Third quarter 1979: the major trends

A summary of the commodity-content of leading international trade agreements for the third quarter of 1979 requires the explanation that "politics," as much if not more than questions of currency and the like are determining world trade. The fact that certain British and U.S. circles seek to replace European and Japanese trade ties to OPEC and the Soviet sector with anti-Soviet strategic ties to China, Egypt, Israel and so forth

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exemplifies this point. Otherwise, a third quarter review of trade deals shows a number of significant developments.

* Shipbuilding and nuclear reactor exports have all but collapsed.
* Aircraft orders remain strong, but largely for obsolete technology.
* Some significant industrial-project lending has continued to the so-called NDCs (newly industrialized countries). This contrasts with the "Fourth World" sector, where project lending has all but collapsed.
* There is a rise in bilateral oil deals between producer and consumer countries, including oil-for-technology deals—an understandable defense against the multis after Iran's recent oil production shutdown.
* There are some noteworthy deals between France and West Germany on the one hand and the Comecon sector on the other. The Soviet Union for its part continues to function as the transmitter of technology to a number of key "NDCs" such as India.

Nuclear reactors

Nuclear reactor exports during the third quarter were minimal in the wake of the news media's "accident" at Three Mile Island (Harrisburg, Pennsylvania), on the one hand, and the Iranian cancellation of an $8.9 billion German-French nuclear reactor project initiated under the Shah. The Iranian cancellation scuttled two nearly completed Kraftwerke Union (West German) reactors worth $6.9 billion, and two Framatome (French) reactors at preliminary stages. Kraftwerke Union has suffered severe financial losses.

A major nuclear purchase agreement initiated by Turkey, in light of a government change, also seems likely to be cancelled. West German banks, now under pressure from the Bundesbank to constrict their international loans, had been a major lender to the Ecevit government. In early June the Soviet Union had signed an $8 billion trade and development package with Turkey, which included the export of Soviet nuclear reactors. Two months later Turkey undertook negotiations with Asea-Atom of Sweden for construction of a $500 million nuclear reactor at Akkuyn.

The only bright spots for nuclear exports were:

(1) an Argentine order of a $2.8 billion heavy water nuclear power station to Kraftwerke Union, and an associated $1.2 billion heavy water plant from Switzerland's Sulzer firm. This reactor order follows an April Argentinian order of four Candu reactors worth $1.9 billion from Canada.

(2) A Spanish order for two nuclear power plants, one to be built by Kraftwerke Union, the other by General Electric. The orders are important because they break a three-year Spanish moratorium on new nuclear reactor construction. When the two reactors are completed, 35 percent of Spain's electricity will be nuclear generated.

(3) South Korea purchased two reactors from Westinghouse in a deal worth $1.38 billion. A $1.17 billion credit was given preliminary approval by the Eximbank in connection with this deal in September. This will be the largest single credit ever issued by a U.S. financial institution.

These nuclear deals, however, are surprisingly slim pickings in the wake of the exorbitant post-Iran oil price hikes.

Shipbuilding and aircraft

The *Executive Intelligence Review's* weekly log of major world trade deals (see back page) during the third quarter underlines the depressed state of the shipbuilding industry, with a $393 million Indonesian purchase of four semi-container ships from West Germany and a package of ship orders for South Korean yards being all the quarter has to show. Aircraft export orders in value terms, by contrast, must have seemed gratifying, especially for Boeing, the principal beneficiary of the orders (as opposed to Western Europe's Airbus, which did better in the second quarter). Among Boeing's third-quarter orders received were a $1.556 billion sale of 40 jets to Japan's Nippon Airways, a $208 million order for three jets from Holland's KLM, a $508 million order for five jets from Italy's Alitalia (following Alitalia's cancellation two weeks earlier of an order for six McDonnell Douglas DC-10s), a $63.2 million order for four jets from Trans-Brasil Linhas Aereas, an approximately $60 million purchase of five jets by Greece's Olympic Airways, a $1.39 billion order of 30 jets by Air Canada, and a $157 million order for three jets by Thai Airways.

History, as opposed to Boeing's stockholders, will not remember the third quarter as a happy one for aviation, however. During the quarter, announcement was made that there would be no further production of the Anglo-French consortium's supersonic Concorde jet, the only commercial airliner that represents a significant new technology.

"Third world" and "fourth world" trade

Technology exports to the poorest of the LDCs, the so-called "Fourth World," were few and far between. The most interesting was a $750 million floating power plant that Thailand contracted for from C. Itoh and Co. of Japan, with financing from Japan's Overseas Economic Cooperation Fund. When completed it will be the world's largest floating power plant.

The trade picture for the NDCs, those "Third World" countries with significant industrial capacity such as India, Mexico, and South Korea, was somewhat better, with continued commercial bank loans. India has continued to benefit from East-West rivalry. Just as U.S. nuclear, aerospace, and electronic technology progress took place largely as a byproduct of U.S. efforts to keep up with post-World War II Soviet efforts, Western industrial investments in India have been principally determined by a desire not to see the Soviet Union become too influential in India through the latter's major contributions to Indian industrialization. Thus the British-French offer of financial and technical assistance for a projected $3.5 billion steel mill at Bangalore during this past summer—which seemingly flies in the face of European Community Industry Minister Count Davignon's call for a rationalization of world "excess" steel capacity—is readily understood in the context of a Soviet second-quarter commitment to finance and build a 3.5 million tons per year steel plant at Vishakapatnam. This Soviet commitment followed another Soviet commitment two months earlier to assist India in building two giant canals for drought prevention, at a cost of $25 billion over 15 years.

Other significant technology-export deals benefiting the NDCs were:

(1) **The Republic of China (Taiwan)'s** receipt of $212.5 million Eximbank loan to finance the second phase of construction of a $1.8 billion integrated steel mill for the China Steel Corp. Among the U.S. suppliers are Dravo Corp. and Combustion Engineering. The ROC also purchased three power plants during the third quarter, two from General Electric (a $90 million deal) and one from Switzerland's Brown Boveri (a $40 million deal).

(2) **Brazil's** August agreement with Japan's visiting minister Sunao Sonoda to negotiate over $2 billion in development projects. Also received from Japan during the same month were two loans totalling $113 million, one of which is earmarked as a contribution to port-expansion at Tubarao as part of a $2.7 billion joint steel project. During the same period, however, it was announced that the $400 million powerhouse project in the Amazon basin, for which France's Schneider Empain group is the major contractor, would be delayed in the wake of Brazilian budget cuts.

But, the NDCs' industrialization plans are threatened by the new GATT pact, which is against subsidies to industry.

West Germany was surprisingly inactive in the third quarter with regard to major project starts in both the "Fourth World" and the NDC sector of the "Third World," confirming a tendency since the beginning of the year for the Germans to concentrate on European and Comecon developments. The one exception was Kraftwerke Union's above-mentioned Argentinian nuclear contact.

East-west trade

A number of important East-West trade deals were concluded during the third quarter between Western European countries and the Comecon group, as an outgrowth of the detente thrust initiated by West German Chancellor Helmut Schmidt's groundbreaking May 1978 agreement with Soviet Premier Brezhnev. West Germany and East Germany have concluded a $3.28 billion, six-year barter agreement (West German coal and crude oil in exchange for East German gasoline and petrochemicals). France has also concluded a bilateral trade agreement with East Germany, initially involving joint production of machine tools in France for sale in both countries as well as in third country markets.

Poland was the beneficiary of a $900 million credit line from a Japanese banking consortium. A significant portion of this credit will be used for purchasing foundry and chemical equipment. The Soviet Union will be getting a $200 million plus steel plant at Novolipetsk from Armco Steel (U.S.) and Nippon Steel Co. (Japan). The USSR also received a one-year extension of its expired five-year trade pact with Italy, worth $300 million a year in business for both countries.

Trade with the OPEC sector

Despite the knocking out of pro-development Iran in the first quarter, major project contracts continued to be issued by the OPEC sector during the third quarter, with activity by Saudi Arabia being conspicuous and with a significant amount of telecommunications equipment purchases being registered. Sweden's L.M. Ericsson was the most prominent beneficiary.

During the third quarter, the **Saudis** placed:

A $1 billion plus order with the Japanese for desalination units for the new city of Jubail, and a 550 megawatt power plant;

An $800 million order for computer-controlled telephone equipment with Sweden's L.M. Ericsson and Holland's N.V. Philips (This is the largest single order in the history of the telecommunications industry);

A $250 million preliminary order for an ammonia-urea fertilizer complex with Pullman Kellogg (U.S.) and a Republic of China (Taiwan) partner;

A $220 million order for 16 gas turbines with General Electric.

Libya ordered a $550 million package of telecommunications equipment from an Italian consortium of concerns linked to the Agnelli family.

Iraq ordered a six-lane expressway from Japan's Marubeni Corp., the biggest construction deal ever won by a single Japanese company.

Nigeria was active, ordering an $80 million propylene plant from a subsidiary of Italy's Montedison, and a $188 million metallurgical and engineering plant and other capital goods from Hungary, Czechoslovakia, and Norway.

OPEC bilateral deals

A number of Western European countries, above all Italy, moved aggressively after the post-Iran oil hoax to secure their oil supplies through country-to-country contracts with various oil-producer states. Japan, for example, in August concluded an $8.2 billion deal for the purchase of 36.5 million barrels of Mexican crude over a period of ten years. This tendency for bilateral state-to-state purchase agreements, already noticeable in the first and second quarters, began to be supplemented in the third quarter by occasional actual oil-for-technology deals:

Greece, for example, will receive one-third of its oil requirements from Libya in return for Greek construction projects in Libya and the establishment of an investment company to plan joint ventures, including a possible ammonia and fertilizer plant.

Venezuela will "up" its oil sales to Brazil from 20,000 barrels per day (bpd) to 50,000 bpd in return for Brazilian export of nuclear technology to Venezuela. Both countries will work together on tar-sands technology, with process-heat for tar-sands possibly supplied as a byproduct of nuclear energy generation.

France has concluded a $100 million plus deal with Syria, involving transfer of telecommunication equipment and a Peugeot factory in return for gas exploitation rights.

OPEC itself has been doing a limited amount of development financing. Zaire was issued a $157 million railway modernization loan by OPEC, while OPEC-member nation Saudi Arabia's Fund for Development issued a $200 million loan to Pakistan for a thermal power station, dam construction, a fertilizer factory, port construction and for diesel locomotive purchases.

'China Card' trade

During the third quarter, there were reinstatements of several billion dollars in cancelled orders by the People's Republic of China. The most important restitutions were enabled by major concessions from Japanese vendors. Meanwhile, Walter Mondale during his China visit promised China $2 billion in trade credits over five years. Headed by the Banque du Commerce Exterieure, there is a $2 billion credit line from France for computers, machine tools, and other nonmilitary goods. Britain moved ahead with plans to provide both civilian and military technology to China.

—Richard Schulman