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3 articles
35 briefs

International Economic & Energy Weekly

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23 August 1985

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23 August 1985

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International Economic & Energy Weekly

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23 August 1985

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International Economic & Energy Weekly

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Synopsis

1 **Perspective—Implications of Lower Oil Prices**

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3 **South Africa: Economic Consequences of Black Unrest**

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The endemic violence in the black townships that has plagued South Africa for the past year has had little direct economic impact on the country's white minority. Nevertheless, black unrest and international pressure for economic sanctions have hurt investor confidence and probably will delay South Africa's recovery from its deep recession.

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7 **China: Putting the Brakes on Computer Imports**

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The dramatic growth in China's imports of microcomputers since 1983 shows signs of slowing as Beijing begins to assess the country's ability to utilize effectively computers already acquired, and to consider the effects of massive imports on the country's infant computer industry and foreign exchange reserves. Nonetheless, China's minicomputer and mainframe needs will continue to be met by imported hardware, components, and especially peripheral equipment.

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11 **Weak Markets Spur Steel Industry Restructuring**

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Recovery in the non-Communist steel industry stalled in mid-1984, and stagnation since then has put further pressure on steel producers to reduce prices and cut excess capacity. Weak prices and low operating rates continue to pull most of the industry into the red—a pattern we think likely to continue throughout the decade.

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International
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23 August 1985

Perspective

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Implications of Lower Oil Prices

If oil prices fall markedly over the next few years, say to $20 a barrel, most of the world will benefit substantially. Certain oil exporters and other countries, however, could suffer economic setbacks and political repercussions—in some cases sufficiently serious to affect US strategic interests adversely.

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On the positive side, most developed countries and oil-importing LDCs would receive substantial direct economic benefits and also obtain added policy flexibility. Real growth in the OECD would be about 0.3 percentage point per year higher over the rest of the decade, inflation would subside further, and projected increases in unemployment in Western Europe would be somewhat less. Even Canada and the United Kingdom would likely benefit from a decline in oil prices, despite being net energy exporters. Although Western governments could accentuate the growth benefits from an oil price decline by adopting more stimulative economic policies, we believe most would simply let the benefits go directly to consumers. Japan and, perhaps, Italy might raise energy taxes to avoid increases in oil imports and reduce government deficits.

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As for the oil-importing LDCs, a reduction in oil prices to the $20 per barrel range would reduce energy import costs and raise exports to the developed countries. As with the developed countries, most oil-importing LDCs would pass on the full price reduction to their domestic economies, although some, including Brazil, may raise taxes on oil to reduce budget deficits and protect domestic energy investments. A few LDCs oil importers are likely to be hurt as the OPEC countries cut their aid flows and use of foreign labor in response to declining income

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Lower prices would create serious problems for some oil exporters. In Mexico, Nigeria, and Egypt, lower oil prices would stall economic recovery, increase the potential for social unrest, and bring calls for higher levels of US aid or other types of assistance. In Iran and Iraq, the loss in revenues would increase the burden of continuing the war while trying to meet domestic needs. Libya also will be hit financially but probably not enough to end support of its anti-US activities.

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Those oil exporters with larger reserve bases and financial assets and smaller populations—notably Saudi Arabia, Kuwait, and the UAE—are in better shape to cope with lower prices. Even these countries, however, would face

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strains. In Saudi Arabia, foreign liquid assets—now under $80 billion and declining by $1.0-1.5 billion per month—are approaching important thresholds. As a result, Riyadh is making serious efforts to cut expenditures in ways that will be felt by the typical Saudi.

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For the Soviet Union, we believe a fall in oil prices would have a net unfavorable impact in the near term, dropping hard currency earnings by $12-14 billion over the rest of the decade. Such declines would force Moscow to make difficult choices: selling off assets, increasing Western borrowing, shifting energy exports from Eastern to Western Europe, or reducing imports. On the basis of Moscow's past conservative financial policies and the already constrained levels of its East European energy sales, we believe a cut in hard currency imports would be necessary if oil prices fell dramatically.

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Set against the largely positive economic benefits of lower oil prices, we see four sets of possibly adverse political and strategic effects on US interests:

- If the economic problems created in oil-exporting countries, such as Mexico, Egypt, Nigeria, and the Persian Gulf states were sufficiently great to cause political instability, the United States could be called on to react. These responses could range from protecting US citizens and property against domestic unrest to attempts at moderating the effects of a deteriorated debt situation on these countries and on the international financial system.

- A drop in oil prices could further shift Middle East power balance away from moderate states who used oil money as a political lever, particularly Saudi Arabia.

- If falling oil prices lower West European gas prices, as is likely, development of West European gas resources could be discouraged over the next few years. If so, the Soviet-supplied proportion of West European gas consumption could rise sharply, perhaps to about one-third of the total by the year 2000.

- Finally, a drop in oil prices—by stimulating consumption and reducing exploration and development and maintenance of capacity—could increase dependence on Persian Gulf supplies, raising the potential for an oil supply shortfall and a runup in oil prices. Given current excess capacity, however, we believe this problem is unlikely to occur in this decade.

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A sharp fall in prices would still be generally favorable, but would bring some added risks. There would be some danger that banks with heavy energy or LDC loan exposure would fail as well as the potential for political backlash in LDC oil exporters as sudden income declines forced rapid reductions in living standards.

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South Africa: Economic Consequences of Black Unrest

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The endemic violence in the black townships that has plagued South Africa for the past year and resulted in over 600 deaths has had little direct economic impact on the country's white minority. Nevertheless, black unrest and international pressure for economic sanctions have hurt investor confidence and probably will delay South Africa's recovery from its deep recession. Lackluster economic performance, in our judgment, will raise the political costs for Pretoria of significantly improving the quality of life in black townships. As a result, we expect the government to implement piecemeal economic reforms to promote growth and protect white living standards, while concentrating any remaining available resources on upgrading living conditions in selected black areas.

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Socioeconomic Factors

South Africa's black townships are tinderboxes for racial unrest because of poverty, demographic pressures, and resentment of Pretoria's racial policies. Although the introduction last year of a new constitution granting limited political rights to Indians and mixed-race Coloreds did much to heighten black anger, economic grievances continue to be a source of unrest:

- The economic progress by urban blacks over the last decade has slowed in recent years due to South Africa's erratic economic growth. Black unemployment exceeds 25 percent, according to academic studies, and is probably much higher among urban youths, the major participants in the rioting.

- US Embassy reporting indicates black frustration is growing over the availability, cost, and location of government-approved housing. Official statistics, which probably are conservative, show a black housing shortage of nearly 200,000 units in the townships. The violence that began last September when blacks living near Johannesburg staged large-scale protests was sparked by rent increases.

- Increases in bus fares between black townships and job centers in white cities have often triggered violence.

- Expenditures per white student is eight times that for black pupils. Education ranks as a prime concern of most urban black South Africans. Most black high school teachers are poorly trained, and school boycotts have become a central feature of many riots.

- The black townships have virtually no fiscal resources to provide services to the residents.

Meanwhile, South Africa's black population is growing by nearly 3 percent annually, and unemployment and drought in the rural areas have swelled some black township populations by as much as 30 percent in the past year.

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Impact of Violence on Whites

Most South African whites have escaped immediate economic losses because property damage—totaling in the millions of dollars—so far has been confined to black and Indian areas. Capital flight, however, suggests that some whites are pessimistic about the country's future. Private capital outflows—including debt service—totaling $2.2 billion for the last quarter of 1984 and the first quarter of 1985 have more than offset a strong current account surplus of $800 million for the same period.

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South African Balance of Payments, 1980-85 *Billion US $*

	1980	1981	1982	1983	1984	1985 [a]
Current account balance	3.6	−4.6	−3.0	0.2	−0.7	1.5
Merchandise trade balance	−5.6	−9.8	−7.3	−5.1	−5.7	−3.5
Exports, f.o.b.	12.6	11.0	9.4	9.3	9.1	10.5
Imports, f.o.b.	18.2	20.8	16.6	14.4	14.8	14.0
Net gold exports	13.0	9.6	8.0	8.9	8.1	8.0 [b]
Net services and transfers	−3.8	−4.3	−3.7	−3.6	−3.1	−3.0
Long-term capital	−0.6	0.6	2.2	−0.4	1.9	
Other capital [d]	−2.3	2.8	0.6	1.1	−1.7	
Total reserves, yearend [c]	7.7	4.3	4.0	4.1	3.1	

[a] Estimated.
[b] Assuming average gold price of $345 per ounce.
[c] Total reserves are not the sum of changes in reserves and previous year's total reserves because of year-to-year changes in exchange rates.
[d] Includes errors and omissions and supplier credits.

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Pretoria is attempting to stem capital outflows by maintaining tight credit policies imposed last year to rebuild foreign reserves and reduce a 16-percent inflation rate. Slow growth and tight credit, however, will reduce the purchasing power of middle-class whites. 25X1

Black boycotts of white-owned shops have cost businessmen in affected areas up to one-third of their usual sales. Renewed demands by business groups to improve economic and political opportunities for nonwhites have had little influence on the government. On balance, boycotts impact directly on only a small number of whites but are expensive for black consumers to sustain because black shopowners charge hefty premiums. Nevertheless, boycotts or any concerted action by blacks creates unease in the white community. 25X1

Violence Encourages Sanctions

The black unrest and subsequent declaration of a state of emergency have added to the international clamor for economic sanctions, but trade measures adopted thus far probably will have little direct economic impact. For example, a French ban on new investment stops short of limiting trade. The United Kingdom, West Germany, and Switzerland—South Africa's key West European trading partners—have publicly rejected the sanctions approach. Without their support, most observers believe that sanctions will not seriously hurt the South African economy. Moreover, the country probably could weather even a total cutoff in foreign economic ties for several years. South Africa is self-sufficient in agriculture, has large reserves of coal, and has stockpiled key commodities, such as petroleum. 25X1

While the effect of trade sanctions is limited, growing pressures in various countries to pull out of South Africa reinforce investor concerns about the country's economic prospects. The recent move by a major US bank to end most short-term loans to private borrowers in the country triggered a brief panic in South African financial markets. Pretoria

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has expressed concern that access to short-term lending is one of South Africa's few sources of economic vulnerability. Nevertheless, foreign lending is not currently a problem. Even the withdrawal of other major US banks is unlikely to precipitate a debt crisis as long as West German and Swiss banks remain willing to provide long-term loans.

Near-Term Outlook

The flow of capital out of the country and concern over Western sanctions probably will lead Pretoria to maintain fairly restrictive economic policies and consequently limit real GDP growth this year to at most 1 percent. Investor anxiety about the country's stability will add to the cost of foreign loans and may prompt new episodes of panic selling on South African financial markets in response to any additional sanctions, withdrawal of foreign banks and companies, or widened violence. Moreover, the effects of the unrest on investor confidence probably will linger, even if an uneasy calm is restored.

President Botha, in our view, remains committed to a gradualist program of limited social, political, and economic concessions to manage the burgeoning black urban population. Botha's reforms aim to reduce black resentment of the government, boost the supply of skilled labor, and strengthen ruling party control. Although domestic and foreign critics dismiss the proposed reforms as superficial, many white South Africans believe they go too far and remain committed to purer forms of racial separatism.

Long-Term Dilemma

Over the long haul, mediocre economic performance—as a result of expected stagnant gold production—is likely to inhibit Pretoria's efforts to improve black living standards. During the remainder of this decade, South Africa's average annual rate of economic growth probably will be no more than 3 percent, and could be lower if the gold price falls, the world economic recovery slows sharply, or strong Western sanctions are applied. An annual growth rate of 5 to 6 percent would be needed just to accommodate some 2.5 million new jobseekers each year. Only in the unlikely event of a dramatic rise in gold prices or substantial new foreign investment would these higher growth rates be attainable.

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Economic austerity measures imposed periodically to avoid large current account deficits and fight double-digit inflation will limit government spending for upgrading black townships and schools. By the year 2000, the 10-15 million blacks who are expected to join the 9 million already in urban areas will require at least an additional 2 million houses. The government estimates that achieving racial parity in schooling by 1990—ignoring the impact of inflation—would require an additional annual education outlay of $2.7 billion, equivalent to 18 percent of the fiscal year 1986 budget. Pretoria will be loath to fund massive spending programs for blacks at the expense of its white electorate, most of whom voice more concern over pocketbook issues than over the gradual dismantling of racial separatism.

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Pretoria is likely to respond to these competing pressures by targeting resources on the most troubled townships and by undertaking selected economic reforms that promote more rapid growth or generate new government revenues:

- Pretoria has announced its intent to remove many barriers to employment, small black businesses, and low-cost housing.

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- Proposed multiracial councils for urban areas would channel additional revenues to black local authorities.
- Pretoria has already sold a state-owned coal-to-oil facility and may sell other state-owned corporations, such as television and radio networks, the railroad, airline, and electric power system, and telephone and postal services. According to an academic study, sale of the transport services alone could generate $5 billion in government revenues.

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- Monetary, trade, and tax policies are being streamlined.

Although these measures are unlikely to resolve competing demands for economic resources and end racial violence, we expect that most whites will not suffer significant economic losses and that sufficient resources will be diverted to co-opt many urban blacks.

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China: Putting the Brakes on Computer Imports

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The dramatic growth in China's imports of microcomputers since 1983 shows signs of slowing as Beijing begins to assess the country's ability to utilize effectively the computers already acquired, and to consider the effects of massive imports on the country's infant computer industry and foreign exchange reserves. Beijing is pushing development of its domestic computer industry through transfer of Western technology—particularly by means of cooperative production agreements with US firms. Nonetheless, China will continue to rely on imported components, minicomputer and mainframe hardware, and especially peripheral equipment.

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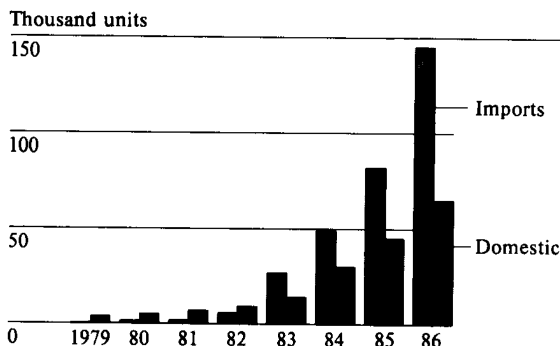
China Catches "Computer Fever"

In September 1983, Beijing decided to concentrate on production and use of micros instead of larger minicomputers and mainframes. As a result, China's imports of computers nearly tripled in 1984 to $328 million, with imports accelerating sharply toward the end of 1984 and in early 1985. While precise figures are not available, we judge that China's purchases of microcomputers increased from roughly 20,000 microcomputers in 1983 to 30,000 in 1984, and 40,000 in the first half of 1985.[1]

Several factors account for this dramatic increase:
- China's computer users generally prefer imports because of concerns about quality and compatibility of domestic models.
- Domestically produced microcomputers are three to 15 times more expensive than their imported counterparts.

[1] Estimates of China's 1984 imports of micros range from 20,000 to 100,000 units. The latter is a Chinese figure that probably includes calculators and peripheral equipment.

China: Computer Inventory, 1979-86[a]



[a] Estimated.

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- Beijing decentralized control over foreign trade in 1984, resulting in a proliferation of small, loosely regulated trading companies eager to profit from the demand for computers.
- A plan to increase tariffs on microcomputers in January 1985 led to a flurry of import activity in the final months of 1984.

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Realism Sets In

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By the middle of 1984 Chinese leaders were growing increasingly concerned about the ineffective use of computers and, at the same time, more aware of the costs—in foreign exchange and in harm to the domestic electronics industry—of the influx of imports. Chinese estimates published in the *People's Daily* concluded that inadequate maintenance, the

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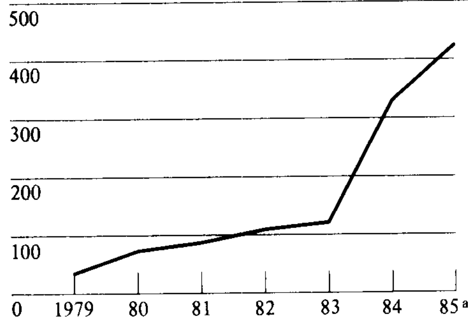
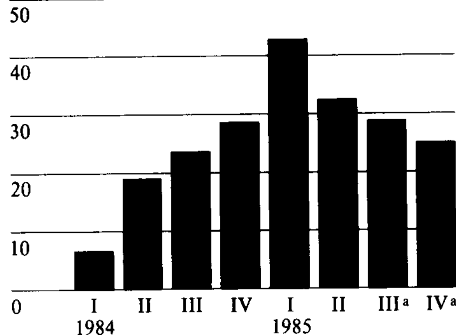
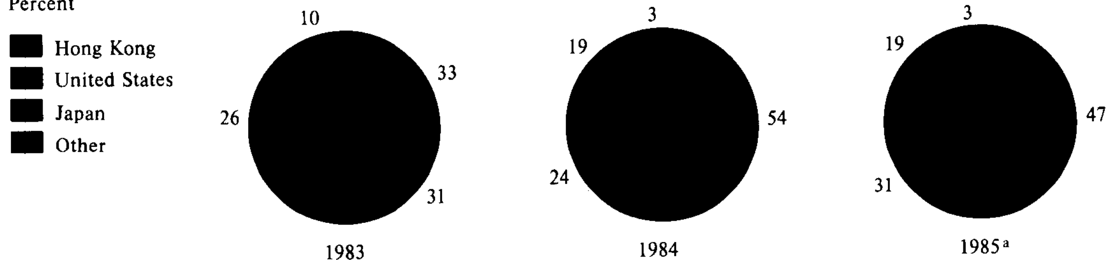
China: Foreign Trade in Computers

Note scale changes







[a] Estimated.

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absence of applications software and peripheral equipment, improper training, and poor data communications links limited effective operation of China's computers to 50 percent, at best. In addition, the Chinese discovered that they had imported large numbers of obsolete, low quality, or counterfeit computers.

Moreover, the influx of imports reawakened Chinese concern that foreign manufacturers might dominate the domestic computer market. Following the buying spree at the end of the 1970s, the ratio of domestic to foreign computers in the country's inventory declined from 12:1 in 1979 to 4:1 in 1980. By early 1984, imports had a dominant share of the computer inventory—nearly 2:1—and the ratio continued to worsen as the year progressed.

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Taking Action

Beijing's reaction was to reorganize the oversight agency responsible for China's computer policy, strengthening its authority and broadening its membership. Ranking officials from China's top policymaking bodies and defense industrial ministries serve on the new group, which will formulate long-range plans for the telecommunications, microelectronics, software, and computer industries.

Beijing also intensified its efforts to improve the country's ability to use imported computers effectively. By creating new organizations, funding major new initiatives, and encouraging greater Chinese foreign cooperation, China sought to improve:
- Development of applications software.
- Maintenance and repair assistance.
- Computer education.
- Availability of peripheral equipment.
- Data communications links.
- Information processing using Chinese characters.

To shore up domestic sales, Beijing cut prices on domestically produced micros by 25 to 30 percent, more than doubled tariffs, instituted a 40-percent surtax on microcomputer imports, and cut the duty on computer components imported for assembly. In addition, Beijing strengthened its demands that transfers of technology accompany computer imports. In May 1985, the State Council formally tied future purchases of advanced equipment in all sectors to technology transfer. At present, approximately 100 cooperative production agreements involving computers or peripherals are under negotiation—many of them only recently undertaken in response to Beijing's policy. US firms appear most willing to transfer technology: 55 of the agreements under negotiation involve US manufacturers, followed by 19 from Japan, 10 from Hong Kong, and 16 from other countries. So far, most of the ventures involve merely assembly of imported components.

Computer imports were further curtailed when Beijing began to reimpose central controls over foreign trade in the spring of 1985, limiting large expenditures to essential projects already in the state plan. China also centralized its import-licensing system over 15 key commodities, including microcomputers, and restricted new trade corporations to those that will promote Chinese exports.

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Prospects for Foreign Suppliers

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We believe the recent measures—particularly the reassertion of control over trade and foreign exchange expenditures—will slow the growth in sales of computers to China. new orders have all but ceased. Deliveries on orders made before the measures were implemented, however, will keep import figures for 1985 high.

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The US market relative to Japan, Hong Kong, and others will, in our judgment, show marked improvement. Liberalized controls on 8- and 16-bit personal computers—in effect since January—now permit exports by US firms of large quantities of lower performance microcomputers without specifying individual Chinese users. Moreover, product performance, the availability of applications software and peripherals, the provision of training and service, and a willingness to transfer technology have given US firms an edge that Japanese firms have been unable to offset by offering lower prices. European suppliers are gradually being forced out by China's attempt to limit the models it purchases to a few—primarily US-made—brands.

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We believe those likely to be hardest hit by the foreign exchange and trade controls are Hong Kong firms. Although the measures apparently have not had a significant effect on sales to central trade corporations, orders placed through regional trade companies in southern China's special economic zones—many with Hong Kong connections—appear to have declined almost immediately. The US Consulate in Hong Kong reports that the reexport of computers through Hong Kong to China slowed "practically to a trickle" by March 1985. One Hong Kong computer dealer claims his sales have dropped 80 percent since then.

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Outlook for the Domestic Industry

China's computer industry should be able to meet demand for 8- and 16-bit micros with computers assembled from imported kits in several years. Kit assembly, however, may initially delay progress in developing indigenous computer models. Chinese users clearly prefer Western models, and several large factories have already discontinued production of domestic models to assemble IBM PCs and IBM- and Apple-compatible microcomputers. In time, however, even technology transfers limited to kit assembly arrangements will enhance China's domestic capabilities. Beijing will no doubt press companies to transfer the technology to produce components, including integrated circuits, as the second stage of an assembly agreement. 25X1

For the time being, we do not believe China's minicomputer and mainframe needs can be met domestically. The Chinese want to assemble larger Western computers and will probably press vendors to transfer this technology as well. One major US-Chinese joint venture agreement has already been signed providing for mainframe assembly in China, and half a dozen are under discussion. As with microcomputers, advances in the country's ability to produce electronic components will eventually enable China to produce better minicomputers, mainframes, and even supercomputers indigenously. 25X1

China will likely be dependent on Western peripherals for several more years as Beijing continues to give insufficient emphasis to the development of disk drives, printers, and other peripheral equipment. Moreover, there have been very few cooperative ventures in this area. As a result, inadequate software, peripherals, and data communications links will continue to restrict computer utilization for some time to come. 25X1

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Weak Markets Spur Steel Industry Restructuring [1]

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Recovery in the non-Communist steel industry stalled in mid-1984, and stagnation since then has put further pressure on steel producers to reduce prices and cut excess capacity. Although financial performance improved during the recovery, weak prices and low operating rates continue to pull most of the industry into the red—a pattern we think likely to continue throughout the decade. We believe that this financial weakness will force the industry to continue restructuring by closing old steel mills and cutting operating costs in the remaining plants. Combined with a possible moderate recovery in demand, these factors give the industry a fair chance to regain stability by the early 1990s.

Stagnation Replaces Recovery

Most steel analysts expect output this year to remain at about the 1984 level. Non-Communist steel production during the first half fell slightly from the same period last year, and industry experts expect only a moderate improvement during the rest of 1985. The economies of Western Europe remain sluggish, while growth has slowed in the United States and Japan. At the same time, large steel inventories in a number of countries, the end of a spurt in shipbuilding, and the long-term shift of economic activity to less steel-intensive sectors continue to depress demand.

We believe the financial performance of this industry will remain poor. While the income statements of most companies improved sharply last year, losses remain the rule. Efforts to boost income are being frustrated by low operating rates, higher raw material prices, and stiff market resistance to steel price increases. Prices on the world market may even decline later in the year as the US import restraint program takes hold. Moreover, the weakening dollar could further reduce local currency export earnings.

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Weakness at this stage of an economic recovery is alarming many industry experts because it is traditionally the time when the steel industry reaps most of its profit. Given the outlook for 1985, we believe that most steelmakers will go into the next business downturn before recovering from the bloodletting of the last. The EC steel industry, currently losing $1-2 billion annually, will remain in the red throughout this cyclical peak, despite a few profitable firms in West Germany, the Netherlands, and Luxembourg. At best, the US industry will recover only a fraction of the $6 billion it lost during 1982-84. In Japan, however, steelmakers made up their 1983 losses in 1984, and we believe they will continue to make money this year. But, even in Japan, the industry's published data and the forecasts of some analysts indicate that profits will remain well below those of the past.

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Cuts in Capacity

Heavy losses are forcing the major firms to scrap excess capacity. In the developed countries, 55 million metric tons of capacity have been eliminated since 1980, primarily in the EC and the United States. Because some of these cuts have been offset by mill construction in the Third World, we estimate a net decline of 35 million tons, only about 20 percent of estimated excess capacity

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Capacity will continue to decline throughout the rest of the 1980s because of the industry's financial weakness. More important than the outright scrapping of capacity, however, will be the continuing

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Non-Communist Crude Steel Production, 1979-85

Million metric tons

	1979	1980	1981	1982	1983	1984	1986 [a]
Total	**497**	**463**	**461**	**399**	**407**	**446**	**450**
Developed countries	442	406	403	339	344	373	374
United States	124	102	110	68	77	84	83
European Community	141	129	126	111	119	119	120
Other Western Europe [b]	33	33	33	33	34	35	36
Japan	112	111	102	100	97	106	106
Other [c]	32	32	32	27	26	29	29
Third World	55	57	58	60	63	73	76

[a] Projected.
[b] Includes Yugoslavia and Turkey.
[c] Canada, Australia, New Zealand, and South Africa.

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deterioration of the plants in operation. The industry's financial problems have sharply curtailed its ability to maintain plants and equipment. Measured in constant prices, for example, investment per ton of capacity in the EC, Japan, and the United States is currently half the level of 10 years ago. Consequently, many parts of the industry are being pushed beyond their normal life.

The problem is particularly acute in the case of EC and US coke plants, half of which are past their useful life of 25 years. Moreover, little investment is being put into the coking sector because of cost and environmental concerns. On the basis of these trends and statements by high steel industry officials, we believe that coking capacity will increasingly become the steel industry's most critical limitation.

Cost Cutting: Focus on Labor

For several years, the major steel companies have been fighting hard to reduce operating costs enough to achieve some profitability. While progress has been made on several fronts, the greatest savings have been achieved in labor costs through work rule changes and cuts in the labor force. While still producing the same amount of steel, the EC steel industry has cut one-fifth of its work force since early 1982, and US steelmakers have done even better. In contrast, Japanese productivity gains have been small because the base was already high and because of employment policies. Nevertheless, Japanese efforts to cut labor costs continue.

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Things Will Get Worse Before They Get Better

Prospects vary from lackluster to grim for non-Communist steel producers through the rest of the decade. The mill closings in recent years have not been sufficient to offset declining demand; thus excess capacity is still increasing. Prices will remain weak for some years, particularly during the next business downturn. The conflict over EC steel policy will continue to fester. The stronger West German industry demands an end to steel subsidies, while the weaker French and Italian industries will need financial support for some years. The Japanese industry will make money, in most years, but we believe profits will remain low, and the major steel companies will continue to diversify into nonsteel activities. The US industry probably

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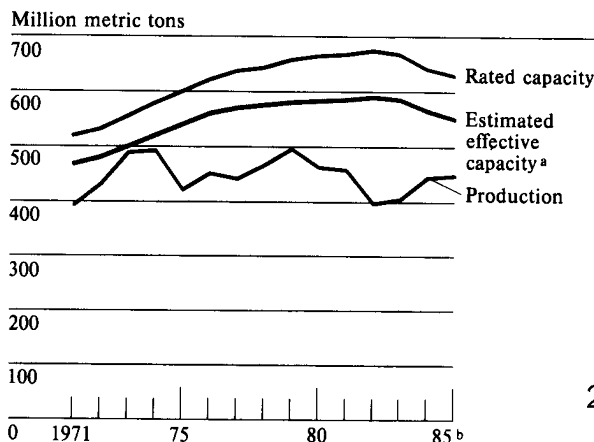
Non-Communist Steelmaking Capacity *Million metric tons*

	1970	1975	1980	1985 [a]
Total	**493**	**600**	**665**	**630**
OECD countries	455	544	575	520
United States	143	139	140	122
European Community	160	191	207	172
Japan	103	150	155	156
Other [b]	49	64	73	70
Third World	38	56	90	110

[a] Estimated.
[b] Non-EC Western Europe, Canada, Australia, and New Zealand.

Non-Communist Steel Industry: Rated Capacity, Estimated Effective Capacity, and Production, 1971-85



[a] Since the steel market boom of 1973-74, effective capacity estimates have been subject to increasing margins of error because demand has not been strong enough to test the industry's true limits.
[b] Estimated.

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will face further heavy losses during the next business slump and one or more major bankruptcies could result. In all the major countries, capacity reduction will go on and perhaps accelerate.

As the next recovery begins, we believe that a leaner, more efficient steel industry in the developed countries will emerge. We expect demand to bottom out in the next few years and probably to begin a very slow recovery. The factors—including the drawdown of steel inventories, the downsizing of automobiles, and the neglect of infrastructure investment—that have depressed demand in the developed countries are reaching their natural limits. Steel consumption in the Third World also will pick up if, as many forecasters expect, LDC economic performance improves.

We believe this combination of forces could return non-Communist steel production to about its 1979 peak during the next business upswing. At this output level, capacity utilization probably will improve, and prices should finally rise. Historically, prices begin to show real strength only when production approaches 90 percent of capacity. Because of the industry's deteriorating state, we agree with those analysts who believe that prices in the future may show strength at substantially lower operating rates. If improved prices occur at the same time cost-cutting programs are lowering the industry's break-even point, the industry may achieve its long-sought return to profitability.

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Briefs

Energy

Luxembourg Shows Interest in Soviet Gas

Luxembourg Energy Minister Schlechter recently visited Moscow to discuss possible imports of Soviet gas by the end of the decade to meet increasing domestic demand. The talks were preliminary, and Luxembourg has indicated it will not make a decision until after discussions with other suppliers—the Netherlands and Norway—the EC, and the IEA. The government is aware of US concerns about West European overdependence on Soviet gas, and for political reasons would prefer to deal with either the Dutch or Norwegians. Nonetheless, Luxembourg's prime consideration will be price, and it probably would deal with the Soviet Union if the terms were advantageous. Moreover, the government could argue that such an agreement would not lead to excessive dependence on Soviet gas because the Netherlands currently covers all of its gas needs. A decision is not likely to be made for at least a year.

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Argentina Attempts To Rejuvenate Oil Sector

In an effort to boost stagnating oil production, Argentina has recently revised its petroleum regulations to encourage more foreign investment. Under the new decree, the oil operators will have increased control over the mix of high- and low-risk exploration tracts they may bid on and this will probably lower somewhat their investment risk. Nonetheless, substantial disincentives persist, and oil companies may remain reluctant to invest. The National Oil Company (YPF) will only pay 70 to 80 percent of the world price for the foreign oil company's share of oil output—slightly up from 60 percent under the previous regulations. Moreover, government supervision of oil company activities will remain pervasive and YPF retains the option to buy into promising finds, thereby reducing the potential return on an operator's investment. Companies had requested that buy-ins be paid in crude oil to assure payment from YPF that currently owes an estimated $6 billion to foreign oil operators. Payment, however, will still be primarily in dollars and local currency.

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Syria Rationing Electricity

Electricity rationing began in Damascus in late July, according to the US Embassy. Daily interruptions of service are averaging three to five hours, but sometimes last up to 10 hours. Subsidized rates to low-income users and state enterprises have helped push electricity consumption growth to 20 percent per year, while construction of generating capacity has lagged. Unlike past years, low water in the Euphrates River is only a minor part of the problem. The primary causes are poor government planning and slow contracting for new generating projects. Although Syrian officials hope to accelerate some projects—those being built by Western contractors—they still anticipate that rationing may continue until yearend 1986.

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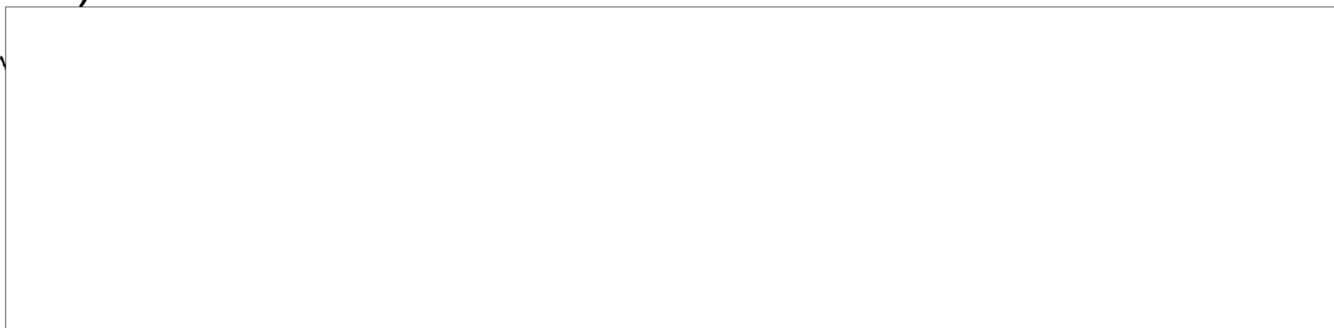
International Finance



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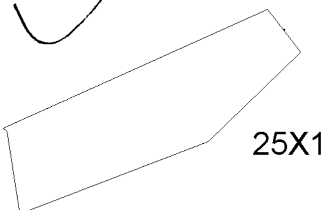
Liberia's IMF Review



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The IMF will review Liberia's financial situation next week and could suspend its membership if there is no significant reduction in the $41 million in arrears owed to the Fund. The IMF suspended the December 1984 standby arrangement earlier this year because Liberia failed to meet its debt obligations to the Fund and exceeded certain performance targets. Liberia remains mired in a severe foreign payments crisis with total external arrears expected to rise from $27 million at the end of last year to $117 by yearend.

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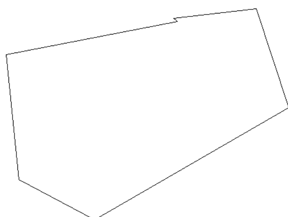
Global and Regional Developments

EC Support for Special GATT Meeting



The US Mission in Geneva reports that eight of the 10 EC members, plus Spain and Portugal, support the US request for a special GATT meeting early next month to discuss holding a new trade round. Although France and Italy have not yet responded, they probably will agree to the meeting. With some 18 votes still needed, the United States and other OECD countries are urging Caribbean and African states to agree. The September meeting, which will focus on general agenda issues and obtaining the support of developing countries should cause little disagreement between the United States and the EC. Beyond September, however, there are potential problems. For example, the French may again try to link monetary and trade problems. Moreover, the Community is also certain to deflect proposals that could affect its Common Agricultural Policy, and some members—particularly France—are wary of how a new round might affect the high-technology area.

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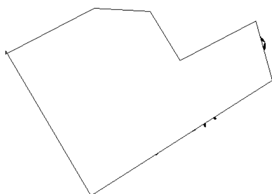
EC Proposes Aid to Soviet Clients



The EC Commission has proposed expanding Stabex—its system for compensating participating Third World exporters when expected foreign exchange earnings from exports to the EC fall short because of a drop in prices. New participants would include Afghanistan, South Yemen, North Yemen, Laos, Bangladesh, Bhutan, Haiti, the Maldives, and Nepal. It also has suggested appeals to the United States and Japan to make a parallel effort to help these countries. The proposal honors a promise the EC made at a UN conference in 1981. This expansion, expected by the Commission to cost the EC $88 million

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over five years, would have a negligible economic impact on the recipients. The Commission believes, however, the move could be a significant political gesture toward the Third World before the next UN conference in October on the least developed countries. The EC members—who will review the proposal in September—are divided on whether to pursue this initiative without similar efforts from other industrialized countries. The inclusion of Afghanistan, South Yemen, and Laos may induce the members to postpone a decision.

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Japanese and South Korean Automakers Step Up Cooperation

Japanese automakers are expanding their ties to South Korea's rapidly growing auto firms. Mitsubishi Motors is increasing its equity in Hyundai to 15 percent, and joint production of Mitsubishi's midsize Debonair model will begin next summer. Hyundai will produce the Debonair bodies—half for sale to the Korean market, and the rest for final assembly and sale in Japan. This is the first time a Japanese automaker has gone abroad to acquire major components for one of its cars. Meanwhile, Mazda and a major US automaker plan a joint venture with South Korea's Kia Industries to produce small passenger cars starting in 1987 with the US partner marketing a large part of the output in the United States and Canada. The Japanese believe Korea will become a major supplier of cars to the world market—especially for subcompacts. After only one year in the Canadian market, for example, Hyundai's new Pony model has surpassed all Japanese competitors to become the number one imported car in 1985.

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Japan Chooses European Components for Space Launch Vehicle

The Japanese space agency plans to purchase European components for its new H-2 launch vehicle because development and manufacture in Japan would be more expensive. The H-2 is scheduled to become operational in 1992. We believe West European suppliers were chosen over US firms because the Japanese want to avoid US restrictions on commercialization of the H-2—restrictions that were put on previous US-licensed space launchers. If Japan and Western Europe move on joint development of these components, we believe hardware costs will be reduced, making both Western Europe and Japan more competitive with US launch services.

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Soviets Eye Japanese Auto Engine Technology

According to Japanese press reports, the USSR is seeking sophisticated manufacturing technology from both Toyota and Nissan for production of 1,500 to 1,600 cc engines. They want capabilities in the assembly and production of all engine parts, not merely the assembly of engines using imported components. Production is expected to run between 100,000 to 200,000 engines annually. This size engine is used in the Moscvich—about 200,000 were produced in 1982. Toyota is reluctant because production of engine parts requires high-level technologies. Nissan is still studying the inquiry. In view of the Soviet market potential, however, we believe that the Japanese auto makers may meet some of the USSR's demands. Moscow apparently turned to the Japanese when a joint venture with Renault failed to crystallize.

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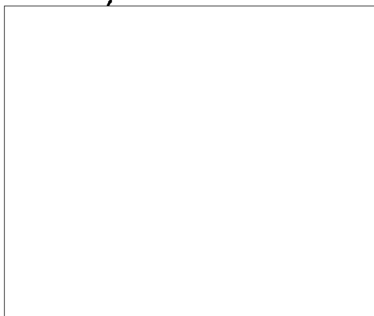

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the French firms CIT-Alcatel and Thomson CSF, the Dutch firm Philips, and a major US telecommunications manufacturer signed a joint venture agreement on 27 June. French Government approval is expected in the near future. Among its terms, the agreement calls for the US/Dutch partnership to manufacture digital switches in France and market them in France and abroad, and a joint venture between the US/Dutch partnership and Compagnie Generale D'Electricite in the digital microwave market. This agreement illustrates the changing structure of the telecommunications industry as full-line manufacturers seek global corporate alliances rather than continuing independent competition. Technical and economic pressures are forcing governments to yield control of this strategically important industry implicitly accepting future dependence on foreign technology. This is being brought about by the high R&D costs in the new digital technologies, and the incursion of nontelecommunications firms into low-end customer equipment markets. The agreement—President Mitterrand reportedly has been actively involved—also tacitly acknowledges the failure of the French telecommunications strategy of the past decade. This strategy of expanding the French market through the purchase of modern equipment by the government postal, telephone, and telegraph monopoly was to provide the stimulus for French manufacturers to develop competitive products and move into strong export positions thus providing jobs and prestige for French industry.

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National Developments

Developed Countries

Japan Debating Economic Stimulus

Tokyo established a high-level committee early this month to study measures to boost imports by expanding domestic demand. Areas under consideration include encouraging the private sector to construct public works, reducing the regulatory burden on private businesses, making public lands available for construction, and accelerating the introduction of the five-day workweek. A full report is due to the Cabinet by 10 October. In our view, the short deadline as well as Finance Ministry opposition to increases in government expenditure make it unlikely Tokyo will adopt any expansionary policy in the near term. The resignation last week of State Minister Komoto, moreover, removed from the Cabinet one of the few supporters of economic stimulus.

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Japanese Steamship Company Fails

With debts totaling approximately $2.2 billion, Sanko Steamship Company—one of the world's largest ocean shipping companies—filed for protection from creditors last week, and early this week a Japanese court froze its assets. Sanko's collapse—the result of mismanagement and more than a decade of depression in the industry—is affecting the political fortunes of Sanko owner

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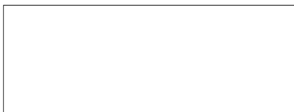
and Liberal Democratic Party faction leader Toshio Komoto. Komoto has already resigned from the Cabinet. Although his small faction of 35 is holding together for now, it will probably dissolve eventually, affecting alignments in the party. Sanko's bankruptcy—the largest in Japanese corporate history—could have some impact on Sanko's creditors, according to the Finance Minister. The Transportation Ministry has deleted all funding for Sanko from its 1986 budget proposal and the firm's major creditor banks in Japan refused additional financing despite requests by the Transportation Minister. Although we believe serious disruption to Japanese banking is unlikely, the Finance Ministry and the Bank of Japan are monitoring the situation. 25X1

Tokyo Narrowly Targeting Advanced Materials

The Japanese recently have begun narrowly targeting development of advanced materials. 25X1 Since 1981, MITI has targeted broad classes of advanced materials, such as fine ceramics and composites, in its "Next-Generation Industries Basic Technologies R&D Program." 25X1 In 1985 Tokyo has begun augmenting general R&D tax credits with an additional 7-percent credit for certain aspects of advanced materials development in fine ceramics, rapidly solidified materials, and nondestructive testing techniques. Meanwhile, subsidized loans to support R&D on advanced materials are available from the Japan Development Bank's "Industrial Technology Development Loan System" and the Smaller Business Finance Corporation's "New Technology Commercialization Loan System" at interest rates ranging from 7.1 to 7.9 percent. MITI's leverage on advanced materials R&D has an effect well beyond the value of the subsidies themselves, as Japanese firms generally respond by allocating substantial corporate funds to development of targeted materials and manufacturing processes. 25X1

West Germany Eases Monetary Policy



In an effort to boost domestic demand, the Bundesbank last week cut its Lombard and discount lending rates by 0.5 percentage point to 5.5 and 4.0 percent, respectively. 25X1 Bundesbank President Poehl is publicly urging commercial banks to pass on the rate cuts to their customers quickly to speed up the stimulative effects of the move. The Bundesbank last lowered its lending rates in March 1983 but subsequently raised rates several times to strengthen the mark. The recent appreciation of the mark—now at about DM 2.8 against the US dollar compared to a low of DM 3.5 in February—has enabled the central bank to loosen credit. Although the Kohl government has been criticized for maintaining tight fiscal policies despite the growth in unemployment, the financial authorities emphasize that continued shrinkage in the federal deficit will also induce easier credit. The lending rate cuts probably will have a negligible impact on this year's 2.5-percent GDP growth, but will raise output by about 0.1 percentage point in both 1986 and 1987.

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New Greek Austerity Measures Likely

Prime Minister Papandreou is weighing plans for limited austerity measures aimed at reversing the continuing deterioration in the foreign payments position. In the first four months of 1985, the current account deficit reached $1.4 billion, up 32 percent over the same period last year. Reportedly, Papandreou is considering import restrictions, reforming the automatic indexing of wages, and reducing state subsidies to the public enterprises. We believe it is likely that Papandreou will go ahead with these measures, since he has made the economy—which he has described as grim—the top priority of his second term. In an attempt to revive private investment, Papandreou also will try to lessen the confrontational atmosphere between his government and the business community. The measures under consideration, however, fall short of the liberalization program called for by business leaders, who favor lifting price controls and easing restrictions on reducing the work force to improve profits.

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Australia Starting Over on Tax Reform

Treasurer Keating last week scrapped the Labor government's "compromise" tax reform plan in a move widely interpreted by the domestic press as a humiliating defeat for Prime Minister Hawke. The compromise plan—which lowered income taxes, extended coverage of the wholesale tax, and imposed taxes on capital gains and fringe benefits—was hurriedly drafted after Hawke's conclave of key interest groups in July failed to reach a consensus. Keating called the compromise ill conceived and unworkable—adding US $210 million to this year's estimated $4.3 billion budget deficit, riddling the economy with tax anomalies, and benefiting low-income groups less than his original reform proposals. Keating, however, may be clearing the deck to introduce a new slate of tax reforms when Parliament opens next week—with the budget its first item of business. To obtain any tax reform, Hawke must convince the Labor Party caucus—which remains divided on the tax issue—that he still controls the policy agenda. Hawke is likely to argue that failure on this issue would be politically damaging to the party, not just to himself.

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Less Developed Countries

Chile's New Economic Team

Proponents of free market policies are solidifying their hold over the economic team, portending more coherence in implementing policy. The new Minister of Economy, Delano Ortuzar, supports market solutions and advocates export promotion and new foreign investment to strengthen the economy. The US Embassy reports he will work to limit the size of the public sector—and improve its efficiency and profitability—to lower inflation and interest rates. Delano indicates he will relinquish the role of overall coordinator of the economic team, strengthening the influence of Finance Minister Buchi. Since his appointment earlier this year, Buchi has implemented economic adjustments and market reforms necessary to bolster creditor confidence and lay the foundations for future economic improvement.

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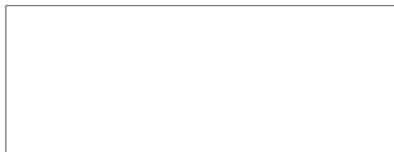
Guatemalan Economic Pressures Build



Chief of State Mejia continues to face strong opposition in his attempts to stabilize the economy prior to the presidential election scheduled for November. Mejia's recent threat to nationalize exports and close foreign exchange houses, and promise of legislation to end free trading of foreign currencies provoked objections from the private sector. Mejia hopes these moves will stem the sharp depreciation of the quetzal—which has declined by more than 50 percent against the US dollar this year—and bolster government control over foreign exchange receipts. We believe a major nationalization is unlikely, but the fact that Mejia is willing to risk alienating the influential business community underscores the seriousness of the country's foreign exchange problems.

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Libya Expels Foreign Workers

Since early August over 23,000 Tunisians and as many as 9,000 Egyptians, Algerians, Syrians, Malians, and Mauritanians have been deported and the flow shows no sign of abating. Libyan leader Qadhafi almost certainly regards the nearly 400,000 foreign workers in the country as potential supporters of exiled Libyan dissidents. This threat, as well as the inability of Libyan security forces to suppress recurrent outbreaks of antiregime activities, may be prompting the expulsions on security grounds. Expelling the workers without identity papers gives Qadhafi an excellent opportunity to infiltrate Libyan agents into such target countries as Tunisia, Egypt, and Algeria. While dwindling oil income provides a motive for reducing the foreign population, Tripoli needs foreign expertise to keep its small, modern economy running. In addition, Qadhafi hinted in a recent press interview that consumer goods left behind by departing workers may be used to ease domestic discontent over shortages.

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Moroccan Grain Supply Nip and Tuck

Morocco's grain harvest totaled only 3.7 million metric tons, according to the US agricultural attache in Rabat. Adverse weather was the culprit, cutting wheat production by 30 percent and barley production by 20 percent from their 10-year averages. Based on attache projections, Morocco probably has sufficient foodgrains in the pipeline to meet domestic requirements through 1985, but little more to add to already depleted stocks. The US Embassy estimates yearend wheat reserves at 45,000 to 130,000 tons—less than one month of consumption. Credits have yet to be arranged to meet expected cereal import needs beyond this year, except for the possible resumption of US CCC credits. Even this option is unavailable until Morocco repays its arrears to the United States. Moreover, there is no indication that France will once again supply 1 million tons of concessional grain. This need for food aid will put even more pressure on Morocco to negotiate a new IMF program.

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Tunisian Labor Problems Heat Up

Tunisia's powerful labor union may take a more militant stand against government intransigence on wages over the next several months. Negotiations with the government in July failed to win new concessions, prompting calls for strikes in key sectors in the near future. A general transportation strike on 5 August garnered only limited support from transport workers in Tunis, but local police were needed to man buses to prevent disruption of service. Rumors are spreading that transport workers will launch a countrywide, three-day

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strike in September and similar actions are proposed by several other unions. Strikes may backfire, however, because the government stand on linking wage hikes to improvements in productivity is gaining popular support, according to the US Embassy. Nevertheless, union leaders are under increasing pressure from radical union elements and probably will have to adopt more get tough measures to maintain union solidarity and a viable opposition to the governments's wage policies.

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Initial Shipments of Libyan Aid to Sudan

Khartoum has given extensive press coverage to the first segment of the promised 1,000-truck Libyan aid convoy to reach western Sudan. According to the US Embassy in Khartoum, the 43-truck relief shipment included tractors and several hundred tons of food. In addition, 50,000 tons of the long-delayed Libyan oil grant is now en route. The US Embassy reports that the aid convoy was led by members of the Libyan-supported and -trained Sudanese Revolutionary Committees, who may also be bringing in arms. Tripoli probably will use offers of additional aid to expand its influence in Khartoum. Libyan leader Qadhafi wants a pro-Libyan regime as a lever against Egypt and to preclude US military use of Sudanese territory.

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Sudanese Insecticide Purchase

a West German–led syndicate of West European banks has offered Sudan nearly US $40 million in financing. The only restriction is that none of the money may be used to purchase aldicarb, a US insecticide used in cotton production. Citing environmental concerns, the West Germans have offered alternative chemicals—most of German manufacture. Prior to the European offer, Sudan had placed a US $5.7 million order for aldicarb. The West Germans indicated future funding would be affected by any plan to finance the US purchase separately. The environmental concerns are largely unfounded, and the objective is probably to undercut the US market. We believe the Sudanese will accept the European terms, however. One Sudanese official has already been removed for stating a preference for the US insecticide. Cotton yields may decline slightly as growers adjust to new chemicals, but there should not be any long-term reduction.

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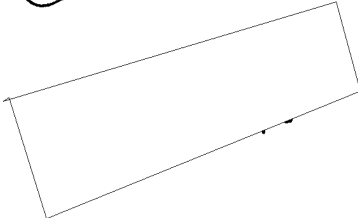
Jordan's Protectionist Measures



Jordan's Cabinet last Saturday approved a variety of measures aimed at protecting local industries. Customs duties on luxury goods were increased and restrictions imposed on the importation of many items produced domestically. In a related move, tax exemptions were increased for export-oriented industries. These are the first economic measures introduced in several months and may reflect renewed concerns about Jordan's financial position. The Jordanian Government has temporarily stemmed the steep drop in foreign exchange reserves by securing installments of aid previously promised by some Arab states. Official foreign exchange holdings—just $366 million at the end of June—remain low, however, equaling about half the level held last June and less than two months worth of imports. 25X1

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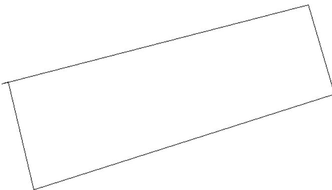
India Suspends Auto Joint Ventures



In an unexpected move, New Delhi has decided to suspend further foreign collaborations with Indian auto firms. Over the past few years, joint ventures between Indian companies and foreign car manufacturers—mostly Japanese—have grown rapidly in response to the easing of government regulations that has encouraged increased competition and production in the domestic market. The new ruling will delay recent agreements, including the large Tata-Honda deal, until a top-level government committee examines the state of the domestic auto industry and future Indian demand for passenger cars. The Gandhi administration is concerned that rapid, unregulated growth will lead to the transfer of outdated technololgy to India, the production of too many cars for India's needs, and a serious drain of scarce foreign exchange when foreign payment strains are expected. The abrupt suspension indicates both that Gandhi's new economic policy is still evolving and that India's external financial position is likely to be a major factor determining the pace of liberalization in industries that require substantial imports or payments for foreign technology. 25X1

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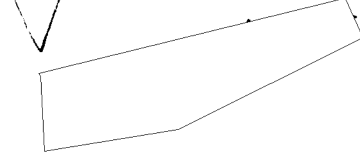
Afghan Refugees a Pakistani Headache



Refugee migration to urban areas in Pakistan—combined with the substantial sums of money some refugees bring—is causing sharp increases in urban rents and land prices, Although migration has alleviated local labor shortages in the past, it is now creating labor surpluses that depress wages in some areas. Refugees are opening numerous small businesses, and in Baluchistan they already dominate industries such as trucking and shoe manufacturing. Relations between local residents and refugees are good, but may deteriorate if the economy declines. The press and government officials are already blaming Afghan refugees for 70 percent of all crime in Baluchistan. In addition, Afghans are being held responsible for declines in wages in some areas and are likely to be blamed, for example, for the increased unemployment caused in part by Pakistanis returning from the Middle East. 25X1

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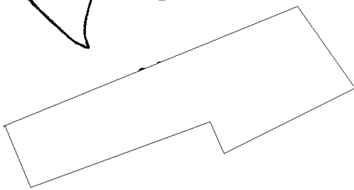
Singapore Recommends Wage Freeze



Reacting to the 1.4-percent decline in second-quarter economic performance, Prime Minister Lee early this week reversed the nation's six-year-old high-wage policy. He called for a voluntary two-year freeze on wages to allow Singapore to regain export competitiveness. Lee also encouraged businesses to

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slash capacity in traditional industries with bleak futures—such as shipbuilding and oil refining—and intensify the search for high-tech growth industries—such as biotechnology, specialty chemicals, telecommunications equipment. Barring world recession and with business cooperation, Lee claims that such measures should restore economic growth to traditional levels—about 8 to 9 percent annually—by 1987. Lee, however, has dashed business hopes for reductions in mandatory contributions to the national retirement fund—40 percent of labor costs—and is probably underestimating the seriousness of Singapore's economic problems and overestimating how quickly growth will rebound.

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USSR-Italian Agreement on Purchase of Steel Pipe Plant

According to the US Embassy in Rome, Moscow has reached agreement with the Italian firm Italimpianti for a turnkey steel plant to be built at the Volzhskiy pipe works near Volgograd. The plant, which reportedly will cost $970 million, will produce over 700,000 tons of seamless drill pipe for use in oil and gas production. The contract is to be signed in late August or early September and construction is expected to take three years. High-quality pipe is important to the Soviet oil and gas industry, and the Italians are considered to have some of the best pipe production equipment. Italimpiante beat out German and Japanese competition to win the contract. This purchase may help reduce Italy's trade gap with the USSR, which was about $2.3 billion in 1984.

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Further Expansion of the Soviet Industrial Experiment

The Soviets have announced a major expansion of the experiment in industrial management that was launched in five All-Union and republic level ministries in January 1984 and extended this year to 20 additional ministries. The experiment is extended to all production enterprises under machine-building and consumer related ministries for 1986, and to all remaining industrial enterprises by 1987. The extension increases enterprises' rights to use their own funds and bank credits for retooling without ministerial approval, provides for higher prices on top quality output and increases penalties for delayed or incomplete deliveries and for substandard goods. Although previous efforts to decentralize investment and provide effective incentives and penalties have been unsuccessful, Soviet officials have expressed some satisfaction with the experiment thus far. Whether such satisfaction continues will depend on the ability of the larger number of enterprises now involved to find enough investment goods available to purchase.

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Polish Economy Stagnating

The Polish economy is having trouble rebounding from the severe winter and seems unlikely to attain growth targets this year. Industrial production stagnated during the first six months of 1985 compared with a year earlier; output in the key mining sector fell 2.7 percent and production in the fuel, chemical, and construction material industries also dropped. Although food

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supplies were generally adequate, smaller quantities of fish, sugar, flour, milk, and eggs were available. Residential construction was depressed with 14 percent fewer apartments completed. Moreover, Poland's trade surplus with the West declined $189 million during the first six months of 1985 compared with the same period last year; hard currency imports increased 9.5 percent while exports grew only 0.5 percent. The severe winter caused coal consumption to rise, contributing to a 17-percent drop in sales to the West—an estimated hard currency loss of $100 million. Unless production of export goods begins to improve, Warsaw will fall at least $500 million short in earnings needed to meet obligations under rescheduling agreements.

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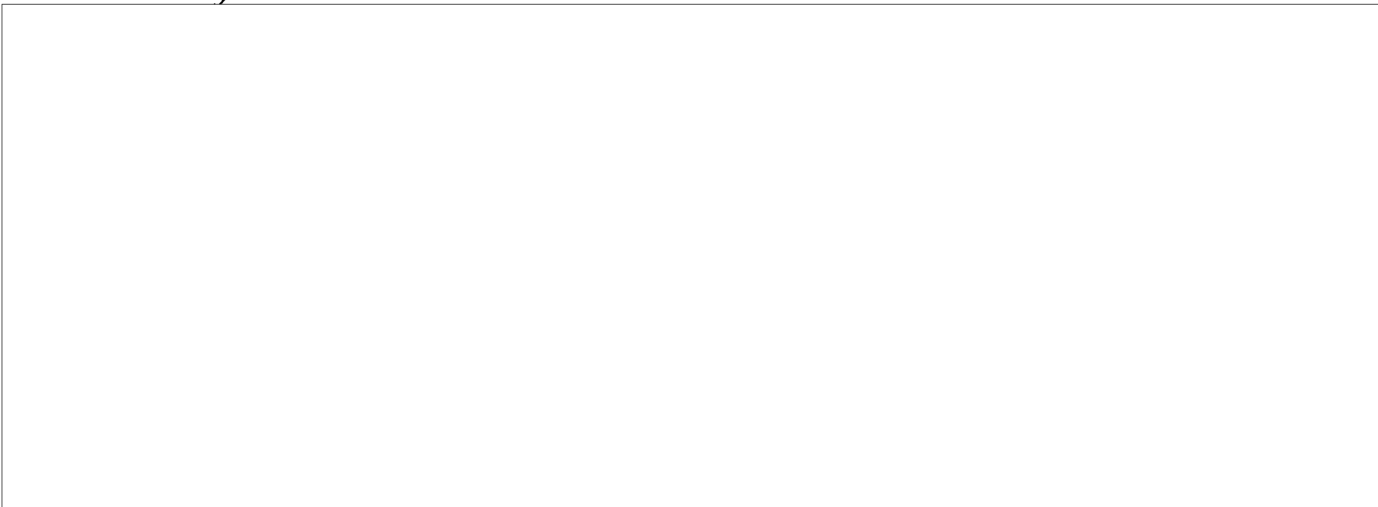

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Problems in Chinese Meat Production

New policies that allow market forces to set prices have resulted in a serious shortage of warehouse space in China's major meat-producing areas. Rising meat prices—up about 14 percent in the first quarter of this year—encouraged peasants to increase production but hurt retail demand. A shortage of cold storage facilities and poor transportation complicate the problem by limiting the transfer of meat to areas in shorter supply. Last year China produced 373,000 metric tons of beef and was the world's largest pork producer with output reaching 14.4 million tons, up 1 million tons from 1983.

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China Initiates Domestic Grain Futures Contracts

An official Chinese economic journal has announced that futures contracts for grain will be allowed this year in major producing areas. Contracts may be signed for a delivery date of up to five years, and are apparently designed for dealings between peasants and state grain companies. Once signed the contracts could be marketed to third parties, although no central clearinghouse will be available to facilitate trading. The development of futures is a logical extension of recent measures designed to make all state purchases through contracts rather than procurement quotas. Futures trading, however, will undoubtedly be attacked by opponents of economic reform because it encourages speculation by both individual producers and state grain companies. China currently has no provisions for bankruptcy, and speculation is illegal.

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