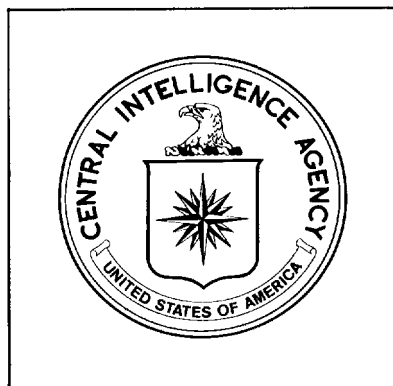


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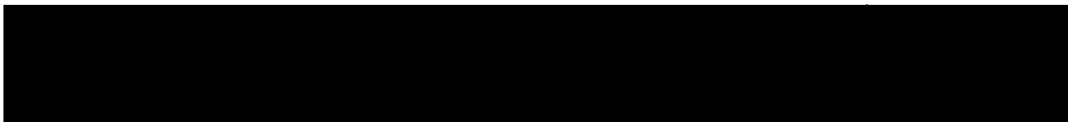
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MIDDLE EAST – AFRICA – SOUTH ASIA

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Saudi Arabia

Budget Provides Rationale for Aid Cutbacks

Riyadh last week released a record budget for the 1976 fiscal year. The budget exaggerates probable expenditures, apparently to rationalize a major cut in foreign aid and to justify Saudi oil policy. The unreality of the budget is indicated by the fact the Saudis are predicting a deficit of \$4.3 billion; they will probably emerge at the end of the year with a surplus of \$7 billion or more.

Expenditures are slated at an unrealistically high \$31.8 billion--more than 2.5 times the amount spent last year. The Saudis may manage to spend part of the planned increase in defense outlays--scheduled to jump from under \$3 billion to over \$7 billion--but administrative and resource bottlenecks rule out the expenditure of even \$20 billion, unless aid outlays far exceed the amount budgeted. Earnings during the fiscal year are likely to be at least as large as the \$27.2 billion forecast in the budget, and an increase in oil prices this fall would boost the total.

Riyadh probably will use the budget to put off aid requesters when it suits Saudi purposes. The projected deficit can serve as a handy excuse to maintain oil production at 7 million barrels a day or more and could also be used to justify further price hikes. It also can help justify the low aid budget--one third of last year's disbursements.

Expenditures under the budget will have a dramatic impact on Saudi development. Economic growth outside the oil industry will accelerate, and large quantities of foreign goods and labor will be imported. The pressure on resources will probably aggravate domestic inflation. (CONFIDENTIAL)



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Guinea-France

Relations Restored

Guinea and France resumed diplomatic relations on July 14 after a ten-year break. Restoration of ties follows several months of difficult negotiations between Paris and Conakry in which several thorny issues were settled and other problems were left for future discussion.

Paris apparently initiated the contacts to normalize relations and made several gestures to meet conditions raised by Toure. The French reportedly agreed to pay \$44 million to the Guinean government for pensions to Guinean veterans of the French army. Paris suspended the pension payments in 1965 when Toure broke relations after charging that France and Ivory Coast were plotting to overthrow his regime. The French have also suppressed a Guinean exile newspaper published in France in a move to curb activities there of anti-Toure elements. Paris, however, refused Toure's demand that Guinean exiles in France be turned over to his government.

Over the past year, Toure--who is clearly angling for French aid to help Guinea's chronically troubled economy--released a number of French citizens who had been imprisoned in Guinea on charges of conspiring against the government. The remaining prisoners will probably be released soon. Considering the history of stormy relations between Guinea and France, both countries are likely to be cautious in their dealings with each other and French economic aid may not be as large as Toure envisions. (CONFIDENTIAL)

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