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MIDDLE EAST – AFRICA – SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

CONTENTS

Apr 2, 1975

Saudi Arabia

Change of Leadership Points to More Spirited Economic Policy

The change of leadership in Saudi Arabia may mean that the indecision that sometimes characterized the economic policy-making of the late King Faysal may give way to more spirited economic leadership under Crown Prince Fahd. Fahd is better acquainted than was Faysal with the ways of Western business, more likely to be aggressive and innovative, and more receptive to the introduction of foreign technicians. Changes in economic policy are likely to come gradually, since Fahd and the new King will be careful not to risk unsettling Saudi society or weakening the royal family.

Saudi Arabia's gross national product grew at an average annual rate of 20 percent during the five years ending in 1973. It quadrupled in 1974. Foreign exchange receipts from oil in 1974 came to some $25 billion, only $4 to $6 billion of which was absorbed into the domestic economy. The remainder went primarily into government and private investment in foreign assets and, to a lesser extent, into foreign aid.

No basic shift in oil policy is expected. Fahd, who remains chairman of the supreme petroleum council, will continue to be a major factor in the formulation of Saudi oil policy. If Petroleum Minister Yamani loses his influence or his job, proponents of restrictions on crude oil production may gain another hearing. Saudi Arabia in any case will remain a strong supporter of the Organization of Petroleum Exporting Countries.

The Saudis will have considerable flexibility in setting their oil production levels over the next several years. Any plans for permanent, drastic

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Apr 2, 1975

production cuts will be tempered by the fact that industrial projects scheduled for completion in 1980 and later will depend on gas produced in conjunction with at least 8 million barrels per day of crude oil. In the interests of flexibility after 1980, Riyadh is seeking alternatives to reliance on this gas.

Fahd apparently favors investment of surplus revenues in long-term issues and equity holdings. This policy, begun cautiously and then accelerated, will gradually be speeded up. Prince Fahd has a personal commitment to accelerated economic development. He presumably will continue to rely on technical experts appointed by King Faysal, many of whom have already worked with Fahd. They will hold a key role in Saudi economic development.

The new leadership may well be more pragmatic than King Faysal and will probably accept greater dependence on foreign technicians. Faysal's resistance to relying on foreigners--he felt they could have an unsettling effect on his strict Muslim state--delayed some economic development projects.

A critical part of Saudi Arabia's $60 billion, five-year development program--the $12.6 billion plan of the state corporation charged with exploiting petroleum and other minerals--did move ahead. Under the old regime, contracts were let to Aramco to construct gas-gathering and electric power networks, facilities basic to Saudi industrialization. Once spheres of influence have been sorted out in the new government, the new leadership may move to build on this foundation. (SECRET NO FOREIGN DISSEM)

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Zaire-Belgium

Mobutu Prepares for Diplomatic Assault on Brussels

The Zairian government is preparing for another of its periodic diplomatic assaults on Brussels. This is a favorite tactic whenever President Mobutu wants to delay upcoming economic negotiations between the two countries.

Both governments have been preparing for a series of ministerial meetings originally envisioned to take place early this spring, but which will now probably be delayed indefinitely. The meetings were scheduled to take up the issues of Zairian compensation for nationalized Belgian properties and Belgian payments to Zairian veterans of the Belgian armed forces. At a time when Zaire's economy is in a serious slump, Mobutu is especially keen on sidetracking the talks.

Kinshasa opened its campaign in late February with Zairian press charges that the Belgian ambassador in Kinshasa was hosting "subversive" dinners during which he predicted Mobutu's imminent fall and warned that western investors should end their economic and political support for his regime. The Belgian government promptly announced its full confidence in the ambassador.

To add to the Belgian government's bad press in Kinshasa, the editor of a Belgian magazine published in mid-March two confidential Belgian documents, one discussing aid to Zaire and the other discussing Mobutu's trip to Peking last winter. Although neither document appears offensive, the publication of candid discussions of Zaire by Belgian officials touched a sensitive nerve in Kinshasa.

The Zairian government is officially ignoring the Belgian ambassador, thereby depriving Brussels of an interlocutor to prepare for compensation talks. Mobutu apparently hopes that Brussels will

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recall him for consultations that will last indefinitely. When Mobutu is feeling more secure economically, he will probably given the Belgians a signal, the ambassador will return, and negotiations will be set up.

Brussels, however, seems less inclined than in the past to put up with Mobutu's truculence, largely because it is anxious to take him to task for nationalizing Belgian businesses in violation of the 1969 Investment Code. The code guarantees the independence of businesses that meet certain capital investment requirements and are not in competition with Zairian firms. Moreover, the Belgian public is losing patience with Zaire's repeated attacks.

The Belgians also would like to settle once and for all the issue of compensation for the nationalization of the Belgian owned copper industry in 1967. Although the issue was theoretically resolved early last year, Zaire is now defaulting on its payments.

A number of Belgian officials have indicated privately to US officials that Brussels will take a hard line toward Zaire. The Belgian quasi-governmental export guarantee agency announced on March 19 that it was suspending guarantees on exports to Zaire with the exeption of food and essential commodities, such as pharmaceuticals.

Past diplomatic tiffs between the two countries have eventually been resolved, and this one probably will also be concluded when Mobutu feels he is ready to negotiate from a position of economic strength. In the meantime, however, given Belgium's apparent determination to press on and Mobutu's need for a longer-than-usual delay, the rhetoric, particularly from Kinsahasa, could become excessively shrill. (CONFIDENTIAL)

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