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International Economic & Energy Weekly

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7 September 1984

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13 **International Copper: Fallout From a Depressed Market** [redacted] 25X1

Although conditions in the world copper market have improved somewhat over the past year, weak demand growth and abundant capacity expected through the 1980s will keep copper prices low and put a crimp in the export earnings of many LDCs. [redacted] 25X1

17 **International Financial Situation: Latin American Update** [redacted] 25X1

Discussions among Latin American debtors continue to indicate little support for joint action against creditors. We remain concerned, however, that Argentina and the banks are heading for another end-of-quarter clash in September, while Bolivia, Chile, and Colombia also could bump heads with lenders. [redacted] 25X1

21 **New Zealand: Economic Problems Facing the New Government** [redacted] 25X1

Prime Minister Lange, in office for less than two months, already has resolved a foreign exchange crisis, but he nonetheless faces a difficult task shaking New Zealand out of its economic malaise. The current economic recovery is unlikely to continue into 1985, and unemployment and inflation probably will be on the rise again in the coming months. [redacted] 25X1

27 **International Rice Market: Reduced Supplies** [redacted] 25X1

World rice supplies available for export—especially in Asia—are abnormally tight heading into the major fall harvest. The outlook for 1985 is for continued reduction in export stocks. [redacted] 25X1

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Perspective

Copper and the Third World Debt Problem 25X1

Despite the global economic recovery, the copper market remains substantially oversupplied, and prospects are not good for a robust demand recovery during the rest of the 1980s. Even if economic recovery in the industrialized countries continues, copper demand will remain constrained by changing technologies and material substitution. On the supply side, further capacity increases—mainly by the LDCs—will offset projected growth in copper demand. Moreover, government participation frequently is significant in LDC copper industries, making it possible to push a produce-at-all-costs policy. 25X1

Copper is the Third World's most important metal export. With sales of between $5 billion and $6 billion annually, it is the third leading commodity export behind petroleum and coffee. In Zambia, Chile, and Zaire, for example, copper accounts for 40 to 90 percent of export earnings. 25X1

The weak copper market and its impact on LDCs highlights the important linkage between trade and the international debt problem. The current debt strategy supported by the United States and other Western governments calls for the restoration of LDC creditworthiness through export-based growth and LDC economic adjustment policies. For their part, debt-troubled LDCs have undertaken domestically unpopular austerity measures to reduce payments deficits and limit new financing requirements. For most debtors, however, the sluggish response of commodity prices to Western economic recovery, together with rising protectionism, is making the trade-oriented solution to the debt crisis more difficult. Chilean Government officials claim that the foreign exchange shortfall created by import restrictions on copper could make it impossible for Chile to continue full interest payments on its foreign debt next year. 25X1

Developed country copper producers—particularly in the United States and Western Europe—also will not go unscathed. Most industrial countries are high-cost producers who are finding it increasingly difficult to compete with the LDCs under sluggish market conditions. A number of Third World suppliers—in particular Mexico and the Philippines—are complicating the problem for producers in the United States and Western Europe by vertically integrating their industries into the smelting and refining stages, thus further increasing competition for developed country producers. 25X1

These pressures have already begun to percolate in the form of bilateral trade disputes. US copper producers recently won a favorable decision from the International Trade Commission recommending substantial curbs on copper imports. If US actions limit LDC copper exports, Western Europe and Japan will become alternative markets, and protectionist pressures in these countries are likely to mount. [redacted] 25X1

Trade issues such as those surrounding copper are starting to become a rallying point for collective debtors' action protesting general Western trade barriers and advocating the need for a revised debt strategy. While Chile, Peru, Zambia, and Zaire have the most at stake, other large debtors such as the Philippines, Indonesia, and Morocco have an interest in maintaining and increasing their copper market sales. In addition, current production expansion will soon make Mexico a net copper exporter. Trade barriers could reduce the incentive of debtor countries to continue implementing austerity measures and could push debtors to press collectively for better future repayment terms, including limiting debt service to a smaller share of overall export earnings. [redacted] 25X1

Restrictive trade practices pose a potential dilemma for IMF-supported adjustment programs and for the Fund's monitoring of these programs. Reduced export earnings could cause LDCs to fall short of complying with IMF performance criteria. The Fund could face a situation where many LDCs claim they are being penalized by restrictive trade practices and that performance criteria should be eased. [redacted] 25X1

[redacted] 25X1

Briefs

Energy

Mexico Seeking Closer Ties to OPEC

A diplomatic source recently told the US Embassy in Caracas that Mexico has asked Venezuela to sound out other OPEC members on ways to strengthen ties to the oil cartel. In his State of the Union speech last Saturday, moreover, President de la Madrid emphasized Mexico's willingness to coordinate commercial decisions with other oil exporters. While it was rapidly expanding oil production during 1974-82, Mexico avoided any association with OPEC that could have limited the growth of oil exports. Since then, however, Mexico, because of financial problems and concerns over a growing dependence on its oil industry, has sharply curtailed oil development and has adopted oil marketing strategies similar to those of OPEC. Mexican officials recently have attended scheduled OPEC meetings as unofficial observers. 25X1 25X1

Closer consultations with OPEC would help Mexico meet its goals of supporting world prices and protecting its markets. De la Madrid almost surely will stop short of formal affiliation, however. Membership would undermine US-Mexican trade talks, alienate foreign creditors, and grate on Mexican nationalism. The need to service heavy debt obligations, moreover, precludes Mexican participation—even temporarily—in any cartel production cutbacks. 25X1

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Canadian Electricity Exports To Increase

Canadian electricity exports to the United States are expected to total 532 terawatt-hours (TWh) over the next several years—the energy equivalent of nearly 1 billion barrels of oil. Canadian utilities have surplus generating capacity and are pressing hard to increase electricity exports now that the 25X1

Canadian Government has approved long-term uninterruptible supply contracts. Already, several multiyear contracts have been signed committing Canadian utilities to export a total of 227 TWh of electricity. Negotiations for an additional 305 TWh are under way, and additional export sales have been proposed. More than 45 percent of this electricity will flow into New England and New York state, which now depend on oil-fired electricity generation to meet 32 percent of electricity demand. In 1983, Canada exported 38.4 TWh of electricity to the United States, representing the equivalent of nearly 200,000 b/d of oil. [redacted] 25X1

Japan's Oil Stocks Rise

[redacted] 25X1

Japanese oil stocks rose from 425 million barrels in March to 453 million barrels in July, and now represent 105 days of forward consumption. All the increase represented additions to commercial stocks as government-owned stocks remained flat at 94 million barrels. [redacted] 25X1 Four onshore facilities are under construction and an additional two facilities are planned. [redacted] 25X1

Tanzanian Oil Problems

[redacted] 25X1

Tanzania is facing another fuel shortage because of its inability to pay its bills. Crude oil requirements for the second half of this year total some 400,000 metric tons [redacted] 25X1 Two shipments of 80,000 metric tons each were expected under the current oil agreement with Iran; one already has arrived [redacted] 25X1

[redacted] 25X1

The government also is likely to pressure Iran—which now supplies about half of Tanzania's consumption—and Libya—which last year supplied some 200,000 metric tons of crude—for more oil. If no new supplies are forthcoming, the government, as in the past, will turn to the spot market for both crude and refined products, and may be forced to ration its already low reserves. [redacted] 25X1 25X1

Trinidad and Tobago Buys Texaco Refinery

[redacted] 25X1

Trinidad and Tobago's recent agreement in principle to purchase for $122 million Texaco's unprofitable refinery at Pointe a Pierre will further erode the country's foreign exchange reserves. In an effort to centralize its refining operations, the government also is planning to close its Trintoc refinery, a move that will eliminate 2,000 to 2,600 jobs. Earlier this year, the powerful

Oilfield Workers Trade Union pledged not to strike the refinery should the government take over operations. We believe the unanticipated large loss of jobs, however, could prompt the union to reconsider its decision. With the country's unemployment rate already topping 20 percent, labor actions by a disgruntled rank and file also cannot be ruled out, with or without union support. 25X1

International Finance

Zambian-Soviet Discussions on Debt Rescheduling

Zambia is sending a delegation to Moscow this week to discuss rescheduling of Zambian debt to the USSR, according to US Embassy sources. These negotiations follow a recent rescheduling of nearly $200 million in debts that Zambia owes to Western creditors. 25X1

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New Multilateral Development Bank

Representatives of 25 developing countries agreed on a draft outline of a new multilateral development bank—known as the South Bank—that would promote cooperation between poorer countries in the Southern Hemisphere. At a meeting in Caracas in late August, the delegates approved an outline for the bank that was originally drawn up by technical experts in New York last April. According to press reports, the South Bank's primary function will be to provide export credit guarantees and support for trade compensation agreements between developing countries. The bank is to be funded solely by developing countries, with total paid-in capital of $1.5 billion in hard currency and a further quota in the currency of member countries. Additional funds will be raised on international capital markets and lent at market interest rates to cover the bank's cost of funds. 25X1 25X1

Actual operation of the South Bank, however, remains several years off. Discussions are still at the technical stage, and an intergovernmental group headed by the chairman of the Group of 77 has been set up to undertake further studies of the bank. A major problem is the lack of foreign exchange available in many developing countries for the bank's capital. Press reports note that a number of countries expect the wealthier oil-producing developing nations to provide most of the input of funds. Some OPEC countries—notably Saudi Arabia—have already rejected the creation of a South Bank, stating that it would only spread existing development resources more thinly. 25X1

Global and Regional Developments

East Germany and West Germany Begin Air Service

On 30 August West German and East German airlines began the first bilateral air service between the two countries—13 days of flights from West German cities to the Leipzig Trade Fair. Lufthansa is flying between Leipzig and Frankfurt, while the East German airline Interflug is serving Hamburg, 25X1

Duesseldorf, and Stuttgart. The flights are circuitous—over Czechoslovakia and the Baltic Sea—because the Allies and the Soviets under postwar rights control flights over the intra-German frontier. [redacted] 25X1

[redacted] 25X1

Lufthansa probably wants to serve West German travelers, who must fly foreign flag carriers or take surface transport. The East Germans probably see access to West Germany as a lucrative source of hard currency and a means of broadening their access to West European markets. Cross-border flights would require four-power approval, however, and service to West Berlin is unlikely in view of Soviet and Western sensitivity over the city's status. The airlines for the time being may have to remain content with service to and from Leipzig during the semiannual trade fairs. [redacted] 25X1

India and China Sign Trade Agreement

[redacted] 25X1

In the first trade agreement between the two countries since their 1962 war; China last month agreed to lower tariffs by granting most-favored-nation status to Indian exporters. According to press reports, Indian businessmen hope to expand sales of iron ore, industrial machinery, glass, and other products, possibly including industrial control equipment that incorporates advanced technology. India also hopes to purchase edible oil from China and may increase imports of Chinese pharmaceuticals and nonferrous metals. Some Indian businessmen expect total trade to increase to $1 billion annually from the current low level of $150 million. We believe, however, the relatively poor quality of Indian products together with political strains—border disputes, Indian suspicion of Chinese support for Pakistan, and Chinese concern about India's ties with the USSR—probably will inhibit such a major expansion of trade. Indian officials supported trade negotiations in part to develop a more favorable atmosphere for the next round of talks on the countries' longstanding boundary dispute. [redacted] 25X1

National Developments

Developed Countries

Israeli Finance Minister Caves In to Labor Demands

[redacted] 25X1

Finance Minister Cohen-Orgad last week caved in to labor demands to adjust tax brackets upward to account for inflation. In recent years, tax brackets have been adjusted fully to increases in consumer prices. To dampen Israel's spiraling inflation, Cohen-Orgad announced in mid-August that he would not adjust tax brackets when cost-of-living increases were paid on 1 September, but he backed down in the face of threatened widespread strike action. Officials of the Histadrut, the large trade union organization, have the power to stymie any government efforts to implement an austerity package. Their stance on the tax bracket issue demonstrates their unwillingness to allow workers' real wages to be eroded and underscores the difficulty that the next Israeli government, no matter what its composition, is certain to face in trying to implement major economic reforms. [redacted] 25X1

Nakasone Names Economic Advisory Panel

[redacted] Japanese 25X6
Prime Minister Nakasone has set up a group of economic advisers charged with formulating policies to boost domestic demand without raising taxes or violating the government's commitment to administrative reform. The panel's report is due in late October, just before Liberal Democratic Party presidential candidates must file for the November election, and Nakasone probably hopes it will deprive his rivals of a major target. Nakasone's strongest potential opponent, Kiichi Miyazawa, has advocated a program to boost growth through public works spending. Two other rivals, Foreign Minister Abe and Economic 25X1
Planning Agency Director General Komoto, also have called for expansionary economic policies. Nakasone also may be shoring up support among his own backers, especially in the Tanaka faction, many of whom have called for economic stimulus. [redacted] 25X1

Shorter Workweek in Austrian Printing Industry

Management and labor in the printing industry recently agreed to a 38-hour workweek—one-half hour less than the recent settlement in the German metalworking and printing industries—to take effect next April. The costs of the reduction will be divided, since the 5-percent cut in the number of hours worked will be partially compensated by a 2.5-percent decrease in wages. 25X1
Negotiators also included an escape clause for firms with fewer than 20 employees, and employers will not be required to pay overtime for the first two hours after the 38th. If this contract runs smoothly, similar arrangements in the rest of Austrian industry are likely to follow. [redacted] 25X1

Less Developed Countries

De la Madrid's State of the Union Speech

Mexican President de la Madrid's address last Saturday highlighted economic achievements but recognized deteriorating living standards and called for continuing sacrifices from the Mexican people. Among accomplishments he cited were lower public spending, improved foreign payments, and progress on rescheduling foreign debt. The tone and content of the speech are likely to increase domestic and foreign confidence in the President's ability to handle 25X1
still-serious economic problems and to meet foreign-debt obligations. Although two years of IMF-sponsored stabilization policies have improved financial accounts, little headway has been made on inflation. De la Madrid has convinced most Mexicans that tough austerity policies are fair and equitable, despite some grumbling from private-sector spokesmen who complain of excessive state controls. The speech will help Mexico conclude a preliminary agreement with representatives of international banks to reschedule half of its $90 billion foreign debt. [redacted] 25X1

Housing Finance Crisis in Brazil

Brazil's government-administered National Housing Finance System (SFH), which has financed purchases of more than 4 million homes over the past 20 years, is experiencing liquidity problems. A major source of SFH financing comes from payments by employers into a national severance and retirement fund. Under the weight of Brazil's current recession, this fund has declined 25X1
sharply as many laid-off workers have withdrawn their shares to blunt the

impact of unemployment. In addition, loan repayments—another major SFH resource—have slowed as the rapid rise in mortgage payments, which are fully indexed to inflation, exceed salary increases of middle-class homeowners, which are restrained by last year's wage law. [redacted] 25X1

The crisis is becoming a major political issue in Brazil's current presidential campaign. According to the US Embassy, opposition to high mortage payments is becoming more widespread among homeowners, a factor that could cause trouble for the government party in January's election. The erosion of the SFH's resource base also has caused a decline in new housing activity, severely hurting the labor-intensive construction sector. Both presidential candidates—Paulo Maluf of the government party and Tancredo Neves of the opposition—have pledged to deal with the financial problems of both homeowners and the SFH. The government may be forced before the election to take steps to shore up the system, and most likely will choose to ease its wage restraint policies or subsidize the SFH with public funds. In either case, the actions would aggravate inflationary pressures and undercut Brazil's IMF-supported stabilization program. [redacted] 25X1

Syria Doubling Wheat Imports

[redacted] 25X1

Syria is currently in the market for 1.5 million metric tons of wheat [redacted] 25X1
[redacted] This quantity, plus earlier purchases, is double the amount 25X1
that Syria imported during the 1983/84 marketing year and over four times the volume purchased in 1982/83. Syria urgently needs these imports because of a poor harvest this year and low carryover stocks. Canada and France have been the major Syrian suppliers in the past, but the United States, Argentina, and Australia are likely to supply large portions of this year's increase. Although foreign exchange reserves have been low for several years and Syria's major exports, oil and cotton, are suffering from soft world market conditions, Syria has assured potential suppliers that irrevocable letters of credit will be opened at major banks 10 days before the wheat is scheduled for loading. [redacted] 25X1

Qadhafi Inaugurates Great Manmade River Project

[redacted] 25X1

Colonel Qadhafi gave the official go-ahead last week for his priority water relocation project. The Great Manmade River scheme is designed to pipe 3 million cubic meters of water per day over 1,900 kilometers from desert wells in the south to water-short coastal cities. South Korean and US firms will construct the first phase of the project, scheduled for completion in 1989. We believe, however, that Libya's financial crunch and the huge scale of the project—one of the largest construction projects in the world with a price tag ranging from $7 billion to $9 billion—probably will delay completion by at least several years. The project probably will cause additional discontent with the regime's economic policies if Qadhafi imposes harsh austerity policies to help finance the first phase. [redacted] 25X1

Malaysia Planning To Double Rubber Output

[redacted] 25X1

Malaysia, the world's largest natural rubber producer, is planning to double its annual production to 2.7 million tons by the year 2000. Because most rubber plantation companies have been diversifying into more profitable cash crops—

especially palm oil—over the past few years, Kuala Lumpur is seeking to expand and upgrade the small-holder sector, which currently produces about 60 percent of Malaysia's rubber. Government efforts to group the small holders into miniestates under the management of experienced contractors already are under way. Malaysia recently increased funds for rubber replanting by 50 percent to more than $200 million for the next two years. [redacted] 25X1

We believe the proposed expansion is overly optimistic. The long-term outlook for rubber export prices is uncertain, and Malaysia faces increased competition from Indonesia and Thailand, which are expanding production. In addition, Kuala Lumpur has not reduced the export tax on rubber, a major disincentive to producers. Moreover, Malaysia, with a population of only 15 million, will have trouble finding sufficient low-cost labor to work the miniestates. [redacted] 25X1

Communist

Soviet Grain Shortfall

[redacted]

Adverse weather since April has cut the grain crop this year to an estimated 185 million tons—45 million tons short of the amount Moscow needs to sustain growth in meat and dairy products. Because two months remain in the season, however, a crop of this size is by no means guaranteed. Extremely wet weather during the remaining two months of the season or an early onset of winter could force farmers to cut grainfields prematurely or to abandon them entirely. Such problems in the past have resulted in losses estimated to be as much as 10 million tons. [redacted] 25X1 25X1

Soviet grain purchases for the marketing year that began on 1 July already stand at some 21 million to 23 million tons, half of the USSR's estimated needs. The Soviets have been most active in the US grain market, where they have purchased over 12 million tons since early July. The heavy buying so far suggests that Moscow expects to import more than 45 million tons. It also may be planning some action—such as stepped-up attacks against Afghan insurgents in Pakistan, or the introduction of combat aircraft into Nicaragua—that it thinks could precipitate a US embargo. [redacted] 25X1

The USSR should have little difficulty importing the near-record quantity of grain needed to meet its estimated domestic requirements. Hard currency reserves were at record levels earlier this year, and grain financing is easy to obtain. In addition, Moscow is continuing to upgrade its port offloading facilities and has already demonstrated a capability to import 50 million tons of grain annually. Barring an embargo, the United States will supply the largest share of grain—at least 15 million tons—to the USSR during this marketing year. Less-than-favorable weather has cut grain output in Canada and Argentina and will prevent the Soviets from satisfying sharp increases in Soviet purchases while supplying their other export customers. [redacted] 25X1

Yugoslav Concerns Over Austerity

[redacted]

The US Embassy reports official concern in Belgrade over the increasingly negative public reaction to the declining standard of living. Austerity measures began to hit consumers for the first time last year as real consumption fell by 2 percent. As the situation has deteriorated, the Yugoslav media increasingly have voiced concern over the nation's mood, recently citing warnings that: 25X1

- Industrial workers who have been hardest hit by economic austerity engaged in 80 percent more strikes in 1983 than in 1982.
- Applications for financial assistance to pay rent and utilities have tripled in Belgrade this summer, while 30 percent of the monthly rents in some areas have not been paid.
- Meat consumption is the lowest in eight years. [redacted] 25X1

The regime remains committed for now to implementing the austerity measures under the IMF-supported standby program, although it is worried about further undercutting the standard of living. A drop of 9 percent in real incomes in the first half of 1984 suggests that real consumption will fall by at least another 2 percent this year. Consumers will be hurt especially by wage cuts in unprofitable or indebted firms and removal of price controls. Many households that have depended on second incomes to get by are now feeling the pinch. [redacted] 25X1

East European Hard Currency Trade Surplus

[redacted]

Eastern Europe appears headed toward a record hard currency trade surplus for the third consecutive year. In the first half of 1984, the region's surplus rose to an estimated $2.6 billion compared with $1.8 billion in the same period last year, putting Eastern Europe in a good position to surpass the 1983 surplus of $4.4 billion. Although recently bankers seem more willing to extend trade 25X1

Eastern Europe: Hard Currency Trade, January-June, 1983 and 1984

Million US $ (except where noted)

	Imports			Exports			Balance	
	1983	1984	Percent Change	1983	1984	Percent Change	1983	1984
Total	**14,913**	**14,764**	**−1.0**	**16,738**	**17,317**	**3.5**	**1,825**	**2,553**
Bulgaria [a]	1,026	1,050	2.3	1,319	1,300	−1.4	293	250
Czechoslovakia [a]	1,493	1,560	4.5	1,991	2,160	8.5	498	600
East Germany [b]	2,700	2,484	−8.0	2,719	2,619	−3.7	19	135
Hungary	1,999	1,895	−5.2	2,259	2,156	−4.6	260	261
Poland	2,019	2,152	6.6	2,751	2,957	7.5	732	805
Romania	2,164	2,100	−3.0	2,904	3,000	3.3	740	900
Yugoslavia	3,512	3,523	−0.3	2,795	3,125	11.8	−717	−398

[a] Estimates for trade with nonsocialist countries.
[b] Trade with OECD countries only. In recent years, East Germany has run large surpluses with developing countries.

[redacted] 25X1

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financing to most East European countries, imports continue to decline as some regimes apparently still place a higher priority on debt reduction than on more Western imports. Exports rose by a meager 3.5 percent despite the strong economic upswing in the West. 25X1

Yugoslavia showed the largest improvement by boosting exports while holding imports constant. Eastern Europe's other troubled debtors, Poland and Romania, again achieved large surpluses although Warsaw permitted some increase in imports. East Germany improved its overall balance by moving from a $290 million deficit with West Germany in the first half of 1983 to a $190 million surplus this year. A large cutback in imports from West Germany was partially offset by increased purchases from other OECD countries. Hungary's export performance remains disappointing, and, like last year, Budapest probably will not achieve its planned hard currency trade surplus. Czechoslovakia's surplus is consistent with Prague's plan to reduce its already small debt by some $600 million this year. 25X1

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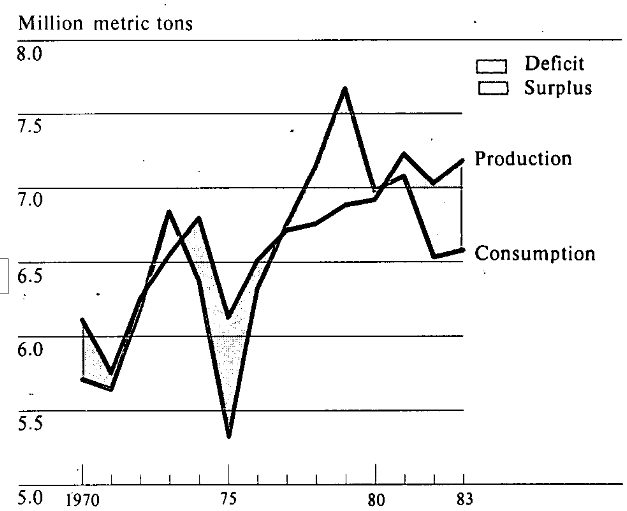
International Copper: Fallout From a Depressed Market [1] [redacted] 25X1

Although conditions in the world copper market have improved somewhat over the past year, weak demand growth and abundant capacity expected through the remaining 1980s will keep copper prices low and put a crimp in the export earnings of many LDCs.[2] Profits of Western producers also will suffer from low prices and increased competition, particularly from LDC producers. Pressures to protect the domestic copper industry have already begun to percolate in the United States, where producers recently won a favorable decision from the International Trade Commission that recommended substantial curbs on copper imports. [redacted] 25X1

Refined Copper: Non-Communist Consumption and Production, 1970-83



[redacted] 25X1

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Demand Depressed

The 1980-82 recession and increasing use of copper substitutes over the same period took a severe toll on copper demand. Non-Communist refined copper demand fell by more than 1.1 million metric tons between 1979 and 1982, a 15-percent decline.[2] Most of the falloff in demand occurred in the OECD countries, where consumption remains well below previous levels. Copper demand in the LDCs has also slumped as a result of the global recession, with the greatest impact occurring in 1982. After experiencing a twofold consumption increase and a doubling of its share of world use during the period of 1971-80, LDC copper demand fell by 100,000 tons in 1982 and was little changed in 1983. [redacted] 25X1

Although much of the falloff in world copper demand resulted from the slowdown in business activity in the developed countries, a large part of the reduction also was caused by a continuing decline in copper-intensity factors—that is, copper usage per unit of economic activity. Copper-intensity factors for the period of 1979-83 averaged 7 percent below that of the previous five-year period and roughly one-fourth lower than intensity factors of the early 1960s. Had intensity factors been maintained at the 1974-78 level, more than 900,000 additional tons of copper would have been used by OECD countries by yearend 1983. The main reason for the reduced intensity pattern has been the availability of inexpensive substitutes and the trend toward lighter weight in the transportation sector. [redacted] 25X1

Production and Stocks Up

Despite the 1.1-million-ton drop in refined-copper usage in 1979-83, world mined copper production

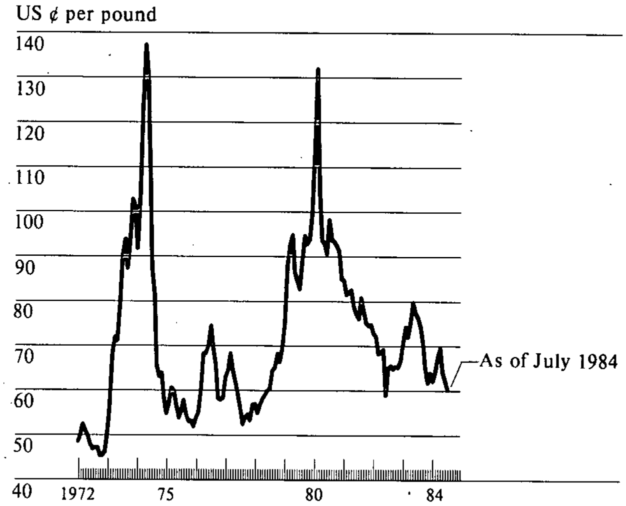
[1] This article summarizes a forthcoming Research Paper. [redacted] 25X1
[2] In this article, both "world" and "non-Communist" refer to the non-Communist world. [redacted] 25X1

Non-Communist Countries: Mined Copper Production

Thousand metric tons

	1970	1980	1983
Total	**5,065**	**5,925**	**6,006**
OECD	2,594	2,383	2,198
United States	1,560	1,181	1,046
Canada	610	716	615
Australia	158	244	265
Other	266	242	272
LDC	2,316	3,330	3,592
Chile	692	1,068	1,257
Zambia	684	596	515
Zaire	387	460	503
Peru	212	367	322
Philippines	160	305	271
Mexico	61	175	193
Papua New Guinea	0	147	183
Other	120	212	348
Other	155	212	216
South Africa	144	212	211
Other	11	0	5
LDC output as a percent of total	46	56	60

Copper Prices, 1972-84 [a]



[a] LME monthly average.

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was as high in 1983 as in 1979, a record year for copper consumption. As a result, copper stocks in late 1983 were 40 percent higher than at yearend 1979.

LDC copper producers were a major cause of the surplus. As a group, they raised mined copper output by 100,000 tons a year in 1980 and 1981 and 200,000 tons in 1982. Even the small 1983 decline was partially a result of technical problems at Zambian mines and strikes by copper workers in Peru, rather than a fundamental decision to reduce excess production. With the exception of Zambia, Peru, and the Philippines, all LDC copper producers in 1983 either maintained or increased production levels in comparison with 1979. The largest gainer was Chile, now the world's leading copper producer, where output increased by 18 percent.

In contrast to LDC output increases, producers in the developed countries cut back sharply. According to the US Bureau of Mines, by late summer 1982 US copper mines were operating at roughly 50 percent of capacity. While capacity utilization rates improved to 65 percent by yearend 1983, US copper production still was down one-third from 1981 levels. In Canada, the world's third-largest copper producer, mine output dropped by about 75,000 tons during 1982-83. Australia was the only leading developed-country producer of copper to expand output during this period.

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Coming Out of the Recession

Increased worldwide economic activity has significantly improved copper demand during the first half of this year. Through June, non-Communist copper demand grew by about 6 percent in comparison with the same period last year. In both the United States and Japan, which together account

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for more than 45 percent of non-Communist consumption, copper demand rose more sharply. The 10-percent increase during the first half of 1984 largely was a result of US consumer expenditures in the housing and automotive sectors and vigorous growth in Japanese industrial production. Forecasters expect slower industrial growth in 1985, leading many industry observers to believe that the copper recovery will be short lived. [redacted]

Prices, after climbing steadily to nearly 70 cents per pound earlier this year, have fallen back. At midyear, prices were averaging only 65 cents per pound, and by the end of July they had dropped to 60 cents per pound. [redacted]

Copper prices will rise slowly if at all over the next year, because the market remains substantially oversupplied. In spite of significant drawdowns, total commercial stocks remain high at 1.2 million tons, and ample standby capacity will continue to hold down prices. [redacted] more than 900,000 tons of copper mining capacity—14 percent of non-Communist 1983 consumption—is idle. If prices begin to show a sustained rise, this capacity could be quickly reactivated. [redacted]

Looking Ahead

We believe copper demand over the longer term will be particularly constrained by falling intensity factors in the developed countries, primarily as a result of changing technologies and material substitution:

- Advances in electronics and design have permitted the use of thinner gauge wires in telephone equipment.
- Improvements in multiplexing—the process of sending multiple conversations through a single telephone circuit—are reducing the need for additional cables.
- Automobile and aluminum industry experts predict nearly a 50-percent increase in aluminum usage in automotive applications by 1990; much of the aluminum will replace copper, particularly in radiators.
- Copper also faces a major challenge from fiber optics, which is expected to make substantial inroads in communications. Copper-intensity factors will continue to rise somewhat in the LDCs, but total LDC copper demand is expected to remain weak because of slow-growth prospects and possible attempts by LDCs to take advantage of technological innovations. [redacted]

As a result of these factors, we estimate that total world copper demand by 1990 will reach only about 7.5 million tons. That level would be below the amount consumed in 1979, copper's peak year of demand, and would represent an average annual growth rate of only about 2 percent over present depressed levels. [redacted]

Increase in copper production capacities over the balance of the decade—mostly occurring in Third World countries—will about match the modest recovery in world copper demand, further entrenching the over-supply situation. About 700,000 tons of new mining capacity is planned by 1990, with nearly two-thirds of the increase occurring in the LDCs. Large projects in Argentina, Brazil, Chile, and Peru will account for 380,000 tons of the planned increase. With only a 900,000-ton increase in demand projected, surplus mining capacity will continue to pose a serious problem. [redacted]

[redacted]

LDCs are planning to increase their smelting and refining capacities by roughly 900,000 tons and 650,000 tons, respectively, by 1990. If these expansion plans are realized, the LDCs will have the capability to process more than 80 percent of their copper output through the smelting stage and nearly 65 percent through the refining stage. This compares with 1983 smelting and refining capabilities of 72 and 57 percent, respectively. [redacted]

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Selected LDC Copper Mining Projects

Country	Project	New Capacity *(thousand metric tons)*	Remarks
Argentina	El Pachon	100	This project could come onstream by the late 1980s, but development is on hold until the market improves.
Brazil	Caraiba	90	This expansion project probably will be completed by 1990.
Chile	Chuquicamata	100	Expected to be completed in 1987.
Peru	Tintaya	40	Tintaya, which is state-owned, will be completed by 1985.
Papua New Guinea	Tedi	50	This project has been postponed for two years and will not be completed until late in the decade.

[redacted]

Most of the increase in refining and smelting capacity will occur in the industrializing LDCs:
- Brazil plans to expand capacity at the Caraiba smelter/refinery to 150,000 tons by 1986, up from 50,000 tons in 1983.
- The Philippines' PASAR smelter/refinery, which began operations late last year, will reach rated capacity of 135,000 tons by 1986.
- Mexico's La Caridad smelter probably will come onstream next year with 180,000 tons of capacity.

The capacity increases in Brazil and Mexico are of particular interest because they are also users of refined copper. With its expanded capacity, Brazil will be able to satisfy about 75 percent of its refined copper needs and will be able to reduce imports accordingly. Mexico will be able to satisfy all of its copper requirements and have substantial amounts available for export. [redacted] 25X1

Implications

Weak demand growth and abundant capacities will hinder LDC attempts to export their way out of the debt problem. Copper is the Third World's most important metal export. With annual sales of between $5 billion and $6 billion, it ranks behind only petroleum and coffee as the leading foreign exchange earner for the LDCs. Growing financial difficulties have magnified copper's importance in the earnings picture of many LDC exporters. The Third World countries hardest hit by this market outlook include Zambia, Zaire, Chile, Peru, and the Philippines—all of which have serious debt problems. [redacted] 25X1

LDC moves to expand production will increase competition for Western producers. Efforts to protect the domestic producers have already begun to percolate in the United States, where producers recently won a favorable decision from the International Trade Commission that recommended substantial curbs on copper imports. [redacted] 25X1 25X1

[redacted] 25X1

International Financial Situation: Latin American Financial Update [redacted] 25X1

Discussions among Latin American debtors continue to indicate little support for joint action against creditors. We remain concerned, however, that Argentina and the banks are heading for another end-of-quarter clash in September; Bolivia, Chile, and Colombia also could bump heads with lenders. The IMF is facing requests from Brazil and Chile to relax current economic-performance targets, while Argentina, Bolivia, and Colombia have been unable to establish IMF programs and are coming under increasing pressure from commercial banks. In contrast, Venezuela is holding multiyear rescheduling talks with its bank creditors in the absence of direct IMF participation, and Mexico has reached an agreement with its bank advisory committee that allows for a multiyear rescheduling of public debt. [redacted] 25X1

Cartagena Group Meets

In mid-August, Latin American countries held their first follow-up session to the June conclave at Cartagena. During low-key discussions, technical advisers exchanged information on the progress of their debt negotiations with both official and bank creditors. The foreign and economic ministers of the 11 Latin American countries in the Cartagena group are scheduled to meet in Argentina on 13-14 September to discuss common debt problems. We believe they will focus largely on devising proposals to ease their repayment burdens and to present to the industrial countries at the IMF/IBRD annual meetings in September. Argentina and other Cartagena participants that are involved in tense IMF negotiations probably will try to elicit support for their attempts to water down Fund proposals. [redacted] 25X1

Potential Troublespots

The failure to resolve differences between several South American countries and the Fund at the coming meetings could lead to resurgent financial difficulties. We remain particularly concerned about:

- An Argentine payments crunch resulting from a $750 million repayment on a bridge loan due on 15 September, and at least $900 million in interest arrearages that must be brought current by 30 September.
- A termination of commercial bank debt talks with Bolivia if La Paz does not resume payments by mid-October, when the 90-day payments standstill granted by bankers ends.
- A possible clash between Chile and the IMF and banks over the relaxation of stabilization policies and new financial support.
- An impending standstill on payments by Colombia because of dwindling reserves and the inability to obtain new credit. [redacted] 25X1

Developments With IMF Programs

Brazil is currently renegotiating monetary performance targets with an IMF technical team. [redacted] 25X1
[redacted] the Fund—impressed by Brazil's large trade surplus and progress in limiting the growth of public borrowing—has agreed to 25X1

increase the July-December monetary growth goal from a 50-percent to a 100-percent annual rate. In return, Brasilia probably will agree to some fiscal tightening. Depressed domestic economic conditions are also likely to cause Brazil to bargain hard for a relaxation of austerity policies during IMF talks before debt negotiations with banks this fall, especially in the face of the coming presidential elections. [redacted]

Chile's willingness to remain in compliance with its IMF program will be the key to resolving a tightening financial bind. Finance Minister Escobar says lower copper prices and rising interest rates will cause debt repayment difficulties by yearend unless bankers agree to provide an additional $500 million in new money. Meanwhile, Escobar claims that strong political pressure for growth is forcing him to request a new—and less restrictive—two-year IMF program that would begin in December. Santiago will start negotiations with the IMF in late September and ask for a larger budget deficit and greater IMF lending. Escobar has announced he will proceed unilaterally, without Fund support, to increase the budget deficit. We believe he is using such threats to improve his negotiating posture, but Chile remains willing to make good faith moves—such as a devaluation—to relax IMF resistance. According to US Embassy reports, banker resistance to new lending and inflexibility by the IMF could lead Chile to politicize the debt issue. Under such conditions, Santiago could attempt to tie its debt repayment to export performance, increase its import tariffs, and institute other nationalistic economic policies. [redacted]

Argentina was forced on 15 August to repay $125 million to its major creditor banks after talks with the IMF failed to achieve sufficient progress. In our view, the banks are signaling Buenos Aires that their patience is at an end and that only documented progress with the Fund will move them to provide new money. The Alfonsin government, however, continues to struggle to establish a credible set of economic policy adjustments that will satisfy the IMF. The major stumblingblocks, according to the financial press, are the size of the public-sector deficit, wage adjustments, and monetary and exchange-rate policies. Although Alfonsin probably would rather reach an agreement with the Fund than suffer the consequences of being cut off from bank funding, we are skeptical that his economic team can devise a comprehensive austerity program that also fulfills his promise of providing real wage increases of 6 to 8 percent. [redacted]

Colombia continues to resist a formal IMF program. Consequently, a $700 million energy-project loan package sought by Bogota this year may be held up unless an IMF-supported program is in place. [redacted] Even if Bogota is able to devise an informal economic program with the help of the IMF, we do not believe this would be sufficient to boost creditor confidence and renew voluntary lending. [redacted]

Bolivia is now suffering the consequences of its failure to reach an agreement with the IMF. [redacted] Without the IMF approval, we believe talks on debt renegotiation and new credits will remain stalled, worsening the economic situation and weakening the civilian government. [redacted]

Multiyear Reschedulings

Mexico and its bank advisory committee have reached tentative agreement on a multiyear rescheduling of the public debt. They have reportedly agreed that after the IMF stabilization program ends in 1985 the Fund will continue consultations with the government and will forward semiannual economic assessments to an expanded banking committee. [redacted]

[redacted]

[redacted]

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Venezuela has been closely watching the progress of Mexico's negotiations and hopes to use that agreement as a precedent. Negotiations between Venezuela and its bank advisory committee during the past month suggest that the banks have accepted the principle of a multiyear rescheduling, including longer repayment periods, without an IMF agreement. The terms remain to be determined.

[redacted]

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New Zealand: Economic Problems Facing the New Government [redacted] 25X1

Prime Minister Lange, in office for less than two months, already has resolved a foreign exchange crisis, but he faces difficulty in shaking New Zealand out of its economic malaise. The current economic recovery is unlikely to continue into 1985, and unemployment and inflation probably will be on the rise again in the coming months. At the same time, Lange does not have much latitude to prime the economy with traditional monetary and fiscal policies because of already-large government budget and current account deficits. We believe that Lange could face considerable political heat over economic issues early next year, both from the opposition National Party and the left wing of his own party. [redacted]

Lange's Economic Inheritance

Lange inherits an economy plagued by serious weaknesses. Real output has grown less than 1 percent a year on average over the last decade, with real per capita income in 1983 only 2.3 percent higher than when former Prime Minister Muldoon took office in 1975. The economy remains heavily dependent on agricultural production, which accounts for 70 percent of export earnings. In addition, New Zealand's growth and financial position have been severely affected by trade restrictions against New Zealand's agricultural exports by other OECD members and the oil price increases of 1979-80. [redacted]

Lange assumes office during a brief respite from New Zealand's chronic economic ills. The highly respected New Zealand Institute for Economic Research estimates that real GDP growth reached a 7-percent annual rate in the last half of fiscal 1983 (April 1983–March 1984). In addition, Lange has impressed observers by resolving a foreign exchange crisis brought on by New Zealand's weak external accounts and indecisiveness by Muldoon. In mid-July, he devalued the New Zealand dollar by 20 percent, ending heavy speculation against New Zealand's currency—which followed Muldoon's announcement in June that he would hold early elections. Lange undoubtedly hopes to use the economic recovery and the afterglow of the devaluation to political advantage in the coming months. [redacted] 25X1

New Zealand's Pressing Financial Problems

Lange has stated that his first priority on the economic front will be New Zealand's deeply rooted financial problems. Despite favorable international prices for New Zealand's exports in 1979, the current account remained in deficit. Since then, international price trends have worked to New Zealand's disadvantage—boosting the cost of imports while lowering the value of New Zealand's exports. Because Wellington persisted in overvaluing the exchange rate, these adverse price trends expanded the current account deficit significantly and required that the government borrow heavily overseas. [redacted] 25X1

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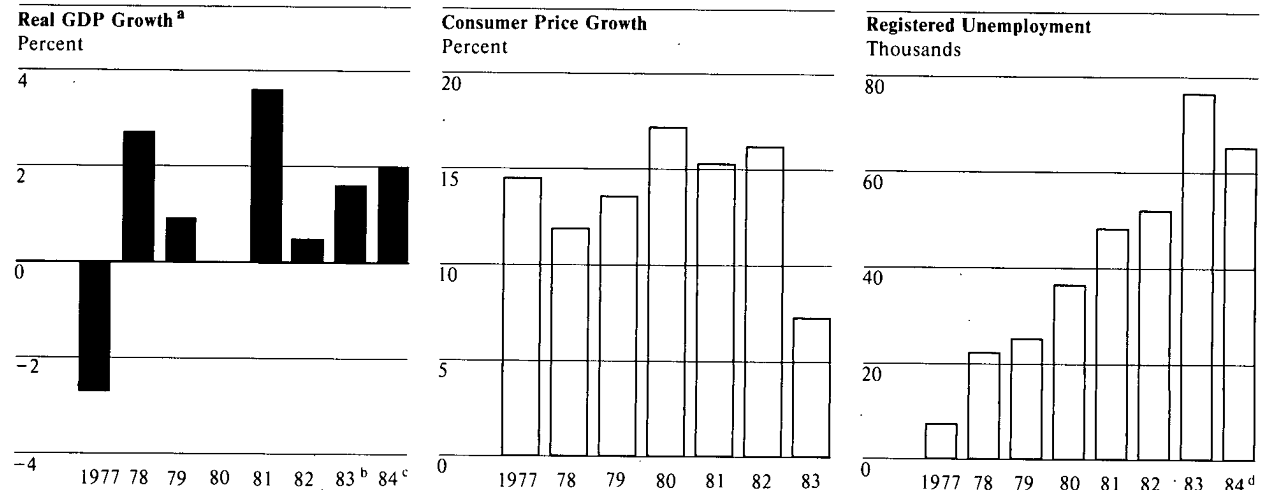
[redacted] financing growth with foreign borrowing is becoming more difficult. The total foreign debt is approaching \$12 billion—about half of GDP. Measured by this ratio, New Zealand's debt burden is on the same order as financially troubled LDCs such as the Philippines, Mexico, and Brazil. Although the term structure of the debt is not yet a problem, the bulk of recent borrowing is in the form of short- and medium-term loans. As a result, the average loan maturity has shortened considerably, with nearly two-thirds of the government's foreign debt due in the next five years. Debt-service payments now exceed the cost of oil imports, and the ratio of 25X1 25X1

New Zealand: Economic Indicators



[a] Fiscal year beginning 1 April of the year stated.
[b] Estimated.
[c] Projected.
[d] April.

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debt service to exports is 31 percent—up from 20 percent in 1979. As a result of the heavy foreign borrowing, a prominent US financial-rating service lowered New Zealand's credit rating in mid-1983.

On the domestic front, Lange faces equally burdensome financial problems. New Zealand's $2.1 billion budget deficit prohibits Lange from simply spending his way to higher growth—the prescription argued for by the Labor Party's left wing. The deficit is expected to reach 9 to 10 percent of GDP in fiscal 1984—double that in the United States. According to the IMF, only part of the deficit is accounted for by the business cycle; nearly two-thirds would remain even if the economy grew at a markedly higher rate for a sustained period. The cost to New Zealand of continuing the deficit at such a level is a combination of high real interest rates, high rates of monetary expansion and subsequent inflation, and further pressures on the country's external payments.

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Correcting the burgeoning deficit requires both revenue and expenditure measures. Personal income tax rates were cut sharply in late 1982, and there is growing concern that the tax base is too narrow. In addition, Wellington has virtually no control over a large and rising segment of spending—such as interest payments on the public debt. This nondiscretionary spending is rising so fast that large cuts would have to be made in politically popular social welfare payments just to keep total spending constant.

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Mapping Out an Economic Program

How Labor's economic program evolves in the months ahead will depend on how Lange balances the spendthrift ideology of his party with the conservative views of government technocrats such

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New Zealand: Balance of Payments [a]

Million US $

	1980	1981	1982	1983 [b]
Current account	**−847**	**−1,433**	**−1,486**	**−1,044**
Trade balance	487	−24	−102	311
Exports	5,490	5,521	5,256	5,554
Of which:				
Wool	874	755	706	732
Lamb and mutton	747	735	683	700
Butter	403	436	490	332
Beef and veal	521	491	530	468
Imports	5,003	5,545	5,358	5,243
Crude oil and refined products	1,145	1,015	918	800
Net services and transfers	−1,334	−1,409	−1,384	−1,355
Net investment income	−569	−632	−735	−850
Capital account	**961**	**1,559**	**1,898**	**918**
Government borrowing for balance-of-payments purposes [c]	1,607	1,837	2,139	1,068
Other long-term capital	−667	−630	−1,182	−1,100
Of which:				
Direct investment	73	229	NA	NA
Repayments of official borrowings	−929	−1,175	−1,165	−1,330
Other short-term capital [d]	21	352	941	950
Foreign exchange reserves [e]	**343**	**388**	**1,073**	**727**

[a] Fiscal year beginning 1 April of the year stated.
[b] Estimated.
[c] Includes Reserve Bank borrowings.
[d] Including errors and omissions.
[e] End of period.

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as new Minister of Finance Roger Douglas. According to the US Embassy, the individualistic Douglas is the most conservative member of Lange's Cabinet, and we believe Douglas will push hard for policies to trim the deficit and open the New Zealand economy to more international competition. Past experience suggests that this will not be easy. Douglas was forced to resign from the shadow cabinet in 1980 after issuing a conservative "opposition" budget that had not been cleared with Labor Party leaders.

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Lange's first budget in October will be an important indicator of how Labor proposes to tackle the country's economic ills. Early indications are that Lange will face considerable pressure from the left wing of his party to follow more expansionary policies. During the campaign, he promised to redirect government spending to social programs. He is also likely to face pressures from organized labor to increase wages and to increase protection

New Zealand: Longer Term Issues

International Competitiveness

A large part of New Zealand's external payments problems can be traced to the country's high level of import protection, which has left domestic firms incapable of competing in world markets. The new Finance Minister and most government technocrats recognize the need for major trade liberalization, and Wellington has made considerable progress on this front over the past several years. For example, the Closer Economic Relations Agreement with Australia will phase out all trade barriers between the two countries by 1995, and New Zealand is obligated under the GATT Code on Subsidies and Countervailing Duties to phase out export assistance. [redacted]

In addition, the Muldoon government recently instituted a plan to move the country away from import licensing to a system of tariff protection, with the idea of lowering the overall level of protection. Lange recently accelerated this move and also decided to continue the phaseout of the $1 billion a year export-subsidy program. Still, Lange was forced by leftwing parliamentarians to extend the phaseout by two years until 1987 in the hope of softening the adverse impact on employment. In our judgment, Lange will find it increasingly difficult to maintain this momentum when the economy starts to sputter. [redacted]

Wage Setting

The present national award system of setting wages—heavily supported by organized labor—does not provide flexibility in the labor market. Under the system, wage awards in all industries closely follow a national pattern with wage increases tending to be bunched together around the national average. As a result, little incentive exists for labor to migrate from failing to prosperous industries. Although government economists recognize the need to reform the system, Lange will be under intense pressure from his union backers not to tamper with the system. [redacted]

from imports. Unions are likely to point to stiff restrictions in New Zealand's export markets as a justification for increased protection. [redacted] 25X1

Lange is aware that his economic policy dilemma between pragmatism and political expediency closely parallels that of his Australian counterpart Bob Hawke. It appears that Lange is impressed with Hawke's political skills and plans to imitate Hawke's approach by keeping economic policy positions vague. If so, he probably will move ahead slowly, fighting—and often winning—small political battles along the way while appearing "presidential" in style. Lange intends to use an Australian-style economic "summit conference" next week to promote a pragmatic approach to economic policy and head off criticism by party radicals. Lange has already met with Hawke to discuss ways of keeping his party's left wing under control. [redacted] 25X1 25X1

Short-Term Economic Outlook

The election of the Labor government may have temporarily eased the fears of New Zealand's creditors. [redacted] many bankers believe that Labor will introduce more market-oriented economic policies than those implemented by former Prime Minister Muldoon. The devaluation, the lifting of controls on interest rates, and plans to trim subsidies—all moves suggested by the IMF in consultations with the government earlier this year—have strengthened this impression. [redacted] 25X1 25X1 25X1

Despite the current recovery, however, New Zealand's short-term prospects are not bright. Most economists expect consumer and investment spending to slow toward the end of this year—limiting growth for the 1984 fiscal year to about 2 percent. The inflationary impact of the devaluation will cause private consumption growth to weaken considerably as disposable incomes lose pace with

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rising prices. Most importantly, public capital investment is scheduled to decline as the construction phase of some of Wellington's major energy projects wind down.[1] Unemployment thus is likely to begin creeping up by yearend.

An adverse turn by the economy will cost Lange politically. The opposition National Party will move quickly to take advantage of Lange's economic policy dilemmas, bolstered by the fact that the unpopular Muldoon will, in all likelihood, be replaced as party leader. The National Party probably will focus its attack on unemployment and inflation, reminding the public that the jobless rate was falling before the election and that the former government's tough stand against unions was largely responsible for ending nine consecutive years of double-digit inflation.

An economic downturn would also hinder Lange's efforts to control the left wing of his party. In our judgment, Lange's ability to control the left's influence in policymaking depends critically on his popular support—which is keyed to his success on the economic front. If the economy does poorly, Lange will find that he has little room to maneuver on foreign policy issues—such as ANZUS and US ship visits.

The Longer View

Despite his wishes to the contrary, Lange's prospects for shaking his country out of its economic malaise during his term in office do not parallel those of his counterpart Bob Hawke. New Zealand's economic problems are intensified by a precarious balance of payments, and Lange, unlike Hawke, is assuming office with the prospect of an economic downturn. In addition, Lange does not appear to possess the force of personality to win over critics within his party and achieve financial discipline.

The devaluation will, in time, help improve the foreign payments situation by raising import prices and making New Zealand's exports more competitive in overseas markets. It is not certain, however, that Lange's exchange-rate management will be more enlightened than Muldoon's, and we believe that the devaluation was carried out to end the speculation against the dollar rather than to improve the external payments. Wellington, in fact, argues that only minor exchange-rate adjustments are necessary in the long term because energy-independence projects will provide large foreign savings within three or four years.

We believe Wellington is banking too strongly on the major energy projects. The amount of savings from these enterprises depends crucially on international energy prices. When the projects were first planned, world oil prices were projected to rise substantially more than has actually occurred. At current prices, the projects will earn only small returns and thus will provide limited foreign payments savings and very little stimulus to the domestic economy. Wellington does not have attractive alternatives. It can restrain imports by curtailing domestic demand, and thus economic growth, or hope to weather a severe rise in the external debt and debt service. Labor's few options for dealing with the economic problems, coupled with New Zealand's longstanding preference for the more conservative National Party, could set the stage for a one-term Labor government.

[1] The $3.8 billion major energy projects, undertaken since 1979, are designed to reduce New Zealand's dependence on imported oil.

International Rice Market: Reduced Supplies

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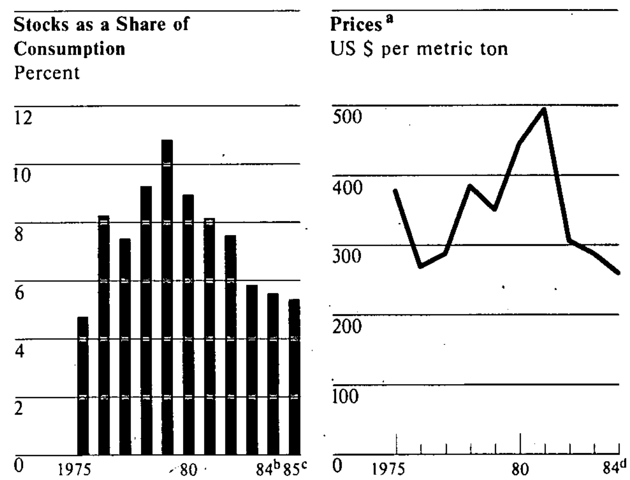
World rice supplies available for export—especially in Asia—are abnormally tight heading into the major fall harvest. Most importers have sufficient stocks to last until the harvest begins in October, but some big consumers—India, Bangladesh, the Philippines, and Malaysia—are struggling to maintain required supplies of medium- to low-grade rice used in public distribution systems. In the high-quality segment of the market, Japanese stocks are very low, and any weather damage to the fall crop almost certainly would mean unusually large Japanese imports. Brazil and Nigeria also may need to purchase rice before fall, and the tight Asian supply situation may force them to buy expensive, high-quality rice from the United States. The outlook for 1985 is for continued reduction in export stocks.

World Rice Stocks and Prices



[a] Milled rice, f.o.b., Bangkok, 100 percent grade B.
[b] Estimated.
[c] Projected.
[d] Average through August.

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Stocks Currently Tight

World rice stocks going into the new rice marketing year—which began on 1 August—were at the lowest point since 1975, equivalent to only 5.5 percent of consumption, according to USDA estimates. Asian export stocks are virtually depleted after several months of unexpected buying by India, Bangladesh, the Philippines, Vietnam, and Nigeria. US export stocks, which have been relatively high since 1976, stand at 1.4 million tons, down 40 percent from the all-time-high level in 1982-83. As a result of lower stocks, prices are beginning to rise out of a two-year slump. Thai prices, which serve as the world benchmark, declined almost 50 percent during 1982-83, but rose in 1984 from about $250 per ton in February to $285 per ton by August. US prices declined slightly in August, but remained about $160 above Thai rates.

A number of unexpected developments this year, largely on the demand side, have led to lower rice stocks:

- Because of flood damage to crops, Dhaka already has purchased 470,000 tons of rice from Thailand and Burma for delivery from July to September, and Bangladesh has asked Pakistan and China

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for additional supplies, according to Embassy reports. Bangladesh's rice needs could reach 860,000 tons, according to UN projections. Pakistan, which currently has little uncommitted stock, will be able to ship only about 10,000 tons.

- India, a net exporter in most recent years, purchased a record 870,000 tons of rice this year. Although India's rice crop this year was a record 89 million tons, initial public stocks were low after last year's drought, and government procurement was slightly lower than expected.

- Vietnam bought 190,000 tons from Thailand and Burma as a result of a shortfall in rice production in the north. Vietnam was a net exporter in 1983 and was expected to sell a small amount on the world market this year.

- The Philippines had been expected to export about 150,000 tons this year but instead imported 150,000 tons from other Asian countries to quiet public protests over inflation and rumors of impending rice shortages. In addition, Manila recently approached China for more rice, according to Embassy reporting. Although the government estimates that rice stocks total 900,000 tons, enough to meet domestic needs, traders and farmers are withholding supplies from the market in anticipation of an increase in the government-controlled price.

- Japan, left with low stocks this year as a result of acreage-reduction programs and bad weather, is seeking significant rice imports for the first time in 17 years. Japan so far has arranged to import 150,000 tons from South Korea and Thailand.

World import demand may be even higher in 1985 than this year, according to USDA estimates. Although South Asian imports have more than doubled in 1984, stocks remain low. Both India and Bangladesh are expected to increase purchases to rebuild stocks.

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World Rice Production [a] *Million metric tons*

	1981	1982	1983	1984	1985 [b]
Total	**398.8**	**412.4**	**419.2**	**448.9**	**452.9**
China	139.9	144.0	161.2	168.9	170.0
India	80.5	80.0	69.8	88.6	86.0
Indonesia	29.7	32.8	33.6	34.5	36.0
Bangladesh	20.8	20.5	21.3	21.9	21.6
Thailand	17.4	17.8	16.9	18.8	18.5
Burma	13.2	13.6	14.5	14.8	15.0
Japan	12.2	12.8	12.8	13.0	13.9
Brazil	8.6	9.2	7.8	9.0	9.5
South Korea	6.0	7.1	7.3	7.4	7.3
Pakistan	4.7	5.1	5.2	5.2	5.3
United States	6.6	8.3	7.0	4.5	6.1
Others	59.2	61.2	61.8	62.3	63.7

[a] Data for marketing year ending 31 July of the year stated.
[b] USDA projections.

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Production Gains Slowing

While the 1985 rice crop so far has enjoyed generally good weather—the USDA is forecasting a bumper crop—it is unclear to what extent the rice market will loosen next year.

- Production in Punjab, which supplies 50 to 60 percent of the rice the Indian Government procures domestically for the public distribution system, may have been affected by local political turmoil. According to Embassy reporting, disruptions in distribution of inputs for planting, Sikh sabotage of irrigation networks, and labor shortages at the crucial transplanting stage may keep the crop at last year's level or below.

- The Government of Bangladesh estimates that 900,000 tons, or about 4 percent of the crop, already has been lost to flooding. Additional flooding in August and September along the major rivers in the central and western parts of the country, as well as drought in the eastern region, may bring further losses, according to Embassy reporting.

- Rice production in the Philippines, which has been held down by drought in the last two years, could be reduced this year if farmers react to recent price increases for fertilizers and pesticides by reverting to planting lower yielding rice varieties requiring fewer purchased inputs.

- Vietnamese production increases, which surged by 40 percent in 1979-84, will be slowed this year by drought and unusually cold weather in the north.

- Madagascar, which accounts for one-third of African production, is still trying to rebuild its rice production infrastructure after cyclone and flooding damage this spring in time to plant in October-November. [redacted]

As a result of these setbacks, global production gains, which amounted to 7 percent last year, will be held down to only 1 percent this year. [redacted]

World Rice Trade, 1983-85 *Thousand metric tons, milled*

	1983	1984	1985 [a]
Total exports	**11,834**	**12,137**	**11,700**
Burma	750	850	900
China	550	600	700
Pakistan	1,299	1,300	1,150
Thailand	3,700	4,100	3,900
Taiwan	531	375	300
United States	2,330	2,000	2,000
Others	2,674	2,912	2,750
Total imports	**11,834**	**12,137**	**11,700**
Indonesia	1,175	500	800
India	310	870	500
Nigeria	711	775	750
Bangladesh	82	500	400
Iraq	474	440	450
Iran	680	680	450
Saudi Arabia	500	525	550
Vietnam	30	190	100
Malaysia	352	450	400
Others	7,520	7,207	7,300

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[a] USDA projections.

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[redacted]

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Tight Export Supplies

Low Asian stocks could decrease rice exports next year by as much as 4 percent—400,000 tons—below this year, according to USDA estimates. The three major Asian exporters—Thailand, Burma, and Pakistan—drew down stocks below levels needed to ensure adequate food supplies domestically. Indeed, according to USDA estimates, Thailand and Pakistan are expected to cut exports by at least 350,000 tons. While Burma plans to increase exports by 50,000 tons, transport, storage, and procurement problems, as well as an inability to maintain uniform quality, may stymie this effort. Taiwan, another Asian exporter, cut production this year and will have 75,000 tons less to sell. At the same time, South American exports are forecast to decline, on the basis of lower 1985 production levels. On the plus side, Australia is expected to increase 1985 exports by about 80,000 tons, and China is having a good production year and may put large amounts of rice on the market if prices rise. [redacted] 25X1

Mounting Food Problems in Exporting Countries

Exporting countries—although pressing to sell as much rice as possible to earn foreign exchange—are increasingly under pressure to reduce exports because of domestic needs. High population growth rates and urbanization are making food availability a political issue, particularly in marginal rice-exporting countries, such as Brazil, India, and the Philippines:

- A recent study by the Brazilian Government found that malnutrition is increasing and that hunger is no longer an isolated rural issue, but a problem in the cities as well. Per capita rice production in Brazil fell by nearly 20 percent during 1975-83.

- Although per capita availability of rice has increased slightly in India since 1981, 1985 Indian rice production is expected by the USDA to fall nearly 700,000 tons short of requirements to sustain per capita availability at 1984 levels and nearly 2.5 million tons short of requirements to support minimum dietary standards established by the United Nations.

- In the Philippines, per capita availability of rice declined during the last three years, and the USDA estimates that the government will have to import 450,000 tons of rice in 1985 to support availability at current levels, or 540,000 tons to support availability at minimal UN-set nutritional levels.

There is some evidence that government officials in Thailand and Burma, which are nearly 100-percent dependent on rice for food grain, are also beginning to feel the impact of population growth on the availability of rice for export. Thailand currently sustains an urban population growth rate of about 4 percent, but rice production increases have stagnated at about 1.5 percent since 1981. Burma, with a 2.0-percent overall population-growth rate and an urban growth rate of nearly 4.5, increased rice production 12 percent during 1982-84, chiefly as a result of a successful program introducing high-yielding varieties of rice seed. However, use of high-yielding varieties and acreage planted to rice are down from last year, indicating future production problems. Stocks are estimated by USDA to be marginal.

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Outlook and Implications for the United States

With Asian suppliers sold out until the end of the year, the outlook for next year is for continuing pressure on stocks. Most importers have already covered their anticipated needs for 1984 and are not likely to return to the international market before the fall harvest, unless crop conditions deteriorate or these importers are forced by domestic political unrest to buy more rice. Competition, however, for export supplies may be intense next year. USDA estimates that world stocks of rice will be drawn down by an additional 500,000 tons by next summer. Bangladesh has already approached Thailand to buy 1.5-2 million tons over the next three years, more than twice the import level projected by the USDA, probably to tie down long-run supplies. 25X1

Tightening export supplies could provide a window for US rice sales over the next few months and perhaps into 1985. India is likely to purchase another 200,000 to 500,000 tons before the year is out, and Japan will have to buy high-quality US rice if there is any difficulty with the size or quality of India's crop. Nigeria has no stocks, and, although present needs are covered, the government may have to purchase high-quality rice later this year. Brazil, typically an Asian buyer, is expected to make off-season purchases before yearend and, if sizable quantities are needed, US rice may be the only rice available. 25X1

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