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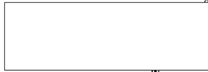
International Economic & Energy Weekly



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International Economic & Energy Weekly

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International Economic & Energy Weekly

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Synopsis

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13 **Poland: Implications of IMF Membership**

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Warsaw's recent amnesty for political prisoners may revive Poland's application to join the IMF. IMF membership could facilitate dealing with Poland's massive foreign debt, but we believe Warsaw will continue to resist needed economic policy changes.

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21 **Financially Troubled LDCs: Growing Labor Protests**

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Several financially troubled LDC debtors are facing increased labor agitation as real wages and employment continue to be hit by inflation, recession, and austerity measures. LDC debtors may have to ease austerity programs to settle labor disputes, which could lead to greater arrearages on debt payments and more difficulty in obtaining new loans.

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23 **International Financial Situation: Few Export Programs Introduced**

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Few LDC debtors have implemented major tax and subsidy programs to promote exports since mid-1982. Instead, most have relied on devaluation and the OECD recovery to boost foreign sales.

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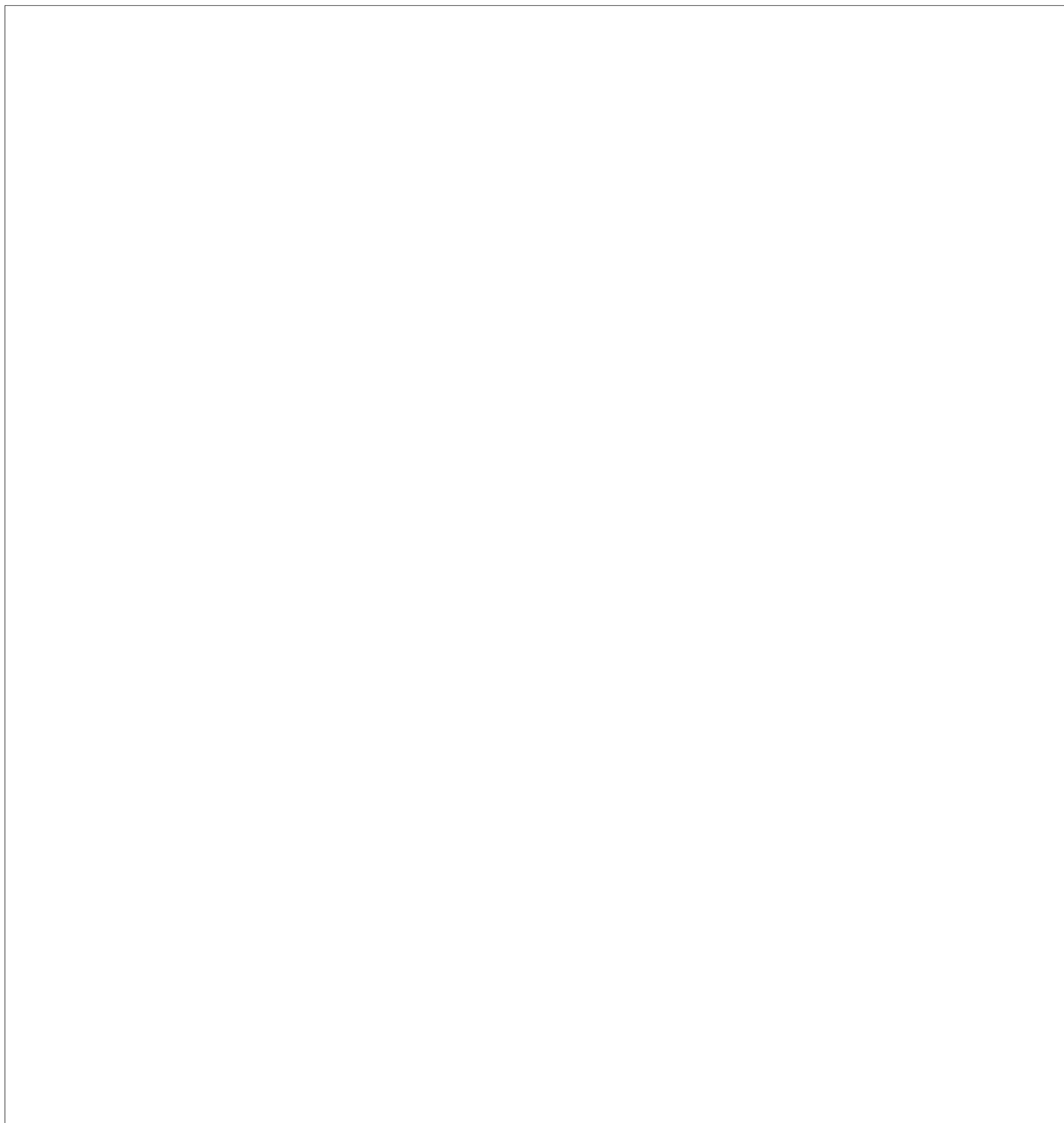

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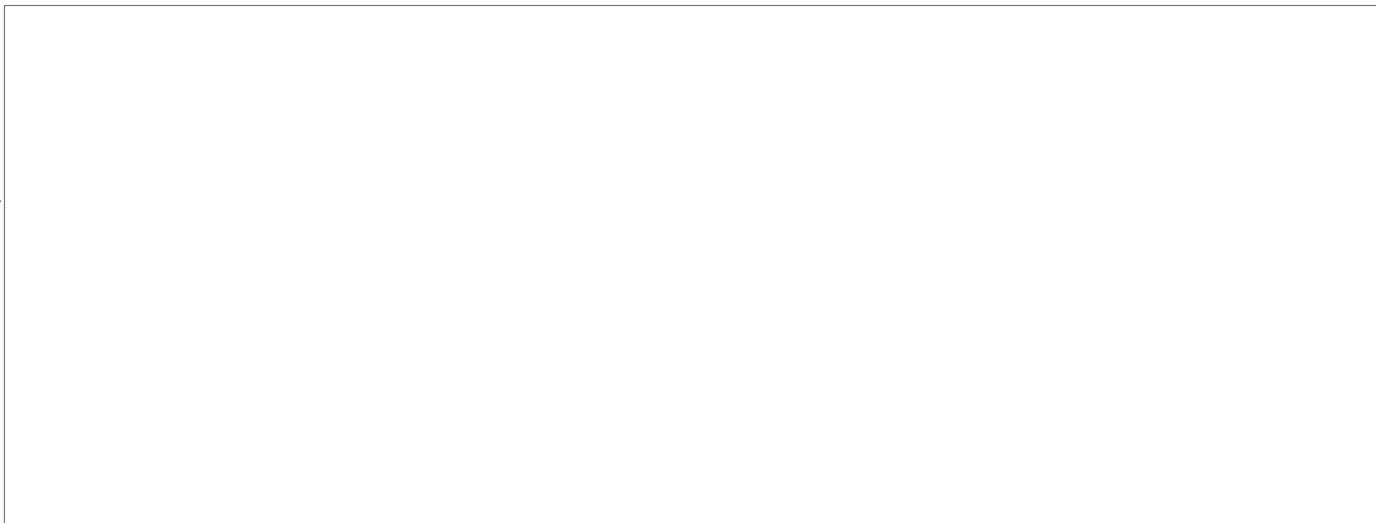
Briefs

Energy



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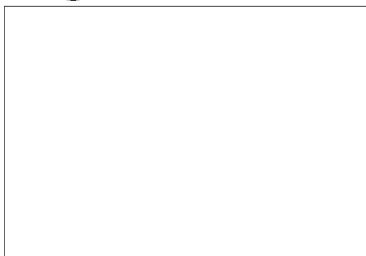
EC Hike in Petrochemical Tariff Angers Saudis



EC-Saudi relations have been strained recently by the EC's imposition of trade barriers against imports of Saudi petrochemicals. Under its Generalized System of Preferences (GSP), the EC provides duty-free access up to a specified ceiling for Saudi-produced methanol imports. In the first half of 1984, EC imports from Saudi Arabia exceeded the limitations by more than eight times. No duties were applied to the excess imports, however, until late June when, in response to industry pressure, the EC began levying a 13.5-percent tariff against excess methanol imports from Saudi Arabia. Riyadh is pressing the EC to remove or reduce the tariff.

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This trade dispute could intensify. New Saudi production capacity for methanol, fertilizers, and plastics will come onstream soon, posing a stiff challenge to higher cost EC producers. While the EC petrochemical industry probably will call for additional trade barriers, Riyadh has warned that any discrimination against its petrochemicals could result in the government's linking the level of oil exports to EC petrochemical imports—the Saudis account for nearly 15 percent of EC oil imports. Such a retaliatory threat is not ominous now, however, because of the soft oil market. Nonetheless, the EC Commission is uncertain how to respond to the Saudis because of the Community's oil dependence, and Commission GSP experts will meet next month to discuss the issue.

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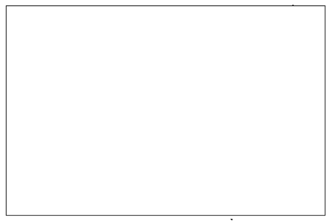
Brazilian Offshore Oil Platform Fires



Two fires at a Brazilian offshore oil platform in the Campos Basin on 16 August apparently caused no serious damage to production equipment but led to the deaths of at least 36 workers and left 25 missing. Drilling and production operations at this important installation are to be halted only 15 to 20 days. The production director of Petrobras told a US Embassy officer that the fires were confined to the drilling tower and were quickly extinguished. Most of the deaths were from drowning when a lifeboat being lowered from the platform broke loose, throwing the men into heavy seas. Petrobras plans to draw on its crude oil stockpile to cover the temporary 40,000-b/d reduction in production. Before the shutdown of the platform, Brazil was producing about 510,000 b/d—half from the Campos Basin—with consumption running about 910,000 b/d.

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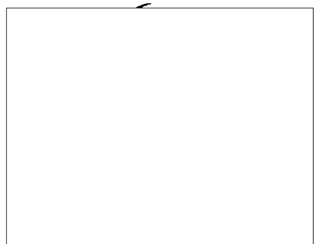
Bolivian Oil-Sector Difficulties



Bolivian relations with foreign oil companies suffered last week when oil workers took over Occidental Petroleum's oilfields and threatened to stop production unless their demands are met for a 130-percent wage hike and payroll inspection rights. Workers are occupying the oilfields, but production remains at normal levels. This job action follows a July strike by oil workers and other labor pressures that caused the government to reduce the price paid to Occidental for oil consumed in Bolivia from $29 to $11 per barrel. According to US Embassy estimates, the July oil-price reduction will cut Occidental's monthly revenues by $1.4 million. Because Occidental accounts for 30 percent of total crude oil production, La Paz is working hard to persuade labor moderates that it is in the national interest to reach an agreement and avoid an Occidental pullout. Moreover, unless La Paz amends its domestic oil-pricing structure, additional foreign oil-sector investment is unlikely.

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Japanese Coal Imports

Coal imports by Japan—the world's largest coal importer—were up 22 percent in first half 1984 compared with year-earlier levels. Increased purchases of coking coal by steel mills accounted for most of the increase. Canadian coking coal registered the largest gain as new mines in British Columbia and Alberta—with Japanese equity investment—stepped up production. Although Japanese purchases of US coking coal were up by 1 million metric tons, part of the increase stemmed from Japanese efforts to take a large portion of annually contracted volumes before the end of September, when the United Mine Workers contract expires. As for steam coal, Japanese imports rose nearly 18 percent in the first half of 1984, with Australia and the Soviet Union accounting for most of the increase. Japanese purchases of US steam coal were down 50 percent.

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Japan: Coal Imports

	Million Metric Tons		Average Price June 1984 *(US$ per metric ton)*
	First Half 1983	First Half 1984	
Total	**35.3**	**43.0**	
Coking coal	28.5	35.0	65.38
Australia	13.5	14.1	60.91
United States	7.5	8.5	70.94
Canada	4.6	7.8	71.53
South Africa	1.4	2.3	49.39
China	0.7	1.1	53.13
USSR	0.8	0.9	52.85
Other	NEGL	0.3	
Steam coal	6.8	8.0	50.08
Australia	3.7	5.0	52.61
South Africa	1.3	1.2	45.21
China	0.7	0.8	50.37
Canada	0.4	0.4	44.68
USSR	0.1	0.3	37.00
United States	0.6	0.3	57.88 [a]
Other	NEGL	NEGL	

[a] May data. Japan imported no US steam coal in June.

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International Finance

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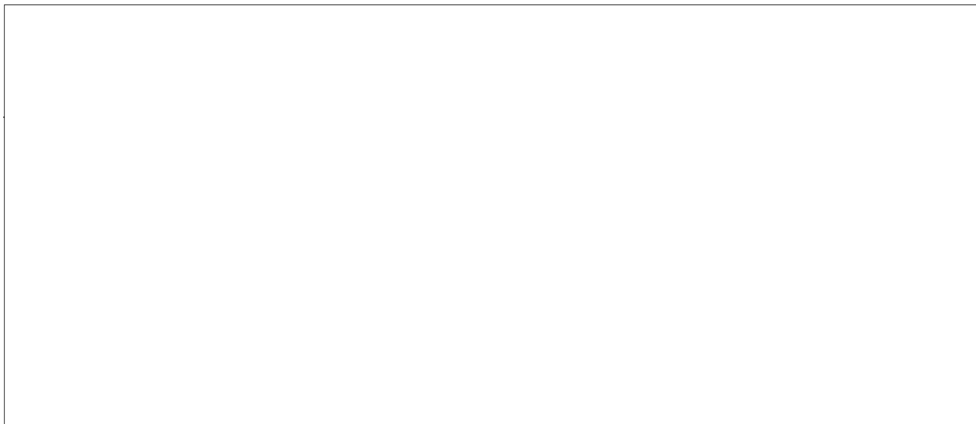

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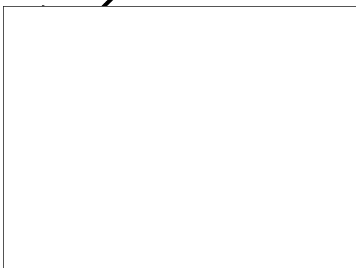
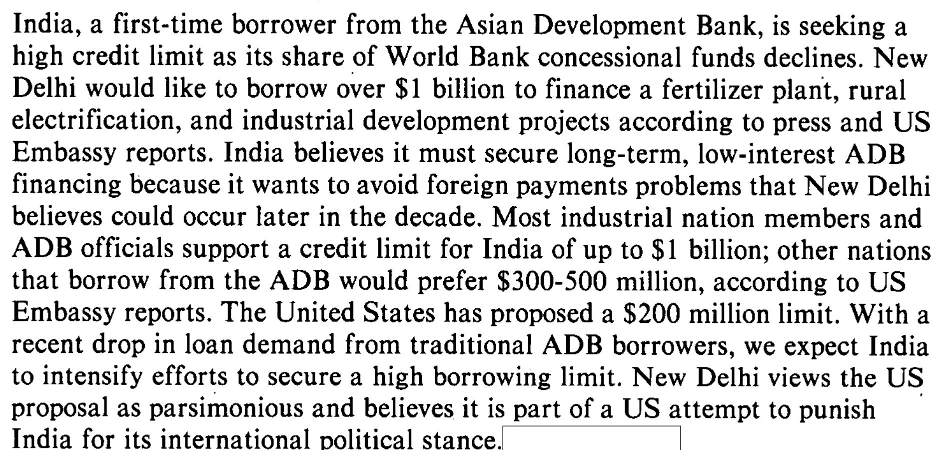
India Seeks More ADB Funds





India, a first-time borrower from the Asian Development Bank, is seeking a high credit limit as its share of World Bank concessional funds declines. New Delhi would like to borrow over $1 billion to finance a fertilizer plant, rural electrification, and industrial development projects according to press and US Embassy reports. India believes it must secure long-term, low-interest ADB financing because it wants to avoid foreign payments problems that New Delhi believes could occur later in the decade. Most industrial nation members and ADB officials support a credit limit for India of up to $1 billion; other nations that borrow from the ADB would prefer $300-500 million, according to US Embassy reports. The United States has proposed a $200 million limit. With a recent drop in loan demand from traditional ADB borrowers, we expect India to intensify efforts to secure a high borrowing limit. New Delhi views the US proposal as parsimonious and believes it is part of a US attempt to punish India for its international political stance.

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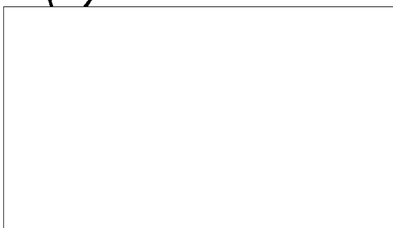
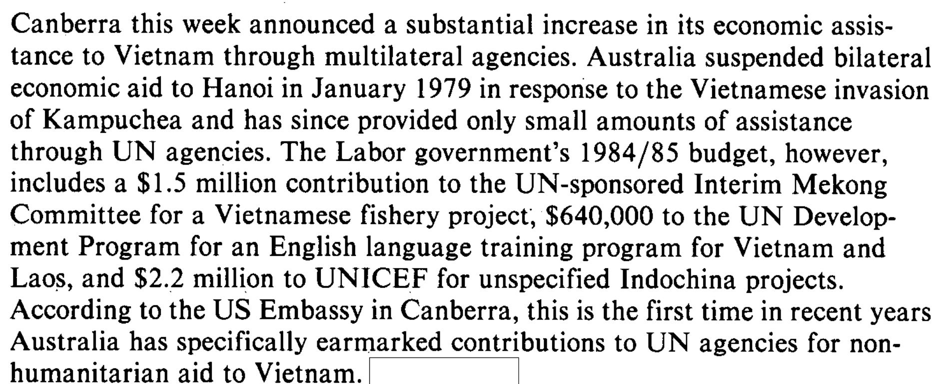
Australia Increases Multilateral Aid to Vietnam





Canberra this week announced a substantial increase in its economic assistance to Vietnam through multilateral agencies. Australia suspended bilateral economic aid to Hanoi in January 1979 in response to the Vietnamese invasion of Kampuchea and has since provided only small amounts of assistance through UN agencies. The Labor government's 1984/85 budget, however, includes a $1.5 million contribution to the UN-sponsored Interim Mekong Committee for a Vietnamese fishery project, $640,000 to the UN Development Program for an English language training program for Vietnam and Laos, and $2.2 million to UNICEF for unspecified Indochina projects. According to the US Embassy in Canberra, this is the first time in recent years Australia has specifically earmarked contributions to UN agencies for non-humanitarian aid to Vietnam.

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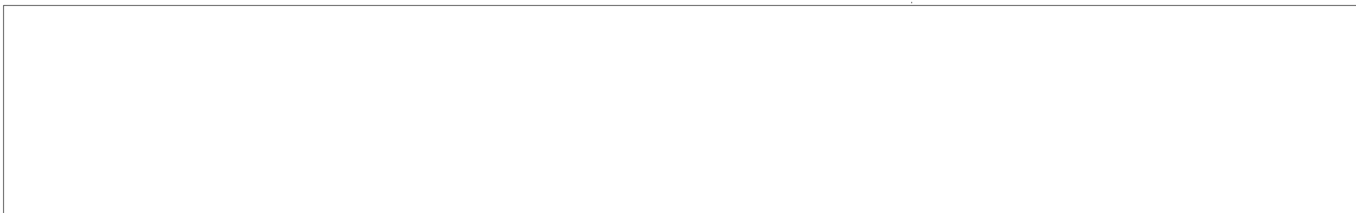

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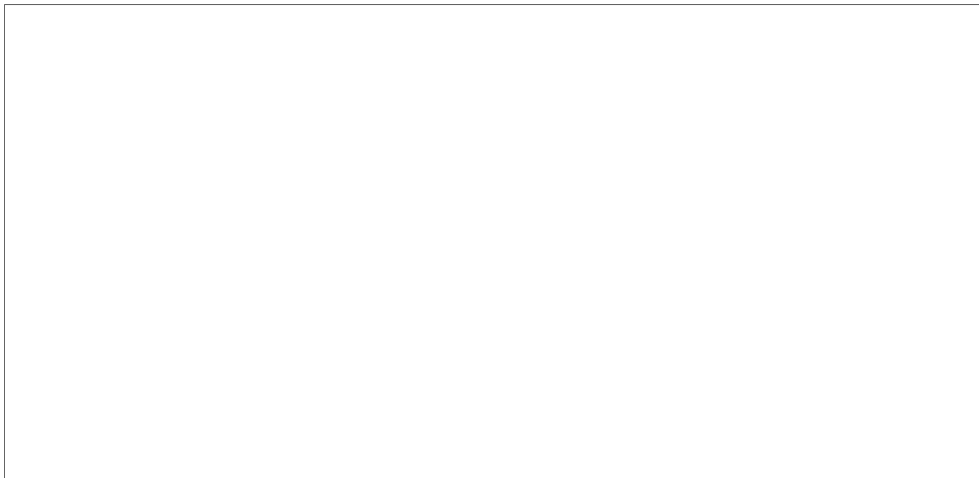

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Global and Regional Developments

Canadian Grain Exports Threatened

Severe drought in the western provinces has caused extensive damage to Canada's grain crop and is likely to curtail the country's export capabilities. According to the US Department of Agriculture, Canadian grain production this year is currently forecast at 41.8 million metric tons (mmt), 13 percent below 1983 levels. Wheat—the country's largest export crop—has suffered widespread damage, and output is projected at only 20.2 mmt compared with 26.9 mmt last year. Barley production is also expected to be down.

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The Canadian Wheat Board (CWB) does not anticipate any difficulties meeting its long-term wheat export commitments

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Canada's total long-term commitments—covering an estimated 14 mmt of wheat and barley—accounted for 60 percent of Canada's exports of those grains in 1983/84, but will take about 80 percent of the supplies available for export this year. As a result, the CWB expects to have problems supplying its traditional markets not covered by long-term agreements—such as Japan and the United Kingdom—or meet demands for additional grain.

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The CWB has only limited flexibility to use its grain stores to offset production losses, because stocks have been greatly reduced by aggressive grain marketing in recent years.

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Morocco-Libya Union Accord

Morocco's announcement last week of a political union with Libya is in part an attempt to gain additional financial aid from Tripoli.

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Rabat may calculate that stronger ties with Tripoli will not endanger US aid

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flows. Despite Rabat's expressed interest in maintaining warm relations with Washington, however, Morocco could face a sharp reduction in US aid if US sanctions against Libya are determined to apply to both members of the union.

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Mozambique–South Africa Transport Accord Signed

Mozambique and South Africa have signed a transport agreement intended to restore Maputo as a major port for South Africa's industrial heartland. The agreement represents one of the first significant economic benefits for Mozambique of the security pact signed with South Africa last March. Pretoria will extend $6 million in credit to refurbish the port and rail facilities. Before Mozambique's independence in 1975, Maputo handled 6 million metric tons of South African goods per year, thus ranking third after the South African ports of Durban and Port Elizabeth. Deteriorating relations after independence led Pretoria to expand the Durban port facilities and to modernize the port at Richard's Bay; the tonnage of South African goods shipped through Maputo fell to 1.1 million tons annually.

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Thai Purchase of US Tanks Faces Problems

The Thai budget bureau agreed in principle last week to a $32 million purchase of 40 US-made M-48 tanks, but funding problems and political maneuvering leave the outcome uncertain. The United States offered to sell the tanks—part of a program to modernize the Thai military—during Prime Minister Prem's visit to Washington in April, but Bangkok has not met the $25 million initial deposit requirement.

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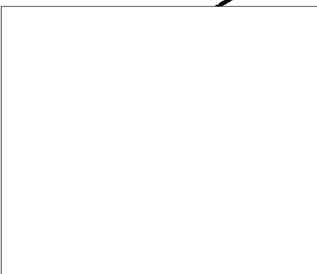
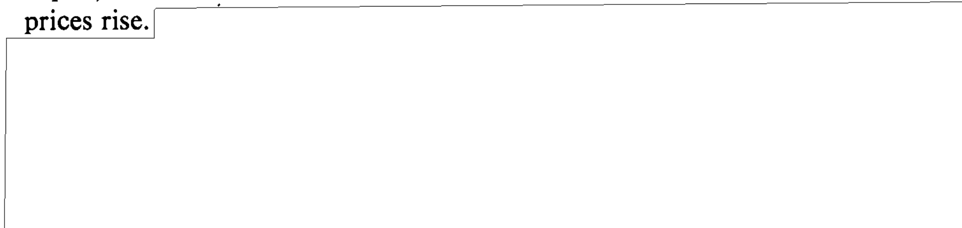
Japanese-Cuban Trade



Cuba recently has achieved minor successes in its commercial dealings with Japan, but trade between the two nations is likely to remain small until sugar prices rise.



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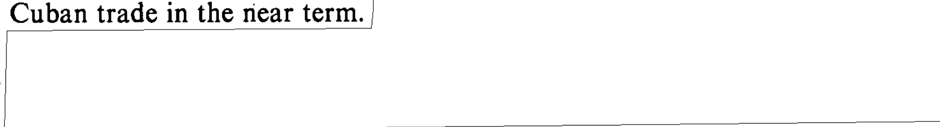
The US Embassy in Tokyo does not foresee any major expansion of Japanese-Cuban trade in the near term.



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National Developments

Developed Countries

More Bad Economic News in Israel

The Central Bureau of Statistics announced last week that the Consumer Price Index increased 12.4 percent in July. This is a record July rate and marks the 10th consecutive month in which the rise in the CPI set a monthly record. Most observers believe the coming monthly increases will be even higher. The annual rate of inflation for the first seven months of the year now stands at about 380 percent. 25X1 25X1

Unemployment for the second quarter reached 5.9 percent. This is the highest rate in three years and is 1 percentage point more than the same period a year earlier. The Histadrut, Israel's large trade union organization, has expressed concern that recent measures taken by the caretaker government to freeze government hiring and withhold funds on existing contracts will further increase unemployment. 25X1

Finally, the Bank of Israel has acknowledged that its foreign-currency crisis is more serious than previously reported. The reported decline in foreign exchange reserves of $350 million in July would have approached $700 million except for a change in accounting methods last month. One reason for the decline was the repayment of maturing long-term loans from the United States, but the drop was also caused by the public's heavy demand for dollars and the election eve expectations of a devaluation. According to press reports, Israel intends to ask the United States Government for increased economic aid because of the decline in foreign exchange reserves. 25X1

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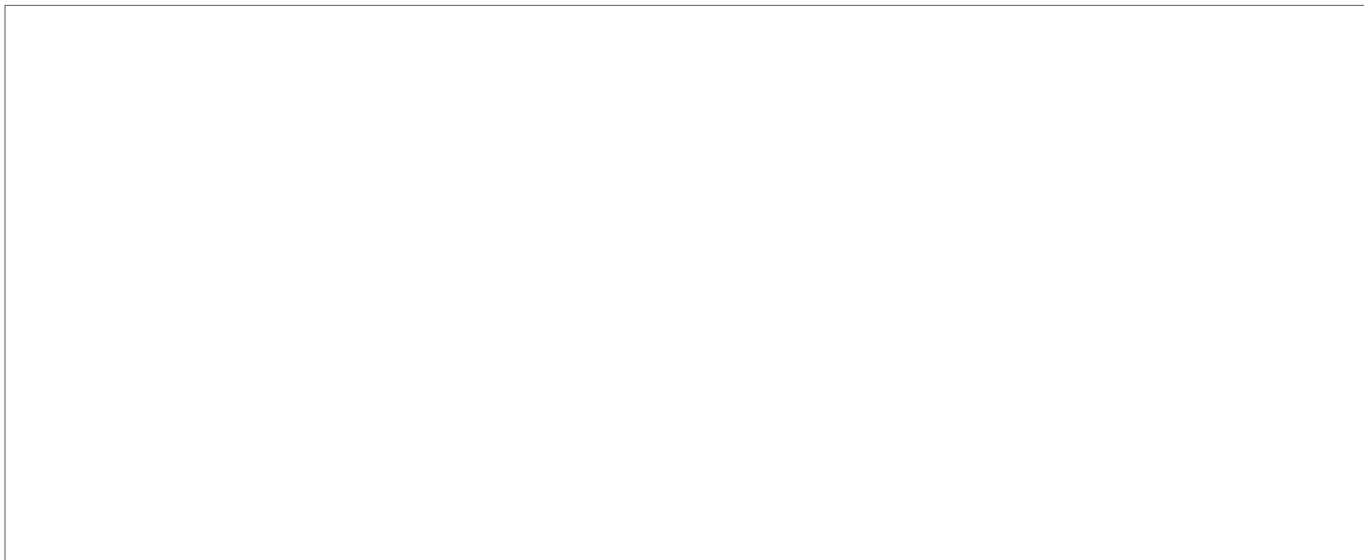

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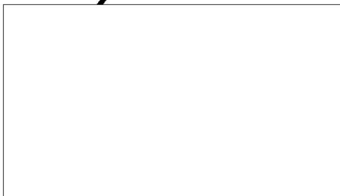
Australian Election Budget



Canberra's FY 1984/85 budget, released to the press on Tuesday, contains new expenditures and revenue measures to spur economic growth and to help important interest groups. The budget should smooth the way for Prime Minister Hawke's Labor Party to hold early elections either late this year or early in 1985. The business community is courted with tax incentives to encourage investment. Canberra also has sought to pacify organized labor—the linchpin of Hawke's wage-price accord—with across-the-board increases in social benefits and with tax cuts aimed primarily at middle- and low-income earners. Despite an increase of 13 percent in total expenditures, the budget deficit is projected to fall by A$1.2 billion from last year because of revenue increases resulting from Australia's strong recovery.

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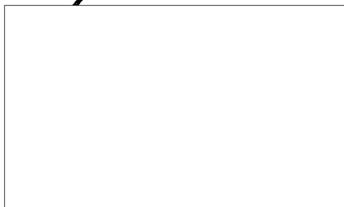
French Finance Ministers Views on the Economy



Pierre Beregovoy, in his first interview as Finance Minister, stated that his goal is to maintain workers' purchasing power and increase economic growth through improved productivity rather than expansionary policies. The interview coincided with the announcement that French GDP fell at an annual rate of 1.2 percent in the second quarter, compared with 3.5-percent growth in the previous quarter. Beregovoy restated the government's commitment to keep the budget deficit near 3 percent of GDP. His indication that economies would be sought in current spending increases the probability of conflict with public employees this fall. In a step to encourage private investment, the government lowered interest rates slightly last week.

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Less Developed Countries

Pakistan Faces Declining Remittances

Revised Pakistani estimates of remittances for the fiscal year ending in June show receipts of slightly more than $2.7 billion—5.0 percent below last year and the first decline since the 1970's oil boom. Islamabad did not anticipate falling foreign remittances and a rising number of workers returning from

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principally the Persian Gulf. The government's Five-Year Plan ending in 1988 assumes an average annual growth in remittances of nearly 9 percent and a net outflow of workers. Some government planners are now assuming a net annual return of 10,000 to 15,000 of the 1.5 to 2.0 million Pakistanis working abroad. These pressures on the foreign payments and the domestic labor market come when President Zia wants to present a buoyant economy before the elections. We believe Zia will turn to the United States and other Western and Arab donors for increased financial assistance to guard against economic and political instability.

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Indonesia Experiences Falloff in Investment

new foreign and domestic investment declined sharply during the first six months of 1984. The falloff has prompted a lively domestic debate, with government officials blaming external causes, and the private sector citing ambiguous investment regulations, new tax laws, bank-credit reforms, and the economic slowdown. President Soeharto has sought to reassure investors while quietly pressuring the bureaucracy to streamline regulations. According to the US Embassy, however, there is little indication Soeharto will succeed in engineering the radical overhaul of investment policy and procedures necessary to restore past levels of capital formation.

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Poland: Implications of IMF Membership

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Warsaw's recent amnesty for political prisoners may revive Poland's application to join the IMF. Poland submitted its formal request in November 1981, but Western governments shelved it following the declaration of martial law in December 1981. Although Poland apparently does not have to reapply, entry could take at least a year. Moreover, snags in negotiating a stabilization program are likely to delay sizable IMF credits until mid-1986 at the earliest. The Fund will require tough adjustment measures, but—without a consensus on economic reform within Poland—we doubt Warsaw will implement the major changes needed to cure Poland's economic ills.

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Processing the Application

Even if Western governments reconsider Poland's application, it is unclear whether Warsaw will pursue membership at this time. Polish negotiators have repeatedly pressed for IMF membership in talks with the Paris Club of government creditors. These demands, however, may be just a bargaining ploy or may reflect only the views of some officials in the Ministry of Finance who favor membership. Some Polish political leaders apparently oppose closer cooperation with Western creditors, and debate within the regime over IMF entry is possible.

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Soviet opposition could stall Poland's application. Moscow reportedly approved Warsaw's request in 1981, probably calculating that IMF financial assistance would reduce the cost of propping up the economy. In recent months, however, Moscow has criticized—both directly and indirectly through allies such as Czechoslovakia—some East European countries for maintaining too many ties with the West. The Soviets could object to Poland's closer relations with the West via IMF membership.

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Poland's entry into the Fund is likely to take at least a year. Even Hungary's uncomplicated application took seven months in 1982. The IMF probably will not be ready for several months to send a technical team to Warsaw to hammer out the specifics of membership. Once there, the team is likely to encounter difficulties. Recent meetings of the Paris Club have proved arduous because of the intransigence and inconsistency of Polish negotiators.

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Poland could experience problems in paying the membership subscription. New members must pay 75 percent of their quota in domestic currency and 25 percent in gold or convertible currencies. Given our estimate of a $900 million quota, Warsaw would have to pay $225 million in hard currency—a sum the Poles may not have if they meet obligations under rescheduling agreements. Poland's subscription might be less and could be paid in installments.

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An IMF Program for Poland

Poland probably would draw IMF credits as soon as possible. We estimate Warsaw probably could obtain about $450 million without difficulty. This would include $225 million from the reserve tranche and $225 million from the first credit tranche, neither of which requires strict conditionality. Warsaw must only demonstrate a need and show an effort to solve the problems. Since the reserve tranche is Warsaw's own money, the net gain would be just $225 million.

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Another option for relatively "easy" money is the Fund's compensatory financing facility, which assists members after unavoidable temporary export

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Estimated IMF Assistance to Poland [a]

Type of Credit	Percent of Quota	Million US $	Conditions
Total		**1,675**	
Reserve tranche	25	225	Demonstrate foreign payments need.
First credit tranche	25	225	Demonstrate foreign payments need and show reasonable efforts to solve the problems.
Compensatory financing facility [b]	11	100	Demonstrate an unavoidable temporary export shortfall.
Standby	125	1,125	Adhere to relatively strong stabilization program approved by the IMF.

[a] Data for the first 12 to 18 months after IMF membership, based on quota of $900 million. The quota is determined by "the members' economic characteristics relative to those of other members of comparable size."
[b] Although a member could draw up to 50 percent of the quota without much difficulty, Poland is unlikely to qualify for more than $100 million.

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shortfalls. Up to 50 percent of a member's quota—$450 million in Poland's case—can be made available with only minimum conditions. Although the three East European IMF members—Hungary, Yugoslavia, and Romania—have used this facility, Warsaw could have difficulty demonstrating an export shortfall according to IMF procedures. Warsaw's longstanding, deep-seated economic problems would make for an unconvincing argument that the shortfall is "temporary and due to external factors." Thus, we estimate that Warsaw's drawings from this facility are unlikely to exceed $100 million in the first year or so of membership.

Polish financial officials apparently are counting on more IMF loans than can be provided through the reserve tranche, first credit tranche, and compensatory financing facility. Warsaw's recent memorandum to the Paris Club, which projects IMF funding of $3 billion during the first three years of membership, evidently assumes the establishment of a standby credit program. Current IMF regulations on standby arrangements allow members to draw up to 125 percent of their quota annually—and even more under special circumstances—for three years. Assuming a quota of $900 million, Poland would be eligible for around $1.1 billion annually.

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Any standby arrangement with the Fund will not come quickly or easily. Poland's large arrears to Western governments and other nonbank creditors are likely to be the initial stumblingblock. The IMF might require Poland to settle these accounts before granting a standby credit, because arrearages violate the IMF charter. The IMF probably would not force Poland to pay all arrearages, but it might insist that Warsaw show readiness to settle unpaid obligations through rescheduling agreements. Warsaw probably would have to make downpayments of several hundred million dollars to implement the agreements.

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In addition to resolving the problem of arrears, the Fund will require Warsaw to pursue a comprehensive stabilization program that the regime so far has avoided. Poland's problems, as well as the increasingly tough attitude of the Fund, suggest that the two sides will have trouble agreeing on stabilization measures. In recent dealings with other East European countries, the IMF has

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demanded more restrictive policies, probably because earlier programs failed to keep Romania and Yugoslavia from rescheduling. Moreover, the IMF has come under attack by bankers for the softness of its East European programs.

Although IMF programs are tailored to each member, recent standby arrangements concluded with other East European members point to the likely provisions of a program for Poland. The Fund program probably will include restrictions that prohibit the borrower from:

- Imposing or tightening restrictions on foreign payments and transfers for current international transactions.
- Introducing or modifying multiple exchange rate practices.
- Concluding bilateral payments agreements inconsistent with the Fund's charter.
- Imposing or tightening import restrictions for balance-of-payments purposes.

In addition, the Fund is likely to impose:

- Targets for hard currency trade and current account balances.
- Limits on net hard currency debt.
- A target for minimum hard currency reserves.
- Limits on net domestic assets of the banking system.

Poland—benefiting from the advice of an IMF team—would have to outline policies to achieve the goals of the program. The initial program is likely to focus on improving Poland's debt-repayment capacity, and the Fund will call for greater domestic austerity—largely by slowing the growth of consumption and government expenditures—to shift resources to the external sector. Recommendations are likely to include reducing subsidies, hiking interest rates and prices, and tying wage increases to productivity. In the foreign sector, the Fund is likely to urge simpler trade and foreign exchange systems.

The IMF probably will advise the Poles to rely more on market mechanisms than administrative controls. The Fund also is likely to suggest ways to reduce the inefficiencies of Polish economic planning. We doubt, however, that the IMF will succeed in dictating policies at odds with Warsaw's political objectives and economic institutions. The IMF's experience with the other East European countries demonstrates that the impetus for major changes must originate in Warsaw.

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We believe that Poland will have great difficulty agreeing to an IMF stabilization program. Some Polish officials—particularly in the Ministry of Finance—have argued that reform measures adopted in 1982 would go far toward meeting IMF demands. In our view, these reforms do little to ensure achievement of any reasonably stringent criteria. Although some Polish officials would like to use the Fund as a scapegoat for imposing austerity measures, the regime might not accede to IMF proposals if it felt social tensions would increase as a result.

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Even if Warsaw and the Fund eventually agree to a program, the regime may try to avoid full implementation. Warsaw might agree to policies to begin drawing funds, but then not adhere to the agreement. If performance criteria are not met, the IMF will have to decide how tough it wants to be. The Fund's mixed record with recent standby programs for East European members points to problems:

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- The IMF has fared poorly in its dealings with Romania. Bucharest implemented some price and exchange rate adjustments, but the changes have not improved the economy significantly, largely because of the regime's tight controls over the economy. Prodding by the Fund for more adjustments resulted in a mutually agreed cancellation of the standby program at the beginning of this year, and the regime has not reapproached the Fund.

- Yugoslavia has resisted some IMF recommendations, arguing that they interfere with its sovereignty. Yet most differences with the Fund have centered on the pace, not the direction, of the adjustment effort. Most Yugoslav leaders agree that the IMF program is consistent with their long-term stabilization program, but they believe that the Fund wishes to do too much too quickly. Before the recent standby agreement, Belgrade

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threatened to "go it alone." Difficulties may yet arise with the Fund over implementing the program.

- Hungary's relations with the IMF, on the other hand, have been amicable. Budapest adopted adjustment measures and economic reforms long before joining the IMF. The Fund has praised Hungary's efforts and views its role as providing a financial cushion during the period of decentralization.

The IMF could play an important role in debt reschedulings for Poland. Warsaw's seemingly insurmountable debt troubles suggest that the Poles will be unable to meet their rescheduled obligations. The rescheduling of earlier "reschedulings" would prove complicated and contentious, and the IMF could help ensure that Warsaw cooperates with its creditors.

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Other Benefits of Membership

World Bank. Poland almost certainly will seek to join the World Bank along with joining the Fund. Membership would qualify Poland to bid on World Bank construction projects. Such contracts could provide some gains to the current account. More importantly, World Bank project loans could help modernize key sectors of the Polish economy, such as agriculture and energy. Warsaw projected World Bank loans at $500 million in 1986 and $1 billion in 1987. These amounts are overly optimistic. Hungarian borrowings from the World Bank, for example, averaged a little over $200 million annually in its first two years of membership.

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Improved Credit Standing. Foreign creditors generally are more receptive to rescheduling the debts of a country following an IMF stabilization package. The recent rescheduling packages for Yugoslavia and Romania have been made conditional on compliance with IMF programs. Moreover, IMF technical expertise has aided both sides during rescheduling negotiations. For example, the IMF was instrumental in helping the Romanian financial team overcome its inexperience during the early stages of the first rescheduling talks.

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Financially Troubled LDCs: Growing Labor Protests

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Several financially troubled LDC debtors are facing increased labor agitation as real wages and employment continue to be hit by inflation, recession, and austerity measures. Strikes and work slowdowns have led some governments to give in to wage demands and partially restore subsidies on food and basic services. LDC debtors may have to ease austerity programs to settle labor disputes, which could lead to greater arrearages on debt payments and more difficulty in obtaining new loans.

Country Developments

President Alfonsin's inability to curb **Argentina's** hyperinflation has contributed to a succession of short strikes since late May. The General Confederation of Labor has threatened a general strike to pressure Alfonsin to raise real wages as promised. Recently he called for "austerity" and "sacrifice" to dampen inflation. Reflecting this spirit, the government granted public-sector workers a 12-percent increase for July—well below the June consumer inflation rate of 17.9 percent; most lower paid government workers, however, were given a 3-to-4-percent real wage hike. Unions in the private sector are demanding bigger increases. Continued high inflation, coupled with bankers' reluctance to extend new loans until an agreement with the IMF is reached, will restrict Alfonsin's attempts to balance union and creditor demands.

Beginning in April, the **Bolivian** Workers' Central (COB), the major trade union organization, called several general strikes to protest an austerity package that included a 75-percent devaluation and 100-to-600-percent increases in the prices of sugar, bread, cooking oil, and other staples. As part of a strike settlement, the Siles government on 30 May suspended principal and interest payments to foreign banks. Prices on some basic foods were lowered and wages boosted by 130 percent. Following a coup attempt on 30 June, the unions demonstrated in support of the democratically elected Siles government. Nevertheless, the COB called another general strike on 4 July to protest perceived government backsliding on the agreement. US Embassy reports indicate that strikers returned to work only after the government agreed to an expanded settlement package that included food price controls. Most recently, oilfield workers struck Occidental Petroleum for higher wages. Because Occidental is responsible for 30 percent of total crude production, the government wants to prevent a pullout but fears antagonizing labor.

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Since early August, Bolivia's public sector has suffered ongoing strikes. Because the state had not been able to pay salaries, teachers protested by a strike starting on 6 August. Intensive and lengthy negotiations with state employees about pay and other issues resulted in a settlement of their grievances earlier this week.

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Work stoppages in **Brazil's** steel, auto, consumer durables, and metal industries early this year ended when wage hikes well above government guidelines were granted. In the state of Sao Paulo, migrant farmworkers demanded higher pay and better working conditions. They obtained a 300-percent wage increase after setting fire to sugarcane fields and destroying government water company offices. Elsewhere in the state, orange grove workers pressed their demands by blocking roads and stoning and burning growers' trucks. In all cases, wage concessions exceeded guidelines adopted late last year—one of the centerpieces of Brazil's IMF austerity program. Last week, a two-day strike against Embraer, Brazil's large aircraft manufacturer, was suppressed by the government.

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Since April, workers in **Costa Rica** have struck railroads, prisons, banks, ports, and schools to

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protest declining real wages. In the past year, incomes have been buffeted by higher sales taxes, an import surcharge, and increased prices for essential services.

In **Ecuador,** the 80,000-member national driver's organization staged a one-day strike in April after discussions with the government over proposed hikes and the rising cost of spare parts broke down. Workers at Emelec, an electric utility company owned by a US firm, went on strike in June for a wage bonus. According to the US Embassy, the government pressured the firm into granting a profit-sharing bonus as well as back wages throughout the strike.

According to press accounts, the largest labor organization in **Honduras** threatened a general strike to protest government austerity measures that included higher taxes and budget cuts. The austerity package was proposed to help Honduras qualify for IMF funding. Scheduled for 20 June, the strike was averted when the government agreed to modify the package.

Strikes by civil servants and teachers hobbled **Peru** for most of June. The government responded by declaring a 30-day state of emergency that suspended all civil rights, banned meetings and travel, and expanded police power of search. Demonstrators were dispersed by water cannon and troops. To settle the teachers strike, the government boosted pay by 23 percent and recognized the major education workers union as the sole bargaining agent for teachers. Civil servants were granted higher wages the following week. There also have been shorter strikes by hospital workers demanding higher wages, and by taxi and bus drivers in Lima protesting petroleum price rises.

In the **Philippines** a strike over wages at a Manila textile company resulted in several deaths when riot police attempted to break a picket line. Although strikes have not increased substantially, inflation, lower real wages, and layoffs could aggravate labor unrest.

Outlook

Over the near term, debt-troubled LDCs will face the need to take further economic adjustments. Because this process often involves real wage cuts, the potential for labor unrest will tend to grow. In Venezuela, for example, tensions between labor unions and the Lusinchi government increased in July because of labor's perception of unfair treatment on wages.

At the same time, labor organizations must be concerned about layoffs of strikers and competition from unemployed workers willing to work for less. Thus, in some countries with large and growing unemployment, unions may hesitate to strike. For example, the US Embassy reports that the number of strikes in Morocco is significantly lower than usual because of high unemployment and recent layoffs.

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International Financial Situation: Few Export Programs Introduced

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Few LDC debtors have implemented major tax and subsidy programs to promote exports since mid-1982. Instead, most have relied on devaluation and the OECD recovery to boost foreign sales. We have examined 15 LDC debtors[1] and found that only Mexico and Costa Rica provide more financial incentives to exporters than existed two years ago. Because of budgetary constraints, most LDC debtors probably will continue to rely on devaluation and the OECD recovery to increase foreign sales.

The Role of Devaluation

Most LDC debtors have relied on devaluation to promote exports. In most cases, the devaluation is part of the country's IMF-supported adjustment program. Eleven of the 15 countries examined experienced a real currency devaluation last year. **Brazil,** for example, had one large devaluation followed by smaller, periodic devaluations. **Mexico,** which has an active export promotion effort, also relies heavily on devaluation to maintain competitiveness.

Export Promotion Programs

Only **Mexico** and **Costa Rica** are providing more financial assistance to exporters than at the outset of the debt crisis.

Mexico, under de la Madrid, has been very active, primarily through its National Development Plan, which promotes nonoil exports. Since last year, the government has provided tax incentives and technical assistance, relaxed foreign exchange controls for exporters, eliminated the need for export permits for most goods, and removed some licensing requirements for imports used in the production of exports. Some export tariffs have been eliminated and others reduced. Mexico has also expanded its export financing program.

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Costa Rica, in February of this year, passed emergency legislation containing an export promotion package. The legislation eliminates taxes on export profits and tariffs on inputs for nontraditional exports to countries outside Central America. This latter measure is aimed at diversifying both the geographical and commodity mix of Costa Rican exports. The package also grants a 50-percent tax credit on share purchases in firms that produce entirely for export. In addition, San Jose is providing incentives to attract foreign investment in nontraditional export sectors, including foreign exchange guarantees, political risk insurance, and freedom to remit capital and profits abroad.

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Although most LDC debtor countries continue assistance to their export sectors, many retain export barriers to keep domestic prices low. A few countries have even reduced existing promotion programs:

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- **Brazilian** trade policy is moving away from incentives to devaluation as a means of promoting exports. Brazil has aggressively promoted exports since the 1960s through direct subsidies, tax exemptions, and subsidized credit. Brazil's financial problems, however, have forced cutbacks. Furthermore, threats by the industrialized nations to impose trade restrictions have led Brasilia to eliminate or scale down subsidies.

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[1] We examined Argentina, Brazil, Chile, Costa Rica, Ecuador, Indonesia, Ivory Coast, Kenya, Mexico, Morocco, Nigeria, Peru, the Philippines, Venezuela, and Zaire.

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- The **Philippines** is adjusting its program because of Manila's foreign exchange crisis. Since 1979, the Philippines has followed a World Bank–supported program, which includes efforts to increase exports, particularly of manufactured goods. The program provides tax incentives to promote labor-intensive exports, reduces redtape, eases exporters' ability to obtain scarce foreign exchange, and reduces tariffs for less expensive raw materials and semifinished goods. Manila's foreign exchange crisis, however, is forcing spending cutbacks, which will curb the export promotion program.

- Most other LDC debtors have limited their export promotion to bilateral trade agreements, countertrade, and preferential treatment for exporters in obtaining raw material imports. Many consider aggressive export promotion too expensive during a period of austerity. LDC debtors such as **Argentina, Chile, Ecuador, Nigeria,** and **Venezuela** earn most of their export income from only a few commodities and lack competitive industries. The African debtors have been particularly weak in promoting exports, in part because most lack an industrial base.

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Outlook

Financial problems probably will prevent most debtor LDCs from introducing major export promotion programs in the near term. Instead, LDC debtors will continue to rely on devaluation and the OECD recovery to boost exports.

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