billion. Iron ore, representing another 10 per cent of exports, declined last year, and, given the difficulties of the Japanese steel sector, is expected to drop further this year. Sugar, another traditional export, dropped from representing 9 to 1.5 per cent of export revenues because of the 60 per cent drop in world prices.

Brazil's main trading partners continue to be the U.S., Europe and Japan, partners with whom they are in the red. Imports from all three sectors have declined sharply over the last year. The only region with which Brazil has shown an increased trade pattern is the Arab and African countries, to whom they sell principally assembled motor vehicles, and the Soviet Union. Over the last year, trade with the Soviets increased 45 per cent, to a value of $789 million, and is expected to reach $1 bilion during 1977. The main economic advantage in this trade is that Brazil has a positive balance of payments with the Soviets, and has been able to import vital petroleum from them. Although the 2.5 million tons of crude imported for $260 million constitute only 5 per cent of Brazil's petroleum needs, this trade represents an increasingly important buffer to the collapsing economy.

For 1977 it is estimated that Brazil will need a good $6 to 8 million in refinancing for its trade deficit and loan repayments. Although it managed to obtain close to $10 billion last year, the tight Euromarket and overexposed New York banks will be unable to come through with this year's need.

Venezuela 1976: Oil For Development

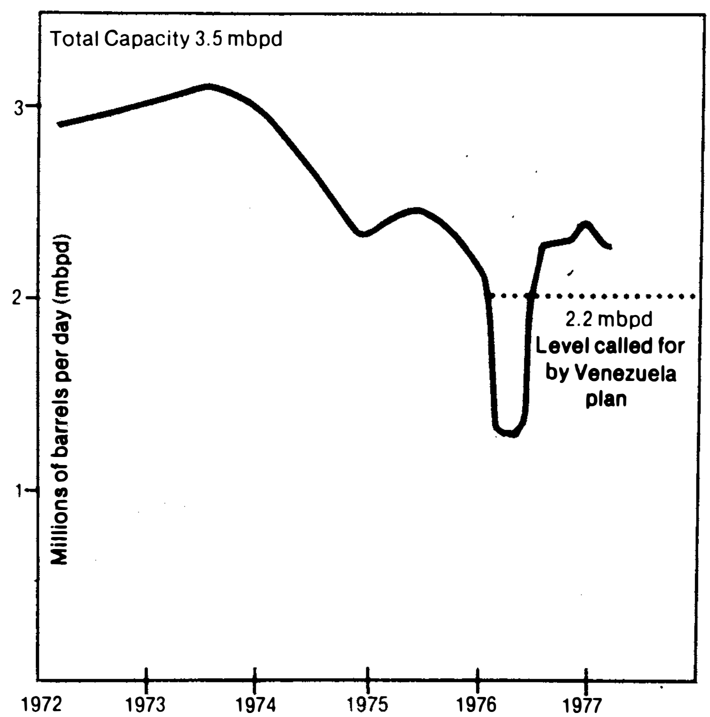
Despite the steady rollback of petroleum production and export revenues since the peak oil boom year on 1974, Venezueal's imports of capital goods and industrial inputs soared to a record level of close to $4 billion in 1976, an increase of more than 20 percent over the previous year. This continued upward trend exemplifies the capital-intensive industrialization policies of President Carlos Andres Perez, and indicated that instead of continuing the 1974-75 rate of increasing its deposits of petrodollars abroad, the government is using its oil to finance development. Not only did Venezuelan deposits in the United States decrease in 1976, but all key indicators reveal that the steady rate of growth of industry recorded since 1972, approximately 10 percent per year, rose to over 12 percent in 1976, with the strategic sectors of steel, general manufacturing and construction setting the pace.

The growth of imports was crucial in allowing for the expansion of industrial output, which is now more than 100 percent above the 1970 level. Purchases of machinery, chemicals, and industrial raw materials continue to comprise about 60 percent of total imports. Although this proportion is the same as during the peak income year of 1974, its present significance is shown in the absolute increase of total imports by more than 20 percent last year to $5.9 billion, as comparted to $3.8 billion in 1974.

The primary difference between these two years is that in 1974, the government placed more than $3 billion of its oil revenues in the Venezuelan Investment Fund (FIV), a petrodollar holding fund consisting of about half of Venezuela's total reserves at that time. The FIV deposited over 90 percent of its assets in short-term accounts in private New York banks. U.S. Treasury notes, and on the Eurodollar market. In contrast, last year only $581 million went into the FIV, which simultaneously began to serve as a major source of development credits for Venezuelan industry. Besides the $415 million provided directly by the FIV to expanding state sector industries, indirect credits via FIV loans to other government funds, coupled with direct infusions of oil revenuse generated during the year, resulted in the astonishing leap in credits from public lending agencies to manufacturing by 95 percent. As an example, the Venezuelan Development Corporation (CFV), which one year ago was reportedly on the verge of shutting down, was revived and increased its lending to the manufacturing sector by 53.3 percent.

Resulting government contracts with the private sector, especially construction, spurred overall capital formation. This process began to take off in 1975, when total fixed capital investment jumped by more than 50 percent to $7.3 billion or 25.4 percent of GDP — a very high ratio. Preliminary estimates for 1976 indicate perhaps an even higher rate of expansion. The construc-

VENEZUELAN OIL PRODUCTION 1972-76



tion sector grew by over 14 percent in 1975, and according to the president of the Chamber of Construction, the growth rate for 1976 broke all records. Figures from the Ministry of Public Works for the first semester of last year show an increase of more than 80 percent in private sector construction over the comparable period of 1975.

With this program of capital investment, the strategic industries registered booming growth last year. In the critical area of oil refining, output rose by 12.2 percent despite an overall drop in crude production of seven percent. Internal demand for petroleum products also increased by 22.4 percent. At the same time, steel production is up 48.3 percent. Although total iron output dropped 25.4 percent to 18.4 million tons due to the fall in international demand last year, internal consumption, rose more than 40 percent showing the strength of Venezuelan industry. Aluminum production expanded by over 12 percent, while a similar rate was posted by the auto industry as well as the gas and electric energy sector.

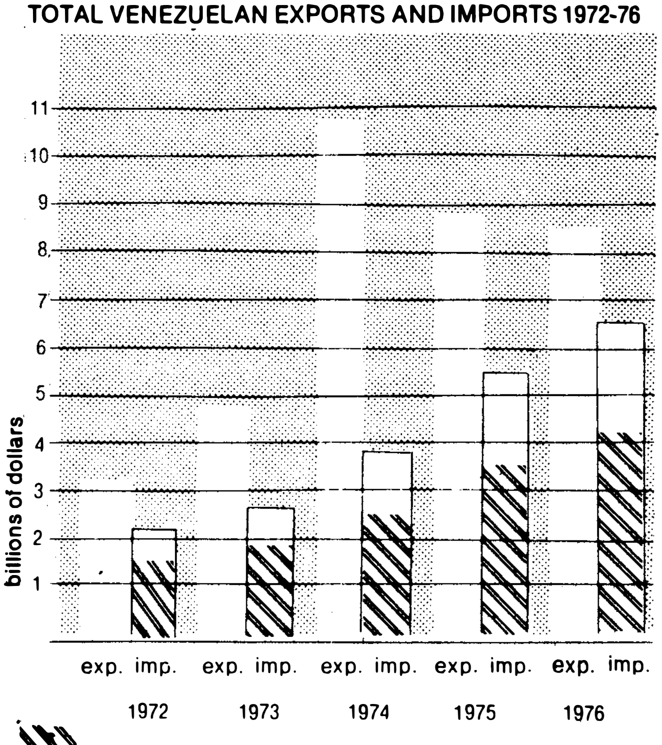
Labor Power

The 1976 economy witnessed a qualitative shift in policy toward the explicit development of a skilled and educated labor force as the cornerstone of the government's industrialization program. President Perez' latest policy statements to this effect are in marked contrast to the perspectives of former Planning Minister Gumersindo Rodriguez. Rodriguez, a top World Bank official, called for labor-intensive agriculture and extractive industries, President Perez last week focused on the development of labor power by stipulating high-technology manpower training as a condition for foreign investors. Foreign companies setting up plants in Venezuela, he said, must agree to train Venezuelan personnel "at the headquarters" of the respective companies.

The Central Information Office (OCI), in a full-page an-anouncement in the January 30 issue of the *New York Times*, echoed this perspective. The priorities for 1977, said the announcement in reviewing last year's progress, are the upgrading of "human resources and the employment of the latest technologies."

The successful conclusion of this struggle by the Perez forces will determine the development of agriculture, a particularly weak point in the economy. Last year's floods destroyed huge crops of corn, rice and other staples, forcing the government to import more than $1 billion in agricultural produce. Despite billions of dollars channeled into the sector and significant progress made in irrigation, silo construction, and access roads, there remains a tremendous shortage of fertilizer and machinery. While President Perez will not be able to avoid sweeping agricultural debt relief, 1977 could see a significant recovery in this sector if the President and his colleagues apply the same pro-labor power policies they have announced for industry. Perez indicated this will be the case in his speech last week, when he located the problem of Venezuelan agriculture as insufficient control by man over nature.

TOTAL VENEZUELAN EXPORTS AND IMPORTS 1972-76



Trade Independence

The Perez administration is pursuing a diversified trade policy appropriate to an industrialized economy. By cultivating new trading partners and sources of technology, Perez has linked Venezuela to the developing new world trade and monetary system proposed by Western Europe, the Comecom and OPEC. Following the initial successful steps taken to this effect during his November tour of Europe and the Soviet Union, the President has continued this effort into 1977. Already discussions with representatives of the GDR have been held in Caracas on an East German proposal to help expand Venezuela's port facilities. Similarly, the GDR hopes to purchase oil from Venezuela this year for the first time. At the end of last month, a special Bulgarian mission led by Vice President Andrei Lukanov arrived in Caracas to negotiate technical assistance for modernizing Venezuela's irrigation systems.

At the same time, Venezuela is strengthening its relations with Jamaica at precisely the moment this island nation is arranging formal association with the Comecon. During Prime Minister Manley's recent visit to Caracus, both heads of state agreed to increase trade of oil for bauxite, while Venezuela offered further cooperation in developing Jamaica's aluminum industry. "We will continue to coordinate on matters of national policy," Perez stated during a joint press conference with Manley.

As a sign of growing ties with the EEC, the Credit Commercail de France recently opened up a branch office in Caracas. At a recent roundtable discussion between French and Venezuelan businessmen, it was pointed out that during the first semester last year, 34 percent of new foreign investments in Venezuela came from France. U.S. investments, once the perrenial leader, fell to second place with 14 percent.

This gradual shift in trade away from the U.S., and the potential break from the dollar system, grows with the government's firm intention to secure independence from the multinationals' technology and distribution networks. Already Venezuela controls 20 percent of its marketing, by passing the major oil companies, and by the end of this year plans to increase this figure to 30 percent, according to Mines Minister Valentin Hernandez Acosta. Although trade statistics covering the destination of exports for 1976 have not been published to date, figures for 1974 and 1975 indicate a gradual decline in the proportion of oil exports to the U.S. from 57 percent to 50 percent. Meanwhile, diplomatic efforts at the end of last year have opened up possibilities for new or expanded government-to-government sales with Great Britain, France, Italy, Brazil, and the Comecon, including Cuba.

Similarly, the Perez government is not only increasing its own refining operations, but it is vastly expanding capital investment into the industry to diversify output. A record $700 million will be invested in 1977, twice the 1976 level. The five-year program through 1981 calls for total investment of 45 billion. During the five-year period preceeding the nationalization, the multinationals invested only $1.5 billion. Gasoline refining by 1980 will be increased four-fold. But perhaps even more importantly, the Mines Ministry has a "vast exploratory program" for the purpose of increasing the country's total known reserves. With technical aid from the EEC and the Comecon, new finds in relatively unexplored areas such as the Delta Amacuro, the continental shelf, and the Gulf of Venezuela would open the door for a massive increase in oil output.

In 1976 the Venezuealn government also began to exert independence in monetary policy by not only using its oil revenues for industrial development, but also by diversifying its reserve holdings away from dollar deposits. According to the IMF, Venezuelan deposits in the U.S. dropped by 21.7 percent during the first two months of last year and have remained below the 1974-75 levels despite the recovery of oil exports after the initial drop at the beginning of 1976. Simultaneously, in the second semester, the government began to transfer funds into European currencies, particularly the pound sterling and the lira. Should this activity pick up in the early months of 1977, Venezuela's dependence on the dollar will be severely reduced.

Because of such a prospect, Romulo Betancourt and his protege Luis Pinerua Ordaz, the chairman of the ruling Accion Democratica party, are attempting to raise the issue of "inflation." In fact, they are promoting the World Bank and IMF argument that the economy allegedly cannot absorb further petrodollar investment, in an effort to pressure Perez into cutting back on his industrialization program and leaving the oil revenues in dollar deposits. The reality of the matter, however, is that not only does the 1976 economic performance admirably demonstrate the country's ability to handle increased investment, but the rate of increase of the Caracas cost of living index declined from 10.75 to 7.7 percent. The wholesale price index rate, meanwhile fell from 16.2 percent to only 7.3 percent.

Mexican Economy 1977: Plenty Of Confidence, No Production

During his six-year administration former Mexican President Luis Echeverria began an ambitious program to industrialize Mexico. Since Mexico's new President Jose Lopez Portillo was inaugurated Dec. 1, he has abruptly reversed Echeverria's strategy for development and has charted an economic course of austerity which, if followed, will turn Mexico into a replica of Argentina.

During the Echeverria Administration, for the first time in history, Mexico stood at the threshold to real industrial development. State sector productive capacity was strengthened and expanded in such strategic fields as energy, steel, petrochemicals, fertilizers and mining. Hyrdocarbon production went up 100 per cent as compared with the previous Administration. Refining capacity by the state-controlled oil monopoly PEMEX climbed by 60 per cent since 1970, with over 70 per cent of all capital investment in secondary petrochemical areas coming from Mexican sources. Industrial state-sector capacity was strengthened through the creation and expansion of state-sector entities known as "paraestatales," to coordinate and oversee the development projects. On-line power-generating capacity was doubled from the previous period. Combined public and private efforts led to the doubling of steel production potential. Phase I of the showcase steel complex, of Las Truchas, has been completed, with a projected steel output of 1.3 million tons; 5,500 permanent jobs were created.

In sum, state-sector contribution to Mexico's Gross Domestic Product rose three times over that of 1969 during the Echeverria Administration. The industrial sector was during this period the greatest contributor to national growth, with petrochemicals, manufacturing industries and electric power in the lead.

Echeverria's domestic development policy was tied to an active foreign policy which placed Mexico at the forefront of the international struggle for a new world economic order. This policy led to a substantial diversification of foreign markets, capped by the signing of a far-reaching trade deal between Mexico and the Socialist