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International Economic & Energy Weekly

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Representatives from UN-member countries will meet in Mexico City in August to hammer out a consensus on global population and development issues. Developing-country delegates will pressure the OECD countries—as they did at the last world population conference 10 years ago—to increase financial support for population and economic development programs. 25X1

15 **Israel: The Economy and the Elections** 25X1

Neither of the major parties has specified its postelection economic programs, but most Israelis expect strong measures. We are less sanguine, however, that any Israeli government will muster the political courage to launch an effective austerity program. 25X1

19 **World Population Conference: Problems and Prospects** 25X1

The "either development or family-planning" argument of the 1974 Bucharest conference has, for the most part, given way to agreement that both economic development and family-planning programs must be successful if population growth rates are to continue to fall. Nonetheless, moves by the Soviets and several unresolved substantive issues threaten to disrupt the conference. 25X1

23 **Rapid Population Growth: Consequences for the Developing World** 25X1

World population will exceed 6 billion by the year 2000, 30 percent more than the current total and nearly two-and-one-half times the 1950 level. These increases have alarming implications for the economic health and social/political stability of many LDCs. 25X1

27 **NIC Exports: Climbing the Technological Ladder** 25X1

Exports of the newly industrializing countries (NICs) have shifted dramatically toward technology-intensive products over the past decade. We expect the composition of NIC exports to become even more technology intensive as these LDCs increase their technological capabilities and expand their lines of high-tech products. 25X1

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Perspective

Outlook for Global Population Conference

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Representatives from UN-member countries will meet in Mexico City in August to hammer out a consensus on global population and development issues. Regional preparatory meetings showed that most African, Middle Eastern, and Latin American delegates still view economic development as the key to reducing fertility, mortality, and international migration. Developing-country delegates will pressure the OECD countries—as they did at the last world population conference 10 years ago—to increase financial support for population and economic development programs. 25X1

The sharp differences between the North and South positions that divided the 1974 Bucharest population conference have narrowed:

- Developing-country policymakers have moved away from the rigid position that economic development is the only means to reduce population growth rates. Seventy-two developing countries now officially support family-planning programs.

- Developing-country optimism that OPEC's leverage—following the quadrupling oil prices—would propel the Third World to prosperity and lead to lower population growth rates has evaporated. Many Third World policymakers now take the pessimistic view that economic progress will be slow and difficult to sustain, and that in many countries population growth is neutralizing per capita economic gains.

- Developing-country annual population growth rates declined from almost 2.5 to 2.0 percent during the past decade, but the decline resulted mainly from China's halving its growth rate. The developing countries accounted for nearly 90 percent of the three-quarters of a billion people added to the world's population between 1974 and 1984. 25X1

Despite efforts by UN and Mexican conference organizers to orchestrate a wide-ranging consensus before the August meetings, several unresolved substantive and procedural issues threaten to disrupt the conference:

- The Soviets will use Mexico City as a platform to attack the United States on peace and disarmament issues. In preliminary meetings, Moscow and the Eastern Bloc nations ensured that a formal resolution linking population and economic problems to world disarmament and peace will be debated at the conference.

- The Soviets prevented limiting national statements to seven minutes. We expect Moscow to attempt to fill the developing-country press with lengthy statements on disarmament.

- Religious groups from the Middle East, North America, Africa, and the Vatican almost certainly will urge the conference to eliminate international support for certain family-planning and women's programs that they view as tantamount to state interference in private family decisions. 25X1

Despite the disruptions, we expect widespread delegate support and Third World media coverage for a "1984 World Population Plan of Action" and a "Mexico City Declaration" that:

- Call on the developed countries to increase financial support for developing-country population and economic development programs.
- Note the urgent need for many developing nations to accelerate declines in their population growth rates and to stimulate economic growth.
- Finesse the politically sensitive conflicts between individual rights and state authority by applauding both. 25X1

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Briefs

Energy

OPEC Production Update

OPEC production averaged 18.4 million b/d in the second quarter, 900,000 b/d above the cartel's self-imposed ceiling. Output reached slightly over 19 million b/d in June—the highest level this year. Largely because of price discounts, Iran was able to boost June production by 300,000 b/d over May and is now producing at its assigned quota. Saudi production in June jumped 800,000 b/d above May levels, reflecting increased liftings from the Saudi port at Yanbu outside the Gulf and an increase in Japanese purchases. Some of the greater output was also earmarked for floating storage. We believe Riyadh purposely kept production high before this month's OPEC ministerial meeting to weaken spot oil prices and head off any attempt by other cartel members to raise individual production ceilings.

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OPEC: Crude Oil Production [a] *Million b/d*

	Quota	1984			
		First Qtr	Second Qtr	May	June
Total	**17.5**	**18.1**	**18.4**	**17.7**	**19.2**
Algeria	0.725	0.6	0.7	0.8	0.7
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	1.5	1.5	1.5	1.5
Iran	2.4	2.3	2.3	2.1	2.4
Iraq	1.2	1.0	1.1	1.1	1.1
Kuwait	1.05	1.0	1.0	0.9	1.0
Libya	1.1	1.2	1.2	1.1	1.3
Neutral Zone	[b]	0.5	0.4	0.4	0.4
Nigeria	1.3	1.5	1.3	1.2	1.3
Qatar	0.3	0.4	0.4	0.4	0.5
Saudi Arabia	[c]	4.8	5.0	4.7	5.5
UAE	1.1	1.3	1.3	1.3	1.3
Venezuela	1.675	1.8	1.8	1.8	1.8

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

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[redacted] 25X1

Canada Modifies Natural Gas Export Policy

[redacted]

Ottawa recently announced a new natural gas export price policy intended to improve sales. The changes to the natural gas–pricing policy are the Liberal government's first major policy announcement of the election campaign and are aimed at increasing the Liberal's chances in western Canada. Beginning 1 November, Canadian exporters will have the option either of maintaining the existing administered border price of $4.40 per million Btu and the volume-related incentive price of $3.40, or of negotiating new prices. Under the new policy, however, negotiated prices in long-term contracts must be at least equal to the Toronto City Gate price, currently about $3.15 per million Btu, or to prices of major competing fuels in the relevant sales market, whichever is greater. Ottawa will allow spot gas sales with prices below $3.15 per million Btu under special circumstances. All contracts remain subject to review by the National Energy Board. Although preliminary data for first quarter 1984 indicate Canadian gas sales to the United States fell about 3 percent from already depressed year-earlier levels, we expect Ottawa's new price policy to halt the slide in gas export volumes. [redacted] 25X1

Update on Nicaraguan Oil Supplies

[redacted]

The Managua refinery has resumed operations after a two-week shutdown that resulted from inadequate crude oil supplies. On 8 July, Nicaragua received 136,000 barrels of crude from Mexico and another shipment arrived 19 July. Mexican deliveries of crude have been cut from 13,000 b/d in 1983 to approximately 5,300 b/d during the first seven months of 1984 because of Managua's inability to meet Mexico's tighter payment terms. So far this year, however, the Soviet Union—Nicaragua's only other supplier—has helped cover the shortfall by supplying Nicaragua with about 50 percent of its 10,200-b/d oil consumption. The Soviet Union has agreed to deliver approximately 250,000 barrels in early August. [redacted] 25X1

Mexican Oil Equipment Problems

[redacted]

[redacted] Mexico has suffered an increasing number of fires, explosions, and breakdowns in its oil and gas production and pipeline facilities in recent months. So far, Pemex has been unable to identify any cases 25X1 of sabotage. Because of its budget crunch, Pemex has cut back routine maintenance—which was barely adequate even before the present reductions—and restricted imports of foreign equipment and replacement parts. As a result, the company is pushing the use of equipment well beyond its normal serviceability and cannibalizing equipment not in use. While Pemex's equipment problems apparently have not yet affected Mexico's crude oil production or exports, persistent equipment breakdowns and restrictions on importing foreign replacement equipment could interfere with future operations. [redacted] 25X1

Rebels Attack Angolan Pipeline

[redacted]

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On 15 July, rebels of the Union for the Total Independence of Angola (UNITA) damaged a small pipeline that delivers 10,000 b/d of crude oil to the export terminal at Cabinda. The attack, part of UNITA's overall plan to maintain pressure on the government, was the first successful effort to damage production facilities in the Cabinda area. The pipeline was closed until midweek due to repairs that included work required because tracked vehicles ran over the pipeline. The attack cost the Angolan Government about $2 million in lost oil export revenues. [redacted] 25X1

Indonesia's Pertamina Losing Autonomy

[redacted]

The government is moving to gain control over Pertamina's finances and operations following a series of senior personnel changes. [redacted] 25X1
[redacted] the Ministry of Finance is now reviewing all foreign oil company exploration and drilling budgets submitted to Pertamina. The national oil company previously retained a high degree of autonomy, although chronic bureaucratic delays slowed oil company operations and increased costs. Additional bureaucratic interference probably will weaken Pertamina's efficiency even further, increase oil company costs, and reduce Indonesia's attractiveness to foreign oil companies. [redacted] 25X1 25X1 25X1

Oil Discovery in North Yemen

[redacted]

The US Embassy in Sanaa confirms that Hunt Oil has discovered oil near Marib in North Yemen. The first test well produced about 7,300 b/d from two zones at 1,700 and 1,800 meters. On the basis of these results, the company will accelerate its drilling program. Seismic studies suggest that reserves in North Yemen could be as high as 4 billion barrels, and the company is optimistic that sufficient reserves will be discovered to support crude exports. Hunt Oil previously had been careful to avoid raising Yemeni expectations too high, but after the production testing, Hunt urged President Salih to announce the find. Salih's subsequent visit to the drilling site and announcement of the discovery were widely publicized, and North Yemeni officials are ecstatic at the prospect of leaving the ranks of the world's poorest countries. [redacted] 25X1 25X1

International Finance

Mexican Debt Rescheduling

[redacted]

Debt rescheduling talks between the Mexican Government and representatives of the creditor banks began this week in New York. We expect substantial concessions from both Mexico City and commerical bankers before a settlement is reached and convincing US regional and West European bankers to accept an agreement will be difficult. [redacted] bankers are reluctant to give Mexico particularly favorable terms because they expect other LDC debtors will be watching these negotiations closely and will seek similar deals. [redacted] 25X1 25X1 25X1

The thorniest questions revolve around amounts to be rescheduled, terms, and how the agreement will be monitored:

- *Amounts*. Mexican financial authorities want to reschedule $48 billion in public-sector commercial debt, and are also considering adding $12 billion in private debt to the process. [redacted] 25X1 25X1

- *Terms*. Mexico wants to reschedule all principal falling due through 1990 at an interest spread of less than 1 percentage point above LIBOR. [redacted] 25X1 25X1

- *Monitoring*. Bankers are demanding a continuing role for the IMF throughout the rescheduling period, especially after the next administration takes office in 1988. Mexico City, however, finds it hard even to agree to extend conditionality beyond the current three-year IMF agreement. [redacted] 25X1 25X1

[redacted] 25X1

Nigeria After the OPEC Meeting

[redacted]

The slight increase in Nigeria's OPEC production quota will do little to help solve Lagos's economic predicament. The OPEC ministers agreed to allow Nigeria to exceed its quota of 1.3 million b/d by 100,000 b/d in August and 150,000 b/d in September. Saudi Arabia, as OPEC's swing producer, implicitly agreed to absorb Nigeria's production boost by cutting output. The soft oil market is likely to force Nigeria to discount prices to market the increased output, and we believe Nigeria will be tempted to test OPEC's tolerance during the next few months by boosting output beyond 1.5 million b/d. [redacted] 25X1 25X1

Even if Lagos raises ouput to 1.5 million b/d through the rest of the year, Nigeria will earn slightly less than $14 billion—well below the $15.7 billion goal set earlier this year. Moreover, the ever-present threat of food shortages and fears that import-dependent industries concentrated in the south—currently operating at only 30 percent of capacity—will have to close probably will soften the government's determination to limit foreign purchases. We believe Lagos in the months ahead will attempt to boost imports and give priority to servicing medium- and long-term debt while continuing to neglect payments to its trade creditors to whom Nigeria owes $6-9 billion. 25X1

Peru Fails To Make Interest Payment

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Peru's failure to meet a $26 million interest payment to foreign banks on 5 July is jeopardizing the remaining $100 million tranche from its 1983 bank loan. According to US Embassy reporting, Peru has requested a $90 million bridge loan from its creditors, in part to cover this overdue payment. Peruvian financial officials claim that the general strike in June halted government tax collections and that the Central Bank cannot make the interest payment without violating targets under its IMF agreement. Lacking foreign exchange and with domestic political pressure building against austerity, President Belaunde, we believe, will have great difficulty keeping Peru in compliance with IMF performance criteria in coming months. 25X1

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Global and Regional Trends

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[redacted] 25X6

China Buying Broadcast Satellites

[redacted]

China is negotiating with both US and West European aerospace companies for the $200 million purchase of two direct broadcast satellites, one to be launched by the end of 1986 either on the US shuttle system or by the European Space Agency's Ariane launch vehicle. [redacted] 25X1 the US-designed satellite would weigh about 1,300 kilograms, while the West European model would be about 1,900 kilograms. The lower weight of US satellites provides an important advantage because China wants to launch one of the satellites. China is developing a new series of space boosters similar to the US Delta class and the European Ariane by lengthening the first stage of current space boosters (CSL-2/CSL-3) and may add a solid rocket strap-on in the future. Flown without strap-ons, the new vehicle should be able to place no more than 1,500 kilograms into geostationary transfer orbit, inadequate to launch the West European satellite. With strap-ons, the weight increases to about 2,400 kilograms. [redacted] 25X1

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Japan-China Trade Hits Record

[redacted]

Boosted by Japanese exports of plant and machinery, Japan-China trade reached a record $5.83 billion in the first six months of 1984--a 30-percent increase over last year's rate. Chinese purchases totaling $2.88 billion were roughly balanced by sales to Japan that included $1.15 billion in crude oil, a 16-percent increase. Japanese officials have said they expect total trade for the year to surpass the previous record of $10.4 billion set in 1981. [redacted] 25X1

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[redacted]

[redacted] 25X1

Malta Increasing Economic Ties With Communist Countries

[redacted] 25X1

According to Embassy reporting, a Soviet delegation visited Malta in early July to make arrangements for producing medical instruments for export to the USSR. A delegation of Romanian officials visited Malta in June to discuss tourism, and Hungarian and Cuban officials have visited recently to consider ways to expand trade. In addition, Malta has a contract to produce two merchant vessels for China, and the Chinese are assisting harbor construction. [redacted] 25X1

Botswana Devalues Currency

[redacted] 25X1

Botswana has announced a 5-percent devaluation to maintain parity with the declining South African rand. Even though Gaborone pegs the value of the pula to a weighted average of several major currencies, it is most concerned about the rand-pula exchange rate because South Africa is its primary trading partner. Economic authorities in Gaborone have feared that the rise in the value of the pula relative to the rand would hurt Botswana's fledgling industries by making them less competitive in South African markets. [redacted] 25X1

Eastern and Southern Africa Common Market

[redacted] 25X1

The 14 members of the Preferential Trade Area of Eastern and Southern Africa met in Zimbabwe on 1 July to launch a regional common market. They agreed to reduce tariffs by 10 to 70 percent for 212 traded items. To qualify for the tariff benefits, however, products must meet stringent local content requirements. The agreement also provides for the free flow of goods between member states. The organization hopes gradually to eliminate tariff and nontariff barriers to intraregional trade and improve the transportation system within the region over the next decade. [redacted] 25X1

National Developments

Developed Countries

Japanese Recovery Picks Up Speed

[redacted] 25X1

Japan's economic recovery, boosted by private investment and strong foreign demand, is proving more robust than most forecasters had expected:

- First-quarter GNP figures show real growth at an annual rate of 7.4 percent, the strongest showing since 1978.

- With industrial production and corporate profits up, private plant and equipment investment continued its sharp rise.

Personal consumption has remained sluggish, however, and housing investment was down in the first quarter. 25X1

Most private forecasters have raised their projections of GNP growth to about 5 percent for Japan's fiscal year 1984, which began in April. This is well above the official target of 4.1 percent. Strong growth should be a plus for Prime Minister Nakasone, who will face a Liberal Democratic Party presidential election in November. Nakasone has generally been regarded as weak in his management of economic issues. 25X1

The booming export sector is leading forecasters to raise their estimates of this year's current account surplus. Most now expect the surplus to reach the $30-35 billion range. The government—which originally had forecast a surplus of $23.5 billion, about the same as last year's—is expected to announce a revised estimate of the current account surplus and GNP growth in September. 25X1

British Strikes Jeopardize Economic Recovery

Prime Minister Thatcher is under growing pressure to settle the coal and dock strikes, by far the biggest labor disputes in her five years as Prime Minister. According to the Bank of England, the 20-week-old coal strike shaved 2 percentage points off the growth rate for the first quarter, and financial analysts in London have reduced estimates for 1984 growth from 3 percent to 2 percent. Combined with pressure from rising US interest rates, the strike has led the monetary authorities to abandon short-term goals and let domestic interest rates rise to the highest level in two years to slow the fall of the pound, which has reached a historical low against the dollar. 25X1 25X1

The dock strike, now two weeks old, is of greater short-term concern. Unlike the coal situation, where stocks were initially plentiful and a supply pinch will not occur until this fall, all of Britain's major ports have shut down and foreign trade has been virtually halted. Britain is heavily dependent on imported raw materials and close to a third of GNP is derived from foreign commerce. The government has threatened to use troops to move essential supplies if the dockers continue their strike, but London is still hoping for an early settlement. Although there is a risk to the Thatcher government that the two strikes will feed on each other, the traditionally militant dockworkers probably are more concerned with their job security than with supporting the miners. Port employers are reluctant to give the dockworkers the absolute assurances demanded by the union, but we believe that a reaffirmation of the existing closed-shop agreement will be all that is needed to end the dockworkers strike, perhaps as early as next week. The government probably hopes for an early settlement to keep the miners isolated. Dockworkers' union leaders, however, may be able to persuade their members that the time is right to force the government to make concessions to the miners and that the strike should continue. This could lead Thatcher to use troops. 25X1

New French Prime Minister

President Mitterrand's appointment of Laurent Fabius as Prime Minister shows the President's determination to continue his controversial economic policies. As Minister of Research and Industry, Fabius was one of the chief architects of the government's austerity program. Under this program the government has accepted high unemployment as the price for building a more modern economy based on high technology. The appointment of Fabius suggests that these policies will continue until the 1986 legislative elections. Fabius's strongest asset is his unquestioned personal loyalty to Mitterrand. He has had only limited experience in government and has no independent political base in the Socialist Party. [redacted] 25X1

Economic Moves by the New Labor Government in New Zealand

On Wednesday, Prime Minister–elect Lange announced a 20-percent devaluation of the New Zealand dollar, deregulation of interest rates, and a three-month freeze on prices and fees for professional services. The move—foreshadowed by the Reserve Bank's 15 July suspension of foreign exchange trading—is intended to shore up New Zealand's sagging external accounts and recapture capital outflows—estimated at $1.3 billion—that occurred after outgoing Prime Minister Muldoon's mid-June call for early elections. [redacted] 25X1 The Reserve Bank since mid-June had been forced to spend more than $300 million to support the dollar, forcing New Zealand to seek new loans and adding to the already burdensome $11 billion foreign debt. [redacted] 25X1

Less Developed Countries

Inflation Increasing Philippine Labor Unrest

Devaluation, rapid money supply growth, and legislated price hikes for basic commodities have spurred inflation and depressed real wages, spawning unrest among Philippine workers. Prices in May were 40-percent higher than a year earlier. Despite three government-mandated wage increases, the real minimum wage has declined by 10 percent in the last 12 months. Moreover, the government has reported that 50,000 workers were laid off during the first six months of 1984; some observers believe the figure is closer to 100,000. Although the number of strikes has not increased dramatically, more violent confrontations have occurred. Four workers were killed battling riot police during a recent strike at a Manila garment factory, and additional confrontations are likely. President Marcos has announced a get-tough policy against "subversive elements" in the labor movement. In addition, the government cannot grant further wage increases during 1984 without violating the IMF's recommended monetary and fiscal targets. [redacted] 25X1

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India Likely To Increase Rice Imports.

[redacted]

Concern about rice shortages in the public distribution system in an election year may force India back into the international market. India already has purchased 675,000 metric tons of rice this calendar year—more than any year since the mid-1960s—and is now inquiring about an additional 200,000 tons, according to trade sources. Although India's rice crop this year was a record 59 million tons, initial public stocks were low after last year's drought and government procurement was slightly lower than expected. If India decides to buy, it probably will purchase US rice because there is little Asian rice available before the end of the year. India traditionally has shied away from purchasing US rice because of its high price, but New Delhi could decide to pay premium prices rather than risk allowing public rice stocks to run short. [redacted] 25X1 25X1

Zimbabwe Announces Corn Price Increase

[redacted]

To encourage greater corn production, Zimbabwe has announced a 29-percent increase in the guaranteed price that it will pay farmers for the crop to be planted in November and harvested in April. Corn output had dropped from the record 1981/82 harvest of 2.8 million metric tons to 1.3 million tons this year because of three years of drought and reduced plantings by commercial farmers. Corn reserve stocks were depleted earlier this year and the country has become a net grain importer for the first time since independence in 1980. The price increase was opposed by Prime Minister Mugabe and required three months of Cabinet debate before being accepted. [redacted] 25X1 25X1

Communist

Hungary's CEMA Relations

[redacted]

Budapest emerged from the CEMA summit last month with considerable freedom to pursue its domestic and foreign economic policies, but with tougher trade obligations to the Soviet Union. Hungarian leader Kadar reportedly was surprised that General Secretary Chernenko did not strongly criticize Hungary's economic policies at the summit. [redacted] Moscow instead said it will tolerate Budapest's economic reforms and its active trade and financial relations with the West, [redacted] A senior Hungarian official told the US Embassy that the Soviets also pressed for more CEMA integration. [redacted] 25X1 25X1 25X1 25X1

These arrangements reduce some differences with Moscow and probably will encourage the Hungarians to pursue their current negotiations with the EC and the World Bank. Lingering disagreements over CEMA integration and the Soviet hard line on East-West issues, however, could still trouble Hungarian-Soviet relations. The USSR's demand for more and better quality goods from Hungary—and its other East European trading partners—reflects the new Soviet initiative to improve the availability of domestic consumer goods. [redacted] 25X1

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USSR Seeks US Technology for Tire Cord

The USSR is exploring the purchase from a Western firm of a plant and technologies to produce 25,000 metric tons per year of a high-quality nylon fiber (nylon 6,6) for use in tire cord and for other industrial applications. The USSR's current capacity for nylon 6,6 is only 6,500 tons per year and is based on West German technology. The Soviets also are interested in purchasing from the firm a plant to provide the technology to manufacture hexamethylene diamine (HMD), one of two chemical intermediates to manufacture nylon 6,6, and the technology to manufacture nylon 6,6 salt, the basic raw material for nylon 6,6 production. Using the more advanced nylon fiber, the USSR would be able to produce 3-5 million truck tires per year for military and civilian vehicles. The capacity of the proposed nylon salt plant, however, exceeds the requirements for the nylon fiber plant, and part of the nylon salt could be used to manufacture high-strength plastics that can replace steel. 25X1

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Ukrainian Work Losses Cut Last Year

Politburo member and party chief in the Ukraine V. V. Shcherbitskii, in a recent press article, said work time lost in Ukrainian industry and construction fell by 25 percent in 1983 compared with 1982. The Shcherbitskii article gives further evidence that increased hours worked played an important role in the spurt in Soviet economic growth last year. Growth in Ukrainian industrial production rose from 2.9 percent in 1982 to 3.8 percent in 1983, paralleling the rise for the USSR as a whole from 2.8 to 4.0 percent, according to official Soviet statistics. Although we do not know the extent of work time lost, we

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believe it is sizable, and a 25-percent reduction would substantially raise work time. The article also indicates that trade unions, one of whose main tasks is to ensure fulfillment of output targets, played an active part in reducing worker absenteeism and in implementing Andropov's labor discipline campaign. 25X1

Soviet Concern Over Trade Deficit With Malaysia

A recent Soviet delegation visiting Kuala Lumpur expressed dissatisfaction over the growing imbalance of Soviet-Malaysian trade, according to the US defense attache. According to the Malaysian central bank, Soviet purchases from Malaysia rose in 1983 more than 25 percent while Soviet sales to Malaysia decreased by almost 40 percent, resulting in a Soviet trade deficit of $285 million. Moscow buys roughly 10 percent of Malaysia's major nonpetroleum commodity exports of tin, palm oil, and rubber. In response to Soviet concerns, Kuala Lumpur is sending a military delegation to the USSR next month to consider purchasing Soviet helicopters. We believe it unlikely that the Malaysians will make any major purchases because bilateral relations remain strained by Soviet support of the Vietnamese presence in Kampuchea. 25X1

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Israel: The Economy and the Elections 25X1

On Monday, Israeli voters will elect a new 120-member Knesset, following an unusually low-key campaign.[1] Neither of the major parties has specified its postelection economic programs, but most Israelis expect strong measures. We are less confident, however, that any Israeli government will muster the courage to launch an effective austerity program. There is little evidence that Israelis are willing to pay the price to reduce inflation. Moreover, since a coalition government is likely, coalition compromises almost certainly will preclude tough austerity policies in the absence of a foreign exchange shortage. 25X1

Economic Backdrop

Early elections were scheduled when the leader of TAMI—a small partner in the Likud-led coalition—said in March that he would support an early-elections bill. The ostensible reason was the accelerating inflation rate and the need for a government with a more decisive mandate. We believe the real concern was that Finance Minister Cohen-Orgad's proposed austerity policies would hurt TAMI's low-income constituency. 25X1

The economy is still suffering from the repercussions of the October 1983 stock market crash. The large devaluation and the subsidy cuts that were initiated then have resulted in double-digit consumer price increases each subsequent month. Prices have risen at an annual rate of nearly 400 percent during the first half of this year. Real wages in the fourth quarter last year declined 16 percent from the third quarter because of the surge in inflation. As a result, domestic retail sales plummeted; sales volume in February was 12 percent below the September 1983 figure. The unemployment rate reached a seasonally adjusted 5.7 percent in the first quarter, the highest such rate in more than a decade. 25X1

Judging by the plan, the plant entrance is somewhere below us Pravda 25X1

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A more rapid depreciation of the shekel since October is reducing the trade deficit. In the first five months of this year, the trade deficit was $1.1 billion, a $350 million improvement from the same period in 1983. Israeli statistics indicate, however, that the improvement was halted in June. [redacted]

Preelection Maneuvering

The opposition Labor Party has maintained a substantial lead over the ruling Likud bloc in polls published during the past few months. [redacted] Cohen-Orgad is under great pressure from his Cabinet colleagues to engage in "election economics." Some members are urging Cohen-Orgad to take some dramatic action, such as "dollarization" or elimination of the income tax, to improve the Likud's standing in the polls, according to Israeli press reports. Although he has resisted manipulating the economy as blatantly as his predecessor did during the 1981 campaign, Cohen-Orgad has succumbed to some of the pressure and occasionally has been overruled by other members of the Cabinet. [redacted]

Recent government actions intended to capture votes include:
- A generous 15-percent increase—on top of indexation—in most government salaries.
- Smaller-than-usual monthly price increases on government-controlled items, such as bread, milk, and gasoline.
- An increase in the level of income exempt from income taxes.

In addition, the Ministerial Economic Committee has recommended:
- A reduction in the minimum tax rate from 25 percent to 20 percent.
- Wage increases as high as 18 percent for regular army personnel. [redacted]

The electorate is worried that the new government will tamper with the linkage system that protects most financial assets from inflation. We believe much of the impetus for the reemergence of a black market in foreign currency in late April was a desire by many Israelis to protect themselves by holding US dollars and other foreign currencies.

The government called a special session of the Knesset on 2 July to pass legislation that prohibits the government from worsening the terms—amounts, interest rates, maturities, indexing, or taxation—of financial assets. Labor reluctantly voted for the legislation to prevent the Likud from charging that Labor planned to tamper with financial assets after the elections. [redacted] 25X1 25X1

The economy, however, has forced the Likud to take some unpopular steps. With the black-market exchange rate exceeding the official rate by roughly 20 percent, Cohen-Orgad tightened foreign currency regulations in late June. Israelis must now show that they have paid the $100 travel tax before they can purchase the $2,000 in foreign exchange allowed an Israeli traveling abroad. The Finance Minister also devalued the shekel by 2.5 percent on 25 June, the largest one-day devaluation since last October. [redacted] 25X1 25X1 25X1

Cohen-Orgad has refused to adjust tax brackets as frequently as cost-of-living adjustments are paid. He wants to dampen the inflationary impact of recent wage gains. As a result, some Israelis are being pushed into higher tax brackets. [redacted] 25X1 25X1

June's 13.3-percent increase in prices over May was a blow to the Likud's reelection hopes. The Likud had expected a relatively low rate—June typically has the smallest monthly increases—to be announced when it agreed to the election date. A surge in private consumption began in late May, however, because Israelis feared that limits might be placed on imports of consumer goods after the elections. This spurt in domestic demand, combined with the inflationary momentum started last October and the continuing depreciation of the shekel, wiped out the impact of seasonally low fruit and vegetable prices. [redacted] 25X1 25X1

The Labor opposition has focused on Prime Minister Shamir's economic policies in its election campaign, but the rhetoric has been low-key. Labor

Economic Platforms of the Major Parties

	Likud	Labor
Inflation	Cut spending and reduce money growth, including curtailment of credit.	Cut government spending, particularly in Lebanon and the occupied territories. Reduce the amount of money being printed. Halt political handouts to coalition partners. Continue the Lavi aircraft project but increase participation by the civilian sector.
Package deal	Freeze prices, exchange rates, and wages. No massive devaluation of the shekel.	Strive for a national wage agreement that allows for a curbing of prices, profits, tariffs, and taxes, while maintaining real wages.
Financial assets	Honor obligations. Gradually reform the capital market to raise profits.	Increase savings to curb inflation and increase investment. Tighten control over the capital market.
Development plans	A sharp drop in private consumption this year, with a slow increase in 1985-87. Exports will be raised, not the standard of living, with guaranteed employment and savings.	A five-year program leading to an $8 billion increase in the GNP over current levels, a $7 billion rise in exports, and a reduction in the goods and services deficit of $3 billion.
Wages	Real wages should remain at the 1983 level, with any gains linked to increased productivity.	
Export growth	Boost exports. Real wage increases should also be linked to export growth.	
Tax reform		Expand the tax base, with tax cuts for exporters, workers on evening and night shifts, and those leaving service-sector jobs for industrial ones. Tax collection will be improved.
Economic growth		Foster economic growth through expansion of industry, particularly high-technology and export firms. Encourage domestic and foreign investment.

[redacted] 25X1

economic leaders have said in a number of interviews that the budget needs to be cut to fight inflation and improve the foreign payments, and they believe these cuts could come from preventing further settlement in the West Bank and removing Israeli troops from Lebanon. They have also suggested, as has Likud, a wage-price freeze. Labor officials want to avoid specifics, however, because they lost electoral support in 1981 after a Labor economic spokesman indicated Labor would alter the indexation system. [redacted] 25X1

After the Elections

Israeli press commentary has often alluded to the austerity that will come irrespective of the winner. An austerity program under either party would be more likely to differ in detail than in scope. Both would try to pare the budget, but Labor would be more likely to cut spending on defense and settlements while Likud would concentrate on social welfare. Both camps have talked about a "social contract" that would include a wage-price freeze. [redacted] 25X1

Contrary to widespread expectations, we do not believe that either major party, even with an absolute majority, will soon launch an austerity program. Israelis have prospered, even with triple-digit inflation. As long as the pervasive indexation system protects their income and savings, the Israelis, in our opinion, are not willing to pay the cost of higher unemployment and lower living standards that would be required to fight inflation. A wage-price freeze would be ineffective and short lived because inflationary pressures are too strong and Israelis would quickly find alternatives—such as bartering and black marketeering. [redacted] 25X1

The special interests of likely coalition partners almost certainly will prevent budget cuts. A coalition government dependent on religious parties, for example, would find it difficult to pare social or religious programs. Only a drastic shrinking of foreign exchange reserves is likely to force the hand of a coalition government. [redacted] 25X1

No Israeli government can hope to solve the country's economic ills without cooperation from the Histadrut—the large labor organization. The Labor Party stands a greater chance of working out a wage arrangement because of its close institutional ties to the Histadrut. Nevertheless, we believe Histadrut officials would balk at the real wage cuts that would be required. A Histadrut official recently told US Embassy officers that the price labor would be willing to pay as part of a "social contract" would be to forgo additional real wage gains. He said that higher unemployment and lower real wages are not acceptable. [redacted] 25X1

Many younger rank-and-file members of the Histadrut might repudiate compromises agreed to by their leaders. The more militant second- and third-echelon leaders believe that the Histadrut's paternalistic approach to social issues is outmoded and that it instead should promote their self-interest. These younger leaders, particularly in government-sector unions that would be most seriously affected by an austerity program, have been agitating for wage settlements substantially in excess of agreed Histadrut guidelines. We have not seen evidence that Histadrut leaders are trying to convince the more militant rank and file of the need for belt-tightening or compromise with the government.

[redacted] 25X1

World Population Conference: Problems and Prospects 25X1

Delegates from about 150 countries will meet in Mexico City for the International Conference on Population, 6-13 August. The meeting, pushed by the developing countries, will assess progress since the Bucharest conference in 1974 and will endorse further action on population issues. Mexico's Interior Minister Manuel Bartlett is to chair the conference which will address such contentious issues as:

- Reducing rates of population growth that developing nations view as detrimental to their economic goals, while endorsing the right of couples to determine their family size.
- Managing rural-to-urban migration but protecting individuals' rights to move freely.
- Affirming the preeminence of national immigration laws, while urging that families of international migrant laborers and refugees be permitted to join them for humanitarian reasons.

The 1974 Conference

The Bucharest conference was held at the behest of the developed countries to encourage developing countries to reduce high rates of population growth. Delegates from Algeria, Argentina, and Brazil, amid heated North-South and East-West rhetoric, turned the conference into a long, acrimonious debate over whether resources should be put into restraining population growth or into accelerating economic development.

Many developing-country delegates argued that only more rapid economic development—which they contended would require a restructuring of the world's economic system—would cause a reduction in their national population growth rates. At the end of the two-week conference, delegates agreed to a "World Population Plan of Action" that stressed investment in economic development. Conferees agreed that couples should have the right to decide freely and responsibly the number and spacing of their children and to have the information, education, and means to carry out their decision. 25X1

1974-84: A Decade of Change

The "either development or family planning" argument of the 1974 Bucharest conference has, for the most part, given way to agreement that both economic development and family-planning programs must be successful if population growth rates are to continue to fall. Unlike 1974—the year of quadrupled oil prices and developing-country optimism that OPEC leverage would propel them to prosperity and lower population growth—1984 is a year with a weak oil market and growing pessimism in many developing countries that economic growth will be slow and difficult to sustain. Developing-country statements in the 1980s, while continuing to stress that accelerated economic growth will stimulate demand for family-planning services, more frequently note that rapid population growth is neutralizing per capita economic gains. 25X1

The latest evaluation of global trends by the United Nations Population Division shows that the world's population growth rate edged downward from 1.9 to 2.0 percent in the early 1970s to the current rate of 1.7 to 1.8 percent. The number of developing countries with organized family-planning programs increased, however, from 55 to 72, and most developing countries sustained modest rates of economic growth during the 1970s:

- Much of the global decline reflects the change in China, which halved its growth rate in the past decade by enforcing programs to limit childbearing to one or two children per family and by sustaining economic growth.

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Bucharest to Mexico City: A Decade of Population Change 1974 and 1984

Percent (except where noted)

	Population Growth Rate		Change in Population Growth Rate	Increment to Total Population During 1975-84 (*thousands*)	Share of World Growth
	1974	1984			
World	**2.03**	**1.67**	**−0.36**	**766,003**	**100.0**
More developed regions	0.89	0.64	−0.25	78,012	10.2
Less developed regions	2.46	2.02	−0.44	687,991	89.8
Africa	**2.74**	**3.01**	**0.27**	**143,429**	**18.7**
Eastern Africa	2.94	3.23	0.29	44,009	5.7
Middle Africa	2.50	2.70	0.20	14,856	1.9
Northern Africa	2.44	2.88	0.44	31,132	4.1
Southern Africa	2.32	2.53	0.21	8,084	1.1
Western Africa	2.98	3.11	0.13	45,348	5.9
Americas	**1.87**	**1.73**	**−0.14**	**109,173**	**14.3**
Latin America	2.51	2.30	−0.21	84,587	11.1
Caribbean	1.98	1.51	−0.47	4,343	0.6
Central America	3.17	2.68	−0.49	25,650	3.3
Temperate South America	1.56	1.55	−0.01	6,573	0.9
Tropical South America	2.51	2.39	−0.12	48,020	6.3
Northern America	1.05	0.89	−0.16	24,586	3.2
Asia	**2.35**	**1.73**	**−0.62**	**467,191**	**61.0**
East Asia	2.25	1.14	−1.11	150,199	19.6
China	2.37	1.17	−1.20	130,108	17.0
Other East Asia	2.21	1.75	−0.46	20,091	2.6
South Asia	2.41	2.19	−0.22	212,383	27.7
Southeast Asia	2.39	2.06	−0.33	76,991	10.1
Western Asia	2.91	2.85	−0.06	27,618	3.6
Europe	**0.64**	**0.33**	**−0.31**	**17,607**	**2.3**
Eastern Europe	0.55	0.57	0.02	6,746	0.9
Northern Europe	0.33	0.09	−0.24	511	0.1
Southern Europe	0.98	0.58	−0.40	8,521	1.1
Western Europe	0.58	0.06	−0.52	1,829	0.2
Oceania	**1.85**	**1.50**	**−0.35**	**3,621**	**0.5**
USSR	**0.95**	**0.93**	**−0.02**	**24,982**	**3.2**

- For the rest of the developing countries, the average annual growth rate remained roughly constant during the decade at about 2.4 percent.

- In Africa, population growth rates increased from 2.7 to 3.0 percent between 1974 and 1984, as the decline in the death rate outpaced the fall in birth rates.

Nearly three-quarters of a billion people have been added to the world's population since the Bucharest conference:

- Ninety percent of the increment live in the less developed regions—60 percent in Asia.
- Despite China's progress in achieving dramatic declines in its rate of growth, 17 percent (130 million) of the addition to the world's population occurred in China.

Regional Priorities

Discussions in UN-sponsored preparatory meetings during the past year indicate that the regional delegations have different priorities for the Mexico City conference. [redacted]

Africa. Delegates to the Second African Population Conference identified rural-to-urban migration and corollary problems of rural development and agricultural self-sufficiency as their highest priorities. African delegates view the Mexico City meeting as a conference on rural economic development, not fertility reduction. In their plan of action, "The Kilimanjaro Objectives on Population," they affirmed support for child-spacing as a health measure and indicated interest in fertility reduction as a consequence of economic development. [redacted]

Middle East. The "Amman Declaration on Population and Development" stresses the inseparability of population change and socioeconomic development. Conferees agreed that families must perceive improved living standards before they limit family size. [redacted]

Latin America. Delegates to the Havana preparatory meetings emphasized the primacy of the family in population matters. Papers and discussions underscored the rights of couples to freely decide the number and spacing of their children. The consensus was that countries in the region suffering from problems caused by the depressed global economic situation could not fully implement social, population, or development programs. [redacted]

Asia. Delegates to the Asian Forum of Parliamentarians drafted a declaration that—in contrast to other regional positions—calls for determined intervention by governments to reduce population growth and migration. The legislators identified the following goals:
- A reduction in the overall Asian growth rate to 1 percent by the year 2000.
- A decrease in mortality rates, particularly infant mortality, by 50 percent by the year 2000.
- A balanced distribution of population through policies to accommodate planned urban growth as well as to retain population in rural areas. [redacted]

Possible Disruptions

Despite efforts by the conference organizers to achieve consensus before the August meetings, several unresolved substantive and procedural issues threaten to disrupt the conference. The USSR is likely to present a major problem. [redacted] 25X1 25X1

We believe the Soviets have maneuvered deliberately since their withdrawal from the Los Angeles Olympics to build a platform at Mexico City from which they can assail the United States. The Soviet Union has a resolution before the conference that states that the problems of population growth and economic development can be resolved successfully only under conditions of world peace, disarmament, security, and cooperation among nations. The Soviet and Eastern Bloc delegations emphasized in all preparatory sessions that East-West disarmament and security matters should override population and economic development issues. The United States and other conference organizers were unsuccessful in moving the Soviets' peace and disarmament language to the preamble of the conference document where formal debate and action would not be required. [redacted] 25X1 25X1 25X1

Moscow, in our view, will try to dominate and manipulate developing-country media coverage during the conference. The Soviets and their Eastern Bloc allies may commandeer large chunks of the roughly 40 hours available for plenary debate to embarrass the United States with peace and disarmament speeches. The USSR successfully introduced language to weaken the organizers' plans to limit each delegation's remarks to seven minutes on all action items. Conference delegates will be told only that it is "desirable" that they limit their remarks to seven minutes. [redacted] 25X1 25X1

Differences between the developed country and the developing-country delegations on the relative importance that they attach to the two strategies for reducing population growth rates—economic development and family planning—may polarize the conference along North-South lines as they did in

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1974. Moreover, representatives from major religions have indicated that they will urge Mexico City conferees to eliminate support for specific family-planning programs that they view as state interference in private family decisions. 25X1

Outlook

The Mexican hosts, with the support of the OECD and most developing-country delegates, are likely to be successful in constraining Soviet disruptions so a consensus on population issues can be achieved. 25X1

We expect widespread delegate support and Third World media coverage for a "1984 World Population Plan of Action" and a "Mexico City Declaration" that:

- Call on the developed countries to increase their bilateral and multilateral financial support for developing-country population and economic development programs.
- Note the urgent need for nations to accelerate declines in their population growth rates and increases in their economic growth.
- Finesse the politically sensitive conflict between individual rights and state authority by applauding both. 25X1

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Rapid Population Growth: Consequences for the Developing World

25X1

World population will exceed 6 billion by the year 2000, 30 percent more than the current total and nearly two-and-one-half times the 1950 level. Ninety percent of this growth will occur in the LDCs and will increase their share of global population from 75 to 80 percent. These increases have alarming implications for the economic health and social/political stability of many LDCs.

Population Dynamics

Rapid population growth in the LDCs during the last 30 years is the product of the wide gap between high birth rates and reduced death rates. The expanding number of women of reproductive age in LDCs—this group is expected to be 85-percent larger in 2000 than in 1985—has created a demographic momentum that will continue to drive population growth, even if hoped-for declines in fertility rates are achieved. No LDCs are projected to achieve stable populations by the end of the century, and only a few are expected to reach replacement fertility rates.

Attempts to reduce fertility in the developing countries have been the subject of international debate and controversy for several decades and this dispute will continue at the World Population Conference in August in Mexico City. Population issues remain highly political. Population size is often equated with national strength, and attempts to reduce the growth rate encouraged by developed countries are viewed by some developing nations as a threat. Birth control programs are often opposed for cultural and religious reasons, as well as for internal political reasons, especially when competing ethnic groups are growing at different rates. Many families throughout the Third World view children as economic assets and respond to self-interest rather than to longer term notions of national interests.

India, which initiated population control programs in 1952, reduced efforts during 1975-76 following accusations of serious abuses of individual rights. Concern after the 1981 census revealed no reduction in growth rate during the previous decade, however, has led to new efforts combining family-oriented social programs along with contraceptives. According to recent press reports, resistance to sterilization techniques remains strong, and programs are falling short of their goals. In Pakistan, an integrated program involving social attitudes and family-planning services is part of the Sixth Five-Year Plan initiated last year. Most observers believe, however, that little will be accomplished until the government changes public opinion. So far, however, Islamabad has been unwilling to push family planning. Some Third World governments are willing to provide family-planning services, but are reluctant to endorse the goal of fewer children while others have adopted a position of complete nonintervention.

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Diminishing Educational Opportunity

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The worldwide primary/secondary school age group (6 to 17) is projected to increase by nearly 200 million between 1985 and 2000. Almost all—97 percent—of this growth will occur in the Third World and will place additional pressure on already overextended school systems. Some countries are beginning to restructure and augment their formal educational systems to meet population pressures. In 1979, for example, Indonesia initiated a group study program to reduce illiteracy. More than 5 million people—15 percent of the illiterate adult Indonesian population and 3 percent of the total population—reportedly were taught to read and write.

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Population Growth to the Year 2000 [a]

	Mid-1982 Population (*millions*)	Projected Average Annual Growth Rate (*percent*)	Population Projected 2000 (*millions*)
Africa			
Kenya	18	4.1	40
Mozambique	13	3.1	24
Nigeria	91	3.3	169
Somalia	5	2.5	7
Sudan	20	3.0	34
Zaire	31	3.1	55
Near East			
Algeria	20	3.5	39
Egypt	44	1.7	63
Iraq	14	2.9	26
Libya	3	3.4	7
Syria	10	2.7	17
Turkey	47	1.6	65
Latin America			
Brazil	127	1.5	181
El Salvador	5	2.2	8
Guatemala	8	2.2	12
Mexico	73	1.9	109
Nicaragua	3	2.5	5
Venezuela	17	1.8	26
Asia			
Bangladesh	93	2.6	157
Burma	35	2.0	53
India	717	1.5	994
Indonesia	153	1.5	212
Pakistan	87	2.5	140
Philippines	51	1.7	73

[a] Based on recent World Bank data.

25X1

In most LDCs, the expansion of educational services at a rate commensurate with future growth will be difficult; the number of illiterate adults is already nearing 850 million. Among the African nations we surveyed,[1] both the adult literacy rates and the primary/secondary enrollment ratios are extremely low, while population growth rates are very high. For Nigeria to equal Indonesia's success—an LDC with comparatively high adult literacy that has already achieved some success in lowering birth rates—Lagos would have to enroll 10 percent of its total population in special programs. We believe such an effort is beyond the

[1] Our conclusions are based on data for 24 key LDCs.

25X1

government's resources and abilities. Many developing nations are turning to the international community for assistance, and some Communist countries have exploited this opportunity. Cuba, for example, is currently training 27,000 young people from 70 Third World nations, including large numbers of teenagers. The Cuban program accepts foreign students as young as nine. Five thousand Cuban teachers working abroad reach an additional 400,000 LDC students. [redacted]

Not Enough Jobs

Unemployment and underemployment are critical problems for most developing economies. Employment statistics are particularly grim in urban areas, where open unemployment ranges from 15 to 30 percent. Among the 24 key LDCs we surveyed, the proportion of working-age people actually employed fell between 1960 and 1980, and only one country, Venezuela, posted a gain during the period. Recent projections indicate that the employment situation will remain precarious through the end of the century, and in 21 of the 24 survey countries the proportion of working-age people employed is highly likely to continue to decline because of the large increments to population of working age. [redacted]

Since World War II, many LDC governments have looked to industrial growth to create employment. The failure of industrialization to absorb a growing labor pool, however, has led to alternative schemes. The development of labor-intensive technologies for the rural and informal urban sectors are gradually being adopted within many LDCs. Although these plans are aimed in the right direction, their magnitude falls far short of Third World needs, and governments' ability to implement them is limited. [redacted]

Food Insecurity

In 1980 the populations of only half of the 24 key LDCs we surveyed received the daily minimum number of calories recommended by the World Health Organization (WHO). Although poor weather is the most common cause of production declines in the short term, rapid population growth and domestic food policies pose a more serious long-term threat. Subsidies for urban consumers, for example, have kept prices artificially depressed. This has reduced the incentive for greater production and frequently led to waste. [redacted] 25X1

Ten of the 24 countries surveyed experienced per capita production declines during the 1970s and now have an increasing dependence on food imports: 25X1

- In Egypt, per capita food production fell by 7 percent while consumption increased in response to rising incomes.
- In Sub-Saharan African countries, grain imports increased from 1.2 million metric tons during the early 1960s to 8.6 million tons in 1980 as population growth—especially in urban areas—greatly outpaced increased food production.
- In Latin America, where favorable climate and substantial areas of underused land offer the potential for greater food security, both production and nutrition increased during the 1970s. Nonetheless, the 1980 caloric consumption level was only slightly above the WHO minimum, and grain imports have increased dramatically since 1976 because of rising incomes and populations. [redacted] 25X1 25X1

Most developing countries are vulnerable to harvest shortfalls, and most LDC governments, for fear of consumer backlash, are reluctant to raise procurement prices to increase production. As Third World populations continue to grow and the cost of imports rise, food-deficit countries—many of which are already overburdened with debt—will increasingly turn to the developed world for both financial and technical assistance to improve domestic agricultural output. [redacted] 25X1 25X1

Outlook

We believe that the developing countries will suffer from rapid population growth well into the next century:

- The growing number of women of child-bearing age will drive rapid population growth for many decades despite programs to lower fertility.

- The sheer size of the school-age population means that education will remain inadequate or unavailable in many areas, and that the number of illiterates will grow unless economic development progresses much more rapidly than in the past.

- Without such economic development, labor supply will continue to exceed job creation, precipitating both internal and international migration. Policies promoting rural development, small businesses, and labor-intensive industries probably will not produce enough jobs without greatly accelerated infusions of Western capital and technology.

- In these circumstances, landlessness and unemployment, preconditions for civil disobedience and political instability, will spread, and governments could be pressed to adopt harsh methods to maintain order. [redacted] 25X1

[redacted] 25X1

NIC Exports: Climbing the Technological Ladder [redacted] 25X1

Exports of the newly industrializing countries (NICs) have shifted toward more technologically sophisticated goods (hereafter referred to as technology-intensive products) over the past decade.[1] Exports of technology-intensive products to the Organization for Economic Cooperation and Development (OECD) grew from 10 percent of total NIC sales to these countries in 1970 to 21 percent in 1982.[2] Trade statistics for the four largest industrial countries indicate that this trend continued into 1983. We expect the composition of NIC exports to become even more technology intensive as these LDCs increase their capabilities and expand their lines of high-tech products. Although this expansion is unlikely to pose an across-the-board competitive threat to OECD producers, major market penetration could occur in certain product lines such as microcircuits. [redacted] 25X1

Extent of the Increase

We estimate that NIC exports of technology-intensive products to the OECD have grown by more than twentyfold since 1970. These exports to the OECD grew from about $800 million in 1970 to nearly $18 billion in 1982. This accounts for 21 percent of total NIC exports to the OECD countries. Trade data for the four largest industrial countries show a sharp increase in 1983 as the recovery boosted developed country imports. [redacted] 25X1

[1] We define the NICs as Brazil, Hong Kong, Mexico, Singapore, South Korea, and Taiwan. [redacted] 25X1

[2] Definitions of technology-intensive exports vary widely. We use product categories that would be considered technology intensive from the standpoint of the NICs. The groups chosen—including chemicals, transport goods, and consumer electronics—generally embody more sophisticated technology than traditional LDC manufactures such as textiles, apparel, and footwear. From an industrial-country viewpoint, many of the NIC high-tech product lines would be considered low tech. [redacted] 25X1

The upward trend in exports of technology-intensive products to the OECD countries is evident across the board in the NICs:

- Brazilian exports grew from $52 million—2.2 percent of its total OECD sales—in 1970 to $1.8 billion or 13.4 percent in 1982.
- Hong Kong's sales climbed from $230 million in 1970 to $2.2 billion in 1982.
- Singapore's exports rose from $53 million in 1970 to $2.9 billion in 1982; these products now account for about 45 percent of sales to the OECD.
- Mexican high-technology exports grew nearly fifteenfold between 1970 and 1982. Their share of total exports to the OECD, however, was little changed because of increasing oil and gas sales to the OECD countries, particularly the United States.
- South Korea's exports grew from $48 million in 1970 to $2.8 billion in 1982; the share of total South Korean sales to the OECD grew from 6.9 percent to 21.5 percent.
- Taiwan's sales increased over twentyfold; in 1982 these products accounted for 28 percent of Taiwan's exports to these countries. [redacted] 25X1

Trade data for selected NICs indicate that the trend toward more technology-intensive exports extends beyond sales to the OECD. For instance, Brazilian exports of these products to non-OECD countries grew from $84 million—13 percent of its non-OECD exports in 1970—to $2.4 billion in 1982—a 30-percent share. Similarly, Singapore's technology-intensive exports to non-OECD countries rose from just $160 million, or 18 percent, of total non-OECD exports in 1970, to $3.4 billion, 27 percent, in 1982. [redacted] 25X1

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NICs: Exports of Technology-Intensive Goods to OECD Countries [a] *Million US $*

	1970	1975	1980	1982
Total	**815**	**4,180**	**14,519**	**17,599**
Chemicals	119	392	1,473	1,642
Of which:				
Plastics	3	32	223	296
Medicines	15	77	175	167
Machinery	452	2,499	8,541	10,856
Of which:				
Metalworking machinery	2	11	213	217
Jet engines	2	11	14	36
Transistors	161	700	1,934	2,092
Telecommunications equipment	60	445	1,867	2,157
Computers	14	290	446	448
Scientific instruments	12	91	446	538
Transport goods	35	277	1,179	1,699
Of which:				
Cars	0	4	110	284
Aircraft	1	28	55	157
Consumer electronics	208	1,006	3,319	3,393
Of which:				
Televisions	59	240	813	794
Radios	130	553	1,842	1,827
Firearms	1	6	7	9
Share of total exports to the OECD *(percent)*	10.2	17.5	19.6	20.8

[a] Excluding Iceland, New Zealand, Portugal, and Turkey.

Composition of the Increase

The largest share of NIC technology-intensive exports is in electronics. NIC sales of telecommunications equipment to the OECD, for instance, increased thirty-five-fold between 1970 and 1982. Over this same period, sales of consumer electronics rose from $200 million to $3.4 billion, with more than half the increase in radio exports. Import statistics for the four largest industrial countries show that increased electronics exports—defined here as transistors, computers, telecommunications

South Korea: A Case Study

South Korea exports a wide range of technologically sophisticated products including telecommunications equipment, electronic microcircuits, digital central processing and storage units, X-ray apparatus, and even numerically controlled metalworking machine tools. The value, as well as the range of these exports, has grown rapidly in recent years. For example, in 1980, South Korean exports of complete digital data processing machines, central processing units, and central storage units totaled only $6 million. By contrast, in 1983, South Korean exports of these goods exceeded $25 million. Although South Korean exports of higher technology goods to the OECD are dwarfed by US or Japanese sales, South Korean exports represent a substantial move up the technological ladder. 25X1

equipment, and consumer electronics—accounted for over a third of the increase in NIC technology-intensive exports in 1983. 25X1

Role of Foreign Investment

The NICs achieved the export gains largely by attracting foreign investment. The East Asian NICs, in particular, have been very successful in this area. Besides having an inexpensive, highly skilled, and motivated labor force, these countries have offered financial incentives to foreign companies. Singapore, for instance, provides accelerated depreciation on fixed investment, tax holidays, and tax exemptions on export profits to foreign firms investing in electronics, aircraft components, and advanced medical equipment. Because of these incentives, foreign investors accounted for 70 percent of the total funds committed to Singapore's manufacturing sector during the 1970s. 25X1

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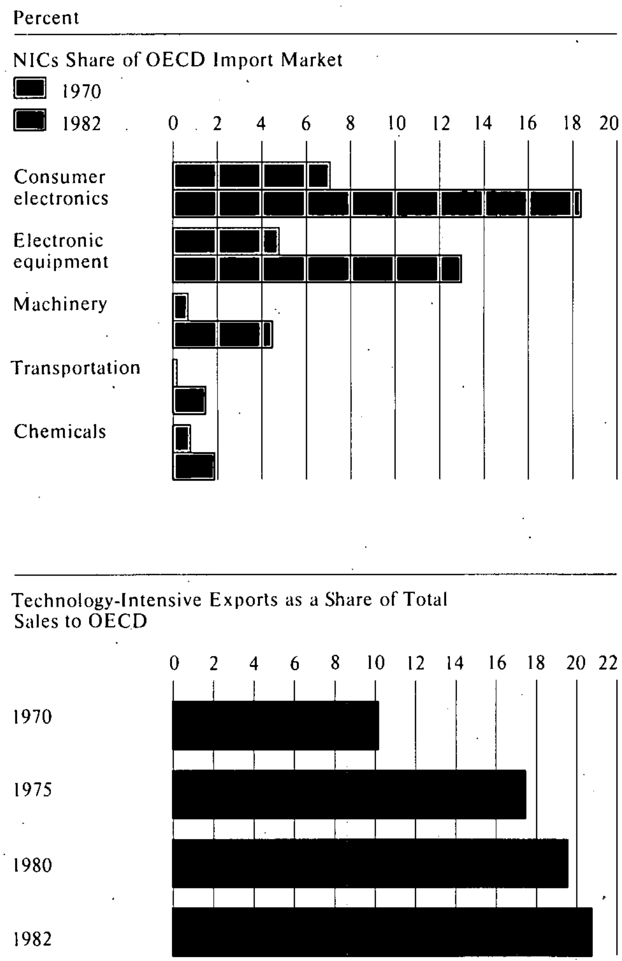
NICs: Exports to the OECD



[redacted]

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In many cases the foreign companies have initially established plants for the assembly of products to be sold in industrial-country markets. Over time, foreign operations in the NICs have shifted to the production of components, as well as the assembly of finished products, by increasing the technological capabilities of these countries. [redacted] 25X1

Implications for the Industrial Countries

Despite such impressive gains, the NICs do not seriously threaten the industrial countries' dominance in these product areas. In 1982 the NICs accounted for 2 percent of OECD imports of chemicals and transport goods, and slightly less than 5 percent of their machinery imports. Purchases of scientific equipment and computers from the NICs accounted for just 3 percent of OECD imports of the goods. Even where the NICs made the greatest strides—consumer electronics and telecommunications equipment—their sales to the OECD still accounted for only about one-fifth of total OECD imports of these goods. [redacted] 25X1

[redacted] 25X1

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Longer Leadtimes: Soviet Problems With Western Technology [1] [redacted]

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Soviet use of Western plant and equipment has fallen far short of its potential for improving the economy, largely because the Soviets take so long to acquire and use many of these imports. Average leadtimes for projects in the civilian economy are much longer than in the West and show no signs of diminishing. [redacted]

Soviet end users generally can save time by importing a product embodying new technology rather than waiting for its development in the USSR. We believe, however, that the diffusion of a new technology throughout the economy may be faster with indigenous technologies. The Soviets seldom begin the needed research and development to embody imported technology in Soviet-produced equipment until the import has been operated in a "prototype factory." Initial interest to factory operation generally takes two to seven years. [redacted]

The USSR is trying to accelerate the assimilation of new technology in the civilian economy through various reorganizations and special bonuses. Chronic official complaints, however, indicate disappointing results. We believe improvements are unlikely without a major overhaul of the system of incentives to promote modernization. [redacted]

Background

Despite great self-sufficiency, the Soviet Union has traditionally imported Western technology to help ease bottlenecks, raise efficiency, and modernize its economy. Imports of Western plant and equipment expanded rapidly in the 1970s, as Moscow increased its emphasis on these goals in response to increasingly severe material and expected manpower shortages. [redacted]

[redacted]

Technology imports have significantly benefited certain sectors. They contributed to the substantial enlargement of the natural gas pipeline network and the major advances of defense industries. But the Soviets hoped that Western technology also would stimulate productivity, not only in the individual plants, but also more generally throughout the economy. This has not happened. [redacted]

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The Import Process

Legal acquisition and use of Western plant and equipment for the civilian economy can be divided into six stages:

- Discovery and initiation of interest.
- Request for funds.
- Negotiation by a Soviet foreign trade organization with Western suppliers.
- Delivery, installation, and use.
- Assimilation by the original end user.
- Diffusion throughout the economy. [redacted]

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Several factors prolong the leadtimes at each stage:

- Divided responsibility. The lack of a single body to coordinate all stages of the import acquisition and absorption process fosters redundancy and prolongs negotiations.

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- Administrative barriers. Reluctance to permit contacts with foreign suppliers isolates production managers from important information, often causing improper installation and prolonging the adjustment.

- Accounting practices. The small interest charge on capital assets (both domestic and imported) offers small penalties for delays.

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- Incentives. The Soviet emphasis on volume of output discourages technological change.

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A study of the Soviet chemical industry done in the late 1970s showed that the time between initial inquiries about import contracts and the operation of the purchased plant and equipment is two to three times as long as in the West. A study of the machine tool industry showed that the time between contract inquiry and first production is more than twice that of Western firms.

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For the Soviets, the slow assimilation rates may be less important than whether they can assimilate an imported technology more quickly than a domestic one. Importing saves time if the technology is not available domestically. Assimilation probably is speedier, however, when Soviet equipment is available. Even in this case, however, Soviet enterprises sometimes prefer Western suppliers because they are believed to be more reliable.

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Successful diffusion of an import within the civilian economy is rare. Diffusion usually requires that a new technology be embodied in Soviet-produced equipment. This can take considerable research and development and often does not even begin until after assimilation. This can take anywhere from two to seven years, and by then the diffused technology is often obsolete. Consequently, Western technology has not produced dramatic changes in the economy, and technological advances in Soviet industry continue to depend primarily on domestic research and development.

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Several Western studies have shown that a high level of imports has tended to perpetuate dependence in the Soviet chemical industry. Our study shows that the machine-building industry has made only limited progress in producing specialized equipment that the chemical industry has been importing for 20 years. This prolonged dependence ensures a continued lag of Soviet technology.

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The Soviets seem dissatisfied with their performance. The chemical industry's handling of imports was derided in an August 1981 *Pravda* cartoon showing a plant buried under crates of machine tools. The accompanying story stated that the Novopolotsk Production Association "Polimer" had not used imported equipment valued at 674,000 rubles and that in 1969 the Usolskiy "Khimprom"

Leadtimes in the Chemical Industry: Imported Plant and Equipment *Years*

	In the USSR	In the West
Imported plant	6.7	3.1 to 3.8
Contract inquiry through negotiations	1.5	0.8
The end of negotiations to initiation of production	5.2	2.3 to 3.0
Soviet indigenous development [a]	15.0	

[a] Research, development, testing, evaluation, and achievement of normal-capacity operation.

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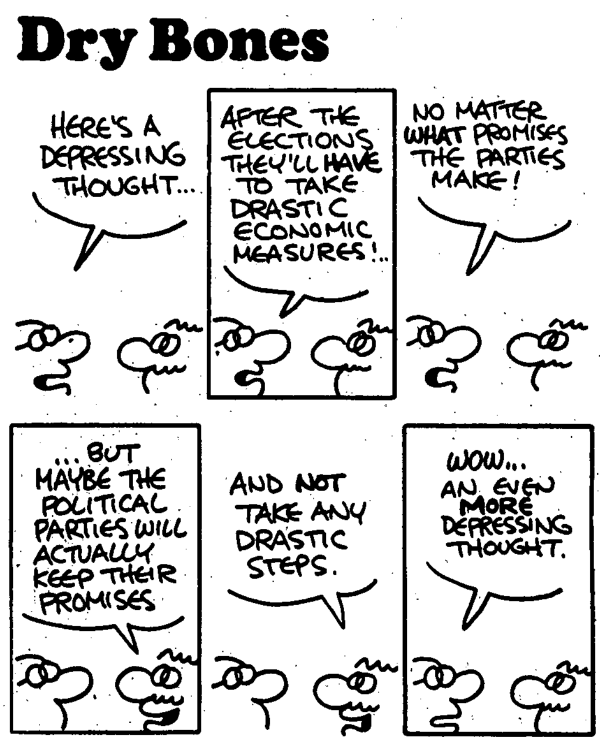

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Association had received imported equipment worth 650,000 rubles that had never been installed and had deteriorated beyond repair while in storage. In 1979, Soviet authorities checked 45 petrochemical complexes and found 24 at which equipment awaiting installation was lying unprotected.

Attempts To Accelerate the Process

Leadtime problems persist even though the Soviets seem to assign a higher priority to the assimilation of Western equipment. In September 1979, they established a basic bonus of 3 percent of the total value of construction and installation work for on-time project completion and provided a 25-percent increase to this bonus for projects using large amounts of imported equipment. In October 1983, a separate resolution ordered ministries to install and operate imported equipment within the warranty period.

The Soviets have attempted to speed up the introduction and diffusion of new technology—both imported and domestic—through scientific-production associations (NPOs) that integrate research, development, and production responsibilities. They claim that NPOs, currently more than 250, have reduced leadtimes by 50 to 65 percent. This probably refers to the time between the R&D phase and first use of the technology in an NPO plant, not between R&D and economy-wide use. Additionally, NPOs are often assigned normal production quotas in addition to their experimental work toward speeding up innovation. Sometimes they have been ordered to cease experimental work entirely to make up for losses elsewhere.

Outlook

The extremely slow pace at which imported Western technology is assimilated and diffused in the USSR sharply limits modernization. Even in some high-priority civilian areas—such as imported gas-lift equipment used in oil production—delays have reduced equipment effectiveness.

Oil Equipment Delays

In 1978, the Soviets contracted with a French firm (Technip) to install gas-lift equipment in 1,800 wells at Samotlor—their largest oilfield. Similar equipment was purchased for 600 wells at the Federovo field. Completion of these projects was scheduled for 1985, but has been delayed for one or two years. If installed on schedule, this equipment could have provided an additional 200,000 to 300,000 b/d of oil. Due to the delay, the most effective use of this equipment has been missed, because the water cut (the amount of water mixed with the oil) at Samotlor and Federovo is now higher than optimal for extraction by gas lift.

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Soviet planners will continue to recommend imports of Western technology and equipment to ease bottlenecks and modernize domestic industries, as the pinch on the USSR's labor, capital, and natural resources tightens and the leading edge of Western technology continues to advance. Nevertheless, we believe Moscow will find it increasingly difficult to catch up with the general level of technology in advanced Western countries. Many of the imports do not embody state-of-the-art technology and are bought simply to improve the average quality of the USSR's own plant and equipment. Even importing the latest technology stands little chance of eliminating the Soviet lag. In addition to time lags and the rarity of widespread application of such imports, Soviet engineers, unfamiliar with the design behind the imported equipment, will remain ill-prepared to improve the technology.

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