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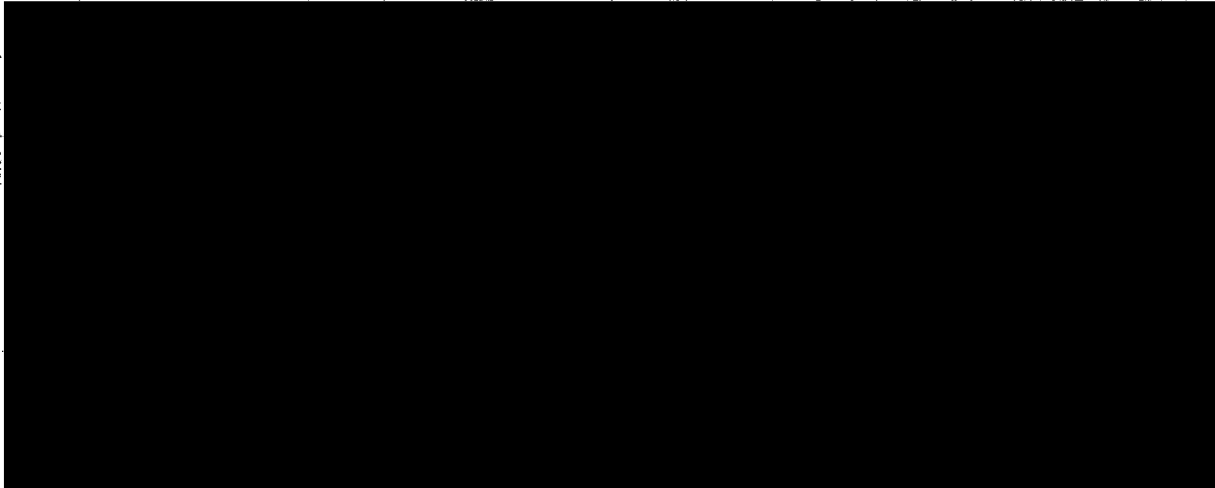
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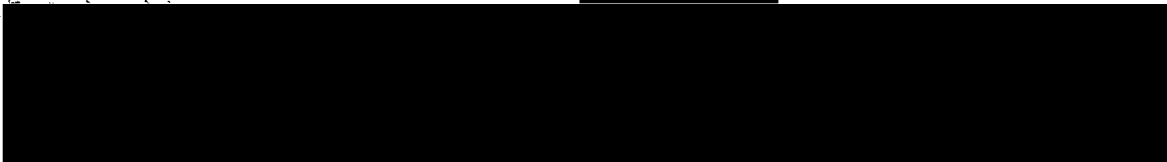
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**Non-OPEC LDCs: Majority in
Economic Trouble** ■

Slower growth, higher inflation rates, and increased current account deficits plague most non-OPEC LDCs, and prospects are for more of the same.



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Non-OPEC LDCs: Majority in Economic Trouble *

The last 18 months have seen a widening gap in economic performances between those non-OPEC LDCs that export oil and those that do not. This has been especially pointed in the spreads between their respective current account growth indicators and their high and rising inflation rates. ■

A key turning point came in late 1978, and marked deterioration continued throughout 1979. For the nearly 100 LDCs in the non-oil-exporting group,** the results were readily apparent in the standard indicators:

- The real rate of growth of GNP fell 0.5-1.0 percentage points. For the group as a whole, this meant a decline from 5.0 in 1978 to 4.5 percent in 1979; excluding the volatile Indian and Argentine economies, the comparable figures were 6.4 and 5.4 percent, respectively.***
- The combined inflation rate rose 11 points. Overall, this meant an increase from 35 percent (1978) to 46 percent (1979). However, removing hyperinflated Argentina and Brazil, the comparable rates were 12 percent and 18 percent.
- The deficit in the current account rose to \$38 billion, as the net increase in the oil bill alone ran about \$10 billion. ■

The principal element in this slide from the fairly buoyant 1976-78 period was the new oil crisis. Beginning with the Iranian production cutback in late 1978, many LDCs were sent scurrying onto the

* This article is based on a soon-to-be published intelligence assessment entitled *Economic Outlook for the Non-OPEC LDCs* (Confidential). ■

** This subgroup includes all the non-OPEC LDCs except Bahrain, Egypt, Malaysia, Mexico, Oman, Peru, Syria, and Trinidad and Tobago. It accounts for 88 percent of gross non-OPEC LDC oil exports. ■

*** All group growth and inflation rates in this article are GNP-weighted. The base year for the weights is 1976. ■

spot oil market to meet their oil needs, and their import bills rose sharply. Unsettled economic conditions in the developed countries and revised OPEC development plans also prevented many LDCs from expanding exports as rapidly as in the past. The return of poor crop conditions in the Sahel, the Indian subcontinent, and parts of Latin America also sapped growth rates there. Faced with these factors, several LDCs—Brazil and South Korea stand out—had already projected sharp changes in their economic policies before the official OPEC oil prices took off in early 1979. ■

By and large, the economies of the non-OPEC LDCs are in for rough sailing again this year. Further hikes in oil prices since 1979, generally poor economic performance in the OECD countries, and slowed OPEC development programs will again affect most of the group. We project that:

- Their current account deficit will soar some 15 billion to reach \$53 billion.
- Excluding India and Argentina, their real growth will fall nearly another percentage point from 1979.
- Recent high inflation rates will remain essentially the same despite the falloff in growth. ■

The course of events in 1981 is critical. If the non-oil-exporting LDCs experience another sharp deterioration in their terms of trade they could be back to the conditions of 1975, their worst overall economic performance in the past quarter century, and would have to constrain imports even more severely. Irrespective of events next year, the clear signals are that LDC economic growth rates will for some time remain well below the high rates (6 to 8 percent) of the 1960s and 1970s. The likelihood of rising oil prices, and the absence of any major energy alternatives to oil in most LDCs augur generally slower gains in per capita incomes through much of the Third World during the 1980s. For an increasing number of countries—particularly in

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Sub-Saharan Africa and the Caribbean basin—this setback will amplify serious and persistent problems with rapid urbanization and declining food self-sufficiency. ■

The Outlook for 1980

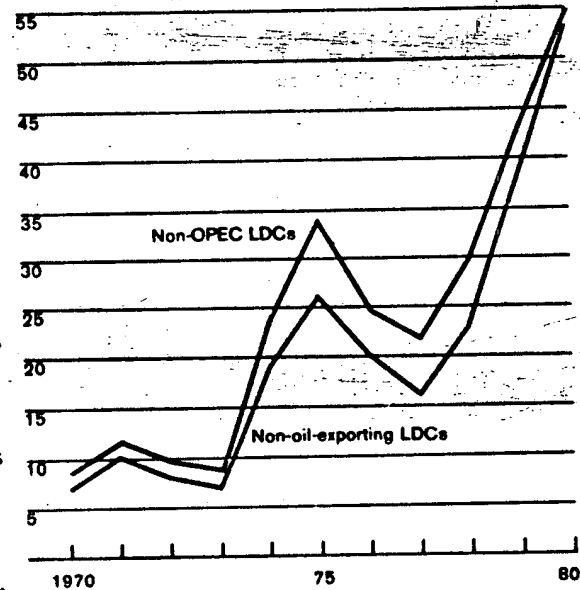
Even the most slow-reacting LDC policymakers now grasp that 1980 will be an especially difficult year. The single factor in the overall current account deterioration among non-oil-exporting LDCs will be the increase in their oil import bills. Particular growth and inflation rates will largely depend on the capacities of individual LDCs to accommodate this continued disturbance. For many LDCs, the broad strategy will be to (a) hold the volume of oil imports constant, (b) take whatever import growth is possible in capital goods and raw materials, (c) run down exchange reserves and real inventories, and (d) accept slower economic growth. Indeed, features of this strategy are already evident in early economic returns and policy announcements throughout the Third World. ■

The Current Account. Higher oil bills, the continued soft demand in OECD markets, and steady rises in the prices of imports augur a \$15-billion slide in the current account of the non-oil-exporting LDCs. The largest component of this figure will be the \$12-billion addition to the combined oil import bill of Brazil, India, the Philippines, South Korea, and Taiwan. Many of the middle-income, non-oil-exporting LDCs will be able to muddle through 1980 without radically changing their patterns of borrowing or debt repayment; they nonetheless will have to clampdown on domestic spending and nonoil imports to meet oil bills and debt service payments. The press of these problems will be especially strong in countries like those in Central America, where there is some development of domestic industry but virtually all fuels are imported. ■

For some smaller or more backward oil-importing countries, payments problems will tend to be handled as they come to a head. Many, like Bolivia and Sudan, will be forced by international lenders to put the clamps on as a prerequisite to needed debt rescheduling. For Jamaica, forced austerity will

Non-OPEC LDCs: Current Account Deficits

Billion US \$



continue as the government seeks to reschedule its entire stock of debt. The prospect of serious political problems may make other LDCs reluctant to implement necessary reforms. ■

Financing the 1980 Deficit. A combined current account deficit of almost \$55 billion presents a serious financing challenge to the non-OPEC LDCs. If they try to maintain their yearend 1979 position of holding sufficient foreign exchange to finance four months of imports, they would have to muster close to \$70 billion on the capital account beyond likely foreign private investment and programed foreign aid. Some of this will come from the IMF and other international institutions, but a large share will have to be covered by private lenders. Most likely, the outcome will be some reduction in foreign exchange reserve/import ratios, the amount

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dependent on average spreads and interest rates for funds in private capital markets. The implication is that the already growing debt-service ratios of the LDCs—especially those in the middle-income rank—will spurt up again over the next several years. ■

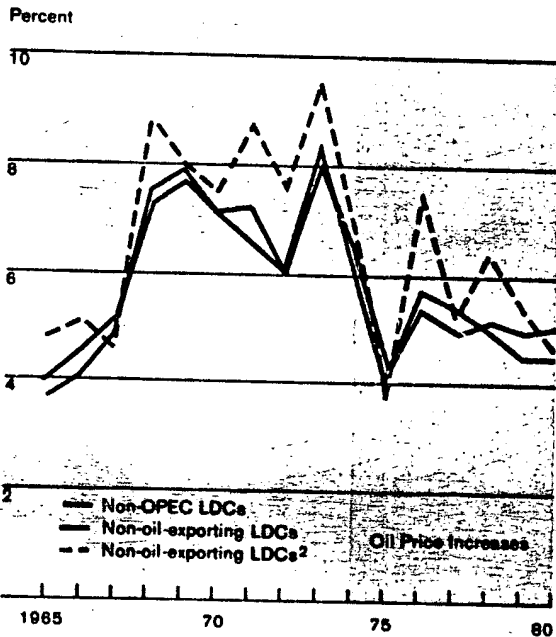
Although we do not foresee a widespread problem in securing private financing this year, concern remains high among international financial circles about the large accruing debts of some LDCs. Even among some of the smaller middle-income countries, debt levels are complicating the problems of financing the current account deficit. For example, bankers are worried about the ability of the Philippines to service its debt in light of the limited potential for expanding export earning in the short run. Recent turmoil in Central America, classically an attractive area for private lending, also is adding to bankers' worries. ■

The private financial markets will not, of course, take up all of the funding problems of the LDCs. LDCs that are simply considered bad risks because of past problems in meeting debt payments or that have done little prior borrowing on the private markets may encounter even more serious financing problems this year. Countries that have had no experience on private markets because of a narrow export base or other reasons will continue to be dependent upon the largess of developed and OPEC countries, neither of which can be counted on for substantial aid increases except for political reasons. ■

Output Growth. Overall, the non-oil-exporting LDCs—less India and Argentina*—will probably see a drop of nearly 1 percentage point in weighted GNP growth to about 4.5 percent in 1980. Advanced LDCs like Brazil, South Korea, and Taiwan will have the most difficulty sustaining previous growth rates. To varying degrees, their growth will be held back by large current account deficits that restrain imports, inflation-fighting policies, and the

* India and Argentina are removed because their large GNP weights and unusual circumstances—India's recovery from severe drought and Argentina's volatile swings in output during the last several years—would distort the analysis. ■

Non-OPEC LDCs: Real GNP Growth Rates¹



¹ Weighted by 1976 GNP.
² Excluding Argentina and Brazil.

falloff in export demand. Some of the non-oil-exporting LDCs will turn in a better-than-average growth performance despite adverse conditions in the world economy because of favorable export earnings (Chile) or expected agricultural improvements (Bangladesh and a few of the Sub-Saharan African LDCs) ■

Almost half of the non-oil-LDCs will experience growth less than the weighted group average. The poor performers run the gamut from the very poor (Haiti) to some upper-middle-income countries (Jamaica, Namibia), and from the totally oil-deficient (Madagascar) to some small oil exporters (Angola, Bolivia, Zaire). As in 1979, the Central American LDCs, usually among the faster growing

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**Non-Oil-Exporting LDCs:
Comparative Growth
Performances in 1980**

Better Performance Than the Non-Oil-Exporting Group Average

Bangladesh	Jordan	Paraguay	Thailand
Benin	Lesotho	Senegal	Tunisia
Burma	Malawi	Seychelles	Upper Volta
Cameroon	Mali	Singapore	
Chile	Mauritius	Sri Lanka	
Hong Kong	Nicaragua	Taiwan	

Near the Non-Oil-Exporting Group Average¹

Argentina	Cyprus	Liberia	Rwanda
Barbados	Dominican Republic	Mauritania	Swaziland
Botswana	Gambia	Niger	Togo
Brazil	Honduras	Pakistan	Uruguay
Chad	India	Philippines	Yemen, AR
Colombia	Ivory Coast	Rhodesia	

Worse Than the Non-Oil-Exporting Group Average

Afghanistan	Fiji	Madagascar	Sierra Leone
Angola	Ghana	Morocco	Sudan
Bahamas	Grenada	Mozambique	Suriname
Bolivia	Guatemala	Namibia	Tanzania
Burundi	Guinea	Nauru	Tonga
Central African Republic	Guinea-Bissau	Nepal	Uganda
Comoros	Guyana	Panama	Western Samoa
Congo, PR	Haiti	Papua New Guinea	Yemen, PDR
Costa Rica	Jamaica	Sao Tome and Principe	Zaire
El Salvador	Kenya	South Korea	Zambia
Ethiopia			

¹ Countries in this group are expected to come within half a percentage point of the group's weighted average GNP growth of 4.5 percent.

economies, stood out near the bottom of the list because of their heavy oil-import dependence, balance-of-payments problems, and domestic political disruptions

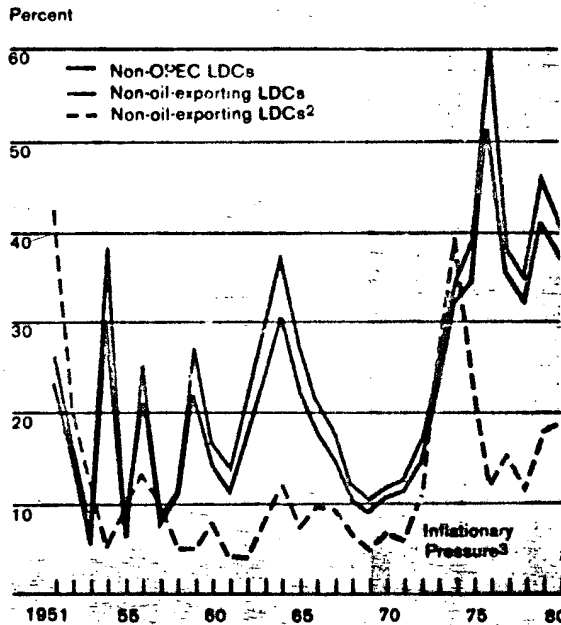
Inflation. The inflation outlook is for a steadying of rates after last year's sharp runup. The non-oil-LDCs as a whole will probably show some subsidence, from 46 to about 41 percent this year. A large

chunk of that improvement, however, will come from two of the bigger LDCs; with hyperinflated Brazil and Argentina taken out, we expect some slight deterioration, from 18 to 19 percent.

Price increases for both petroleum and nonoil imports will continue to hurt most of the non-oil-exporting LDCs as they work their way through the domestic economies. These factors will again make

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**Non-OPEC LDCs:
Aggregate Inflation Rates¹**



¹Weighted by 1978 GNP.
²Excluding Argentina and Brazil.
³Overly expansive fiscal and monetary policies, commodity export boom, and the 1973/74 oil crisis.

matters worse for those LDCs—such as Jamaica, Kenya, Sudan, and Zaire—that have been experiencing serious stabilization problems for the last few years. Lifting of price controls on basic consumer items or the removal of subsidies will, in the short run, be reflected in non-oil-exporting LDCs such as Panama, Uruguay, Guyana, and Senegal. Expected high levels of deficit spending will add to the inflation woes of Bolivia, Guyana, Pakistan, and most of the Sub-Saharan African LDCs.

Rising revenues from commodity exports and growing deficit spending will fuel inflation in most oil-exporting non-OPEC LDCs. In Egypt, the government will continue to subsidize food prices with inflationary budget deficits. In Malaysia, inflation will rise as a result of sharp increases in consumption

and public investment. A probable exception is Peru, which intends to fight inflation by tightening credit policy and improving government financial management.

Scenarios for 1981

LDCs are running out of policy options that can simultaneously accommodate soaring oil prices and programs for economic growth and development. If official oil prices next year are held to an average of \$33 per barrel the resulting small improvement in the LDC terms of trade would allow policymakers to put aside for a time the overriding problem of paying the oil bill and instead focus on financial and resource allocation policies that could stimulate economic growth. How much breathing space they actually enjoy, however, will depend not only on oil prices but on the rate of economic recovery in the major industrial countries which will exert a strong influence on LDC export performance. At the moment, most forecasts of OECD growth for 1980 and 1981 are becoming increasingly pessimistic.

Assuming a strong revival in OECD growth and no real oil price hikes, countries such as Hong Kong, South Korea, Taiwan, Brazil, and Singapore would be able to use rebounding export growth to partly offset higher oil bills. Improved export performance could be enough to push the non-oil-exporting LDC aggregate growth rate above 5 percent for the first time since 1977 and shave from 1 to 10 percentage points off the inflation rate of most of them. Even in this case, exporters of a narrow range of price-stable primary products, such as Costa Rica, Ghana, Tanzania, Zaire, and Zambia, would see little, if any, improvement in growth rates. Continued domestic and regional political turmoil will also take its toll, especially in parts of Africa and the Caribbean basin.

If oil prices were to rise in real terms by 5-10 percent next year the non-oil-exporting LDCs would suffer another serious economic blow. Growth rates would again turn in under 5 percent, and inflation would remain high. Advanced LDC manufactures exporters and primary goods producers alike would be hit

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**Non-Oil-Exporting LDCs:
Comparative Inflation
Performances in 1980**

Better Performance Than the Non-Oil-Exporting Group Average (less than 13 percent)

Bahamas	Gambia	Madagascar	Taiwan
Burma	Hong Kong	Malawi	Tunisia
Chad	India	Mauritania	Yemen, PDR
Costa Rica	Kenya	Mauritius	
Cyprus	Liberia	Singapore	

Near the Non-Oil-Exporting Group Average (13 to 23 percent) ¹

Afghanistan	Grenada	Nepal	Somalia
Bangladesh	Guatemala	Nicaragua	South Korea
Barbados	Guyana	Niger	Sri Lanka
Bolivia	Haiti	Pakistan	Suriname
Cameroon	Honduras	Panama	Swaziland
Cape Verde	Ivory Coast	Philippines	Thailand
Central African Republic	Jamaica	Rhodesia	Togo
Chile	Jordan	Rwanda	Zambia
Congo, PR	Lesotho	Senegal	
Ethiopia	Morocco	Sierra Leone	

Worse than the Non-Oil-Exporting Group Average (more than 23 percent)

Argentina	El Salvador	Tanzania	Yemen, AR
Brazil	Ghana	Uganda	Zaire
Colombia	Paraguay	Upper Volta	
Dominican Republic	Sudan	Uruguay	

¹ The countries in this group are expected to come within 5 percentage points of the group's weighted average inflation of 18.6 percent (excluding Brazil and Argentina). Brazil and Argentina are excluded because of their hyperinflation and big weights.



by a continued slump in major markets and the effect of oil prices on inflation and current accounts balances. With rising real oil prices and poor economic growth prospects, international bankers would be chary of lending to cover the LDCs trade-related debt and even the most creditworthy country could run into financing difficulties. The non-oil-exporting LDCs in the best position to survive such a scenario are those largely energy-self-sufficient (including Argentina and Tunisia), and those that would make little economic progress in any case (such as Ghana, Jamaica, and Sudan).

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