Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

[redacted]

25X1

S-5307

CIA/OER/S-05847-75

11 August 1975

MEMORANDUM FOR: Deputy Director for Intelligence

SUBJECT : Response to Under Secretary Robinson's Request for LDC Material

1. Attached is the joint OER/OCI response to Under Secretary Robinson's 4 August request for information on 21 LDCs. The material for each country is organized as follows:

A. Regional Political Relationships
B. Role in LDC Movement
C. Oil Strategy
D. Views on Special Relationships with the United States
E. Staying Power of Government
F. Economic Development Strategy
G. Interest in International Marketing Arrangements
H. Balance of Payments Trends
I. US Investment Position

Foreign Trade Profiles
Balance of Payments

2. Also included is a table indicating basic economic data for all countries.

[redacted]

Acting Director
Economic Research

25X1

[redacted]

166

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

25X1

ALGERIA

A. Regional Political Relationships

By virtue of size, location, and military strength, Algeria plays a leading role in North Africa. Algeria maintains good relations with Tunisia. Relations with Morocco have been more problematic because of differing political systems and ideologies, and because Algiers has publicly opposed Morocco's efforts to annex Spanish Sahara.

Algeria is becoming more dependent on richer and more conservative Arab oil producers because it needs considerable assistance to finance its ambitious development plan. It is interested in developing political and commercial ties with African countries to the south and is looking to sub-Saharan Africa as well as the Maghreb as eventual markets for its industrial products.

B. Role in LDC Movement

Algeria has gained increasing prominence as the self-proclaimed spokesman for the nonaligned movement. Since the Fourth Nonaligned Summit Conference held in Algiers in September 1973, the Algerians have continued to assert their leadership as formal head of the non-aligned movement and to chair its 17-member

25X1

coordination bureau. Algiers has been a leading proponent of the radical viewpoint on creating a new international economic order.

The Algerians have capitalized on the growing conviction among LDCs that they must remain united to achieve new economic power relationships with the industrialized states. Moreover, they come to international conferences with massive working drafts and field first-class teams, while many other LDCs send people who are either poorly prepared or not empowered to make decisions on the spot. Although moderate nonaligned states resent Algeria's militance and its use of steamroller tactics, they have thus far been reluctant to mount a systematic challenge to Algeria's leadership.

C. Oil Strategy

Algeria is an active member of OPEC. Its oil policies, however, are tempered by its limited capacity to expand production and its inability to finance its economic development program even with the large jump in oil prices. Algiers thus opposes a significant cut in oil prices and OPEC-allocated production cutbacks. It would, however reluctantly, comply with an Arab oil embargo in the event of another Arab-Israeli war.

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

25X1

Algeria supports the formation of producer cartels, linking the price of oil and all raw materials to the cost of industrial imports. It fears coordinated action by oil consumers and condemns the International Energy Agency as a US instrument for confrontation with the oil producers. Algeria has argued with little success for massive OPEC aid to LDCs, knowing full well that the financial burden for such aid would fall to wealthier oil producers.

D. Views on Special Relationships with the United States

There are major foreign policy differences between the United States and Algeria. and Algeria has a strong desire to avoid identification with the US government, as distinct from the private sector. Algeria will not likely alter its basic position on the Middle East, on support in principle for liberation movements, or on its call for a radical transformation of the world economic system in favor of the developing countries. Despite these differences, economic cooperation has been increasing. Algeria sees the United States as a market for its oil and gas and a major source of capital and technology.

E. Staying Power of Government

After more than a decade in power, President Boumediene has achieved a good measure of stability.

25X1

Domestic critics lack leadership, and political exiles are disorganized and have no significant following. Boumediene has outlasted or suppressed his major rivals and has held together a coalition of military men and technocrats. Boumediene, in consultation with a small inner circle of advisers, makes the key decisions.

F. Economic Development Strategy

Algeria's highest priority economic goal is to parlay its large but finite oil and gas resources into a productive economic base that will enable the country to prosper long after petroleum reserves begin to dwindle. To accomplish this, the Algerians have chosen to invest heavily in large scale, capital-intensive industrialization -- to the almost complete neglect of the agricultural sector. Consequently, Algeria is importing enormous amounts of foreign expertise and equipment while importing increasing amounts of food.

Obtaining adequate foreign financing is the most immediate obstacle the Algerians must hurdle to realize development objectives. The country's foreign payments position has deteriorated sharply since 1974, and previously open handed foreign lenders are increasingly cautious. Lower oil prices and production so far this year are reducing export earnings, while ambitious

25X1

25X1

development projects and an exceptionally poor harvest are spurring imports. Consequently, Algeria is drawing down foreign reserves and attempting to borrow $1 to $2 billion.

With only moderate OPEC price hikes in the offing, oil production limited to about current levels, and potentially large natural gas exports far in the future, Algeria will no doubt be seeking similar amounts next year. International lenders have already stiffened their terms and are showing increasing reluctance to sponsor a nation whose foreign debt is mounting at unprecedented rates while its prospects for an expanded income appear increasingly uncertain. Aware of its predicament, Algeria is pressing harder than ever for suppliers' credits and loans from wealthier Arab states.

Even if Algeria should be able to finance projects now on the books, it will have to cope with a growing shortage of qualified workers and a long-range food problem. All levels of skilled workers are in short supply, with mid-level managerial personnel particularly scarce. Despite record numbers of Algerians in all types of training, the situation is expected to worsen for several years. Algeria is almost certain to have

25X1

to divert increasing amounts of foreign earnings to finance food imports. No effort is being made to check the country's rapid population expansion of 3.3% annually, and land reform measures (aimed at providing ownership to the masses) are expected to cause continuing declines in agricultural production.

G. Interest in International Marketing Arrangements

Algeria has bartered oil as a means of marketing more oil without appearing to lower prices. Typically, suppliers are paid in oil valued at the "public" Algerian price, which is higher than the price the supplier receives from a refinery. Supplier contracts reflect this overvaluation of oil.

H. Balance of Payments Trends

Algeria's current account has moved substantially into the red and is expected to stay there for many years. Technical limitations will prevent any significant expansion of oil production, and large-scale natural gas exports will not materialize before the late 1970s. Oil price increases are not expected to be large enough to offset increases in imports resulting from ambitious development projects. Since 1973, Algeria has borrowed considerable funds, most in the form of suppliers' credits and commercial loans. Minor amounts of concessional aid have been received from international

25X1

25X1

lending institutions. The prospect of debt default and rescheduling request, while impossible to predict, most certainly cannot be ruled out.

I. US INVESTMENT POSITION

US private investment in Algeria totaled $56 million in 1973, of which $43 million was in the petroleum sector. All of the investment in the petroleum sector is held as a partnership in joint ventures with Sonatrach, the Algerian state oil company. Getty Petroleum is the only US firm with an equity interest in a producing field.

Outstanding investment disputes are confined to ten private individual claims and one US government claim for properties nationalized -- but not compensated -- in the early 1960s. The properties are valued at $6 million.

25X1

25X1

ALGERIA: BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975 a/
Exports	1,195	1,832	4,578	5,000
Imports	-1,356	-2,197	-4,039	6,000
Trade Balance	-161	-365	+539	-1,000
Services and Private Transfers (Net)	-46	-187	-356	-900
CURRENT ACCOUNT BALANCE	-207	-552	+183	-1,900
Economic Assistance (Net)	14	19	(-)	(-)
Private Capital (Net)	271	1,056	202	(-)
CAPITAL ACCOUNT FLOWS	285	1,075	202	1,000
Net errors and omissions and allocation of SDRs	-92	-35	161	--
CHANGE IN RESERVES	-14	650	546	-900
RESERVE LEVEL (End of Year)	701	1,374	1,924	1,024

a. Estimated.

ALGERIA

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports Of which:	4,578
Oil	4,250 est.
Non-oil raw materials	250 est.
Total Imports (cif)	4,039

Exports *	Oil	Gas	Wine	Fruits and Vegetables
Million US $	1,477	39	154	133
Percent of world exports	3	NA	NA	NA
Percent of Exports to:	100	100	NA	NA
United States	8	5	NA	NA
Western Europe	83	95	NA	NA
Japan	--	--	NA	NA
Others	9	--	NA	NA
US Imports as a percent of US Consumption	36	NA	NA	NA
Country's share of US imports	3	NA	NA	NA

	Major Products Imported from US*			
	Total	Machinery	Manufactured Goods	Food and Live Animals
Percent from U.S.	8	NA	NA	NA

* Data are for 1973.

25X1

EGYPT

A. Regional Political Relationships

By virtue of its size, political clout, military strength, and position as the principal state in conflict with Israel, Egypt is a leading Arab state. It is heavily dependent on other Arabs, however, for financial assistance, and its ability to guide the policies and the politics of the Arab world is limited by this dependence and by the wide divergence of views among the Arabs, which enables many Arab states to maneuver successfully against Egypt's now moderate policies.

B. Role in LDC Movement

Egypt under Nasir was a founding member of the nonaligned movement, and President Sadat still refers to Cairo's leading role in the movement. Its involvement in recent years, however, has been as participant rather than as leader, and Sadat's sole concern within the nonaligned is to gain support for the Arab cause against Israel. Egypt's nonalignment is more nominal than substantive; Sadat uses the label to justify his turn away from the Soviets and to pull a light veil over what is in fact his marked pro-Western and pro-US orientation.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

25X1

C. Oil Strategy

Egypt has only recently become a small net exporter of oil, is not a member of OPEC, and has played no role in OPEC's political or economic strategy.

D. Views on Special Relationships with the United States

There are few economic inhibitions on Egypt's willingness to contemplate a special relationship with the United States, but there are some political inhibitions. President Sadat's turn toward the United States is opposed by local leftist elements and by intellectuals who doubt that Sadat's sole reliance on Washington in peace negotiations will pay off. Radical Arabs outside Egypt -- Libya, the Palestinians, and Iraq, for example -- vociferously oppose close US-Egyptian relations, and Cairo's friendship with Washington has been the primary reason for the Soviets' curtailment of arms shipments to Egypt. While this opposition dictates some caution in Egypt's relations with Washington, it has not affected Sadat's determination to maintain and improve the ties.

E. Staying Power of Government

There appears to be no imminent threat to President Sadat's government. Opposition to Sadat's policies does exist among leftist groups, students,

25X1

25X1

and extreme conservative religious fundamentalists, but none of these groups is large enough, cohesive enough, or in command of enough support to pose a real threat. The military would be the only group strong enough to carry off a successful move to oust Sadat, but there is no evidence to indicate that such a move is likely. Some discontent exists within the military -- over the no war/no peace situation, over economic grievances, and over the armed forces' lack of military equipment and spare parts -- but this discontent does not appear to be extensive or directed particularly at Sadat. Sadat's present term extends until October 1976. He was nominated in July by the Arab Socialist Union and the People's Assembly for another six-year term beginning in 1976, and his response, although not a clear acceptance, indicates that he intends to run again.

F. ECONOMIC DEVELOPMENT STRATEGY

Egypt has the potential to achieve rapid economic growth in the longer term -- the Egyptians themselves mention a 7%-10% rate. The country has a large internal market; plenty of skilled labor; an adequate supply of managers, engineers, and other cadre; and a long tradition of effective, if not efficient, administration.

25X1

25X1

The economy has been held below its potential by a severe shortage of foreign exchange, the priority demands of the conflict with Israel, and a system of bureaucratic controls that severely inhibits private activity. The requirements for rapid growth are thus: (1) obtaining sufficient foreign exchange; (2) allocating more resources to non-military investment; and (3) providing a much more favorable environment for private business activity. Progress in all three directions will be much easier if there is no war with Israel.

G. Interest in International Marketing Arrangements

Egypt may express interest in establishing marketing arrangements for cotton, its number one export earner. Nevertheless, we have noticed thus far little hard evidence of any substantial moves in this direction.

H. Balance of Payments Trends

At the outset of 1975, Egypt faced a serious liquidity crisis brought on by lowered export earnings, large foreign debt maturities, and a winding down of postwar Arab aid. Because Egypt was emerging from a decade of economic stagnation, Sadat was unwilling to reduce imports. He banked instead on further Arab aid to cover the impending payments gap.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

25X1

In June, the Saudis extended a cash loan of $600 million, which will enable Cairo to weather this financial storm. Egypt can now cover its current account deficit of $1.7 billion and its long- and medium-term economic debt repayments of $500 million. In addition to the new Saudi aid, Cairo has available $900 million in cash pledges from other OPEC countries, at least $300 million in long-term credits, $350 million in unused project aid, and $200 million from other sources -- making a grand total of $2.35 billion for the year.

Cairo may face additional foreign exchange requirements if military debt obligations to the USSR are not renegotiated. Egypt nonetheless should be able to get through 1975 without reducing imports from the high level of 1974.

Prospects for a continuation of the improved financial position now appear promising, barring renewed hostilities. Annual foreign exchange earnings might even double in the next three years. By 1978, exploitation of new oilfields and the repressuring of the El Morgan field should raise output to roughly 650,000 b/d, about one-third of present Libyan production. Allowing for domestic consumption, oil exports would yield about $800 million annually (at current prices).

25X1

25X1

Earnings on the service account are also expected to increase. Hotel construction should help tourist earnings to top $800 million by 1978, compared with the $500 million anticipated for 1975. Suez Canal fees will increase from an estimated $175 million in 1975 to as much as $375 million next year.

I. US Investment Position

US private investment in Egypt during 1973 totaled about $200 million. Extractive industries dominated investment activity, accounting for roughly 90% of the total figure. Petroleum development and related infrastructure activity were by far the most important of the major investment categories.

25X1

EGYPT

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	1,673
Of which:	
Oil	negl.
Non-oil raw materials	1,000
Total Imports (fob)	3,028

Exports	Cotton
Million US $	612
Percent of world exports	6
Percent of Exports to:	100
United States	negl.
Western Europe	20
Japan	22
Others	58
US Imports as a percent of US Consumption	net exporter
Country's share of US imports	14

Major Products Imported from US

	Total
Percent from U.S.	17

EGYPT: BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975a/
Exports	813	1,003	1,673	1,000
Imports	1,286	1,574	3,028	3,028
Trade Balance	-473	-571	1,356	-2,028
Services and Private Transfers (Net)	7	6	41	350
CURRENT ACCOUNT BALANCE	-466	-565	-1,315	-1,678
Economic Assistance (Net)	295	642	1,011	2,350
Private Capital (Net)	--	165	255	-500
CAPITAL ACCOUNT FLOWS	295	807	1,266	1,850
Net errors and omissions and allocation of SDRs	--	--	--	--
CHANGE IN RESERVES	-171	242	-49	172
RESERVE LEVEL (End of Year)	149	391	342	514

a. Estimated.

IRAN

A. Regional Political Relationships

Iran is the pacesetter in the Persian Gulf. It is the region's most populous state, has the most powerful military force, and the largest economy. Moreover, the Shah of Iran is pursuing ambitious plans to create and preserve a regional environment favorable to the expansion of Iran's power and influence.

The Shah is seeking to parlay his economic strengths into political gains. He has improved relations with Arab governments generally and forged especially close ties with President Sadat of Egypt and with King Husayn of Jordan. Good relations with the Sultan of Oman resulted in the dispatch of some 2,500 Iranians troops to help put down a leftist revolt in the sultanate.

Recent steps toward a more cooperative relationship with his Arab neighbors include the Iran-Iraq accord, regular consultations with other Arab leaders, and continental shelf agreements with several neighboring states. The Shah hopes ultimately to forge the Gulf states into a formal alliance system under Tehran's sponsorship.

Iran is a member of CENTO and of the Regional Cooperation for Development (RCD) organization, comprising also Pakistan and Turkey. Tehran has supported recent

25X1

moves to upgrade this generally moribund organization.

B. Role in LDC Movement

The Iranian government has sought to identify itself with the economic goals of the less developed countries and has played a supportive, but somewhat moderating influence, on the political initiatives of nonaligned countries. The Shah clearly aspires to a position of greater influence -- if not leadership -- in the so-called "Third World."

Iran closely associates itself with talk of a "new world economic order" in which LDCs would have more influence and a greater share of wealth. The Shah regards his oil-pricing policy and his proposal for tying the price of raw material exports to that of industrial imports as an important step toward achieving that "new order." He has also promoted the theme that the superpowers represent a danger, because of both their rivalry and their monopoly of military and economic power. Iran has proposed that the UN declare the Middle East a nuclear free zone and the Indian Ocean a "zone of peace", and has advocated the removal of foreign military presence from the Persian Gulf.

The Shah has also sought to extend his influence among LDCs through personal diplomacy and through carefully tailored aid projects, which also abet Iran's economic interests.

25X1

25X1

C. Oil Strategy

As oil is its major revenue source, Iran is committed to maximizing crude oil export prices and to widening exports of higher valued oil products. Tehran realizes the collective bargaining strength afforded by OPEC and will continue to play a leadership role in the organization. Iran's excess oil revenues are being lent to aid investments, mainly to those countries in which it believes it can obtain needed technology and expertise. Although increasingly friendly with the Arab countries, Iran is unlikely to join in a future Arab oil embargo based on Western support for Israel.

Iran gives high priority to its plan to construct nuclear powerplants capable of providing 23,000 megawatts by 1995. Almost totally dependent on foreign assistance, Iran so far has made arrangements for nuclear facilities with West German and French firms. Although Tehran is a signatory to the Non-Proliferation Treaty, its interest in acquiring nuclear knowhow could, in part, be motivated by the desire to preserve the option of developing nuclear weapons.

25X1

25X1

D. Views on Sepcial Relationships with the United States

Obviously a special relationship already exists between Iran and the United States. Most economic and political factors -- particularly Iran's need for sophisticated technical assistance -- favor its continuance for the near term.

There are reasons why the Shah will not want to identify his government too closely, or exclusively, with the United States, however.

-- Iran's common border with the Soviet Union requires the Shah to maintain cordial relations with Moscow through regular consultation and limits the extent to which he can cooperate militarily with the United States.

-- The Shah's need for revenue to fund industrialization places him at odds with the United States and Western governments over oil-pricing policy. Any hints that the United States contemplates force against oil producers will limit the degree to which the Shah -- publicly at least -- will promote a special relationship with the United States.

-- US arms policy toward Turkey, Pakistan, and Jordan probably has strengthened the Shah's doubts about US reliability as an

25X1

[redacted] 25X1

ally. Moreover, he recognizes that influential groups in the United States, both private and in government, do not favor overly close ties with Iran because of the autocratic nature of its government. The Shah, therefore, probably has doubts that the US executive will, in fact, be able to deliver on all its long-range commitments. For this, and other, reasons, he has carefully developed ties with other Western suppliers and will try to expand those ties.

-- The Shah will also be careful to avoid too close identification with US-Middle East policy if that policy ignores Arab demands for return of occupied lands. Islamic Iran, virtually surrounded by Arab states, cannot afford association with such a policy.

E. STAYING POWER OF GOVERNMENT

We see little prospect during the next few years for a serious challenge to the Shah's authoritarian control over Iran's internal affairs and programs. The creation of a one-party state, in March, should enhance his ability to control the political process.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

Nevertheless, the Shah's decision-making monopoly and the trend toward greater repression of opponents (mainly resulting from the increased activity of terrorist groups) will incur certain political costs:

-- growing alienation and dissent, including terrorism, with some anti-US overtones;

-- limited bureaucratic and governmental effectiveness in implementing the Shah's ambitious programs; and

-- the stifling of political institutions, which could maintain stability after the Shah's demise.

F. ECONOMIC DEVELOPMENT STRATEGY

Iran has embarked upon an ambitious restructuring of its economy with a view to joining the ranks of developed nations by 1983 -- the end of its Sixth Five-Year Plan. It is also developing an increasingly more effective and more self-sufficient military capability. Specific economic goals include expansion of GNP from about $43 billion ($1,300 per capita) in 1974 to about $190 billion ($4,500) per capita in 1983. A tenfold increase in the output of manufactured goods, and a five-fold expansion of exports of non-oil commodities are planned during the period. The economic transformation also ... upgrading in the skills and

25X1

25X1

educational levels of Iran's populace whereby all urban and 80% of the rural dwellers in the 7-45 age group are to be literate by 1983.

The inability of the Iranian economic infrastructure and resource base to accommodate the fast pace of the economic expansion under way poses a serious obstacle to the plans set forth by the Shah. Shortages of skilled manpower and inadequate supply of materials, port capacity, and transport facilities are already affecting the developmental program; a formal decision to slow down the program is expected shortly.

G. Interest in International Marketing Arrangements

Tehran seems to be consciously diversifying its import suppliers to avoid over dependence and to obtain the benefits of competition among suppliers. A desire to ensure adequate and secure supplies has motivated Iran to invest in joint foreign operations and to assist suppliers with prepayments. Preferences for US equipment and technical assistance are heavily directed by military needs and extend to a lesser degree to industrial and consumer demands. Alternative, though probably less desired, supplies from non-US sources are available.

H. Balance of Payments Trends

Prior to the sharp rise in oil prices in 1973 and 1974, Iran almost consistently ran annual current account deficits. These deficits were financed through foreign loans, mainly from the United States. During the last several years, its large oil earnings have allowed Iran not only to pay for its rapidly growing imports, but also to prepay a large portion of its foreign debts, and to amass increased foreign reserves. In April 1975, foreign reserves stood at $9.2 billion, compared with $1.1 billion in April 1973.

The current surpluses could give way to deficits by the end of this decade, forcing Iran to return to foreign capital markets. If Iran makes reasonably good headway in development, and its economic prospects are good, it should have little difficulty in obtaining foreign financial support.

I. US Investment Position

At the outset of 1975, US private investment in Iran amounted to $480 million -- considerably larger than that by any other country and roughly 55 % - 60% of total foreign investment in Iran. Roughly half of US investment is in the extractive industries (mostly oil), about 44% in manufacturing, and 6% in banking. The extent of US joint ventures with Iranian firms is not known, but such arrangements are being used more frequently. There are no major outstanding US-Iran investment disputes.

IRAN
FOREIGN TRADE PROFILE, 1974 *

	Million US $
Total Exports	19,340
Of which:	
Oil	18,660
Non-oil raw materials	215
Total Imports (cif)	11,828

Exports

	Oil
Million US $	18,660
Percent of world exports	18
Percent of Exports to:	100
United States	12
Western Europe	36
Japan	20
Others	32
US Imports as a percent of US Consumption	36
Country's share of US imports	12

	Total	Major Products Imported from US: Military Equipment	Machinery	Transport Equipment	Manufactured Goods	Food and Live Animals
Percent from U.S.	40	90	6	3	2	2

* Year ending 31 March 1975.

IRAN
FOREIGN TRADE PROFILE, 1974 *

	Million US $
Total Exports	19,340
Of which:	
Oil	18,660
Non-oil raw materials	215
Total Imports (cif)	11,828

Exports	Oil
Million US $	18,660
Percent of world exports	18
Percent of Exports to:	100
United States	12
Western Europe	36
Japan	20
Others	32
US Imports as a percent of US Consumption	36
Country's share of US imports	12

	Total	Major Products Imported from US: Military Equipment	Machinery	Transport Equipment	Manufactured Goods	Food and Live Animals
Percent from U.S.	40	90	6	3	2	2

* Year ending 31 March 1975.

IRAN
BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975b/
Exports	4300	6920	2200	22200
Imports	-2600	-3800	-7200	-10800
Trade Balance	1700	3120	14800	11400
Services and Private Transfers (Net)	-2100	-3230	-1400	-1400
CURRENT ACCOUNT BALANCE	-400	-110	13400	10000
Economic Assistance (Net)	-5	-1	-400	-560
Private Capital (Net)	721	1052	-2900	-3540
CAPITAL ACCOUNT FLOWS	716	1051	-3300	-4100
Net errors and omissions and allocation of SDRs	--	-559	-1900	--
CHANGE IN RESERVES a/	316	382	8200	5900
RESERVE LEVEL (End of Year)	778	1160	9475	15375

a. Including government foreign official assets not counted in reserves.
b. Estimated.

25X1

MOROCCO

A. Regional Political Relationships

Morocco has been a voice of moderation in the Arab world. Its involvement in the Arab League and the OAU generally has been as a participant rather than as a leader. Relations with its main neighbor, Algeria, have been periodically strained by mutual distrust and by Algeria's public opposition to Moroccan efforts to annex at least part of Spanish Sahara. Since June 1974, Morocco has invested considerable time and prestige in its campaign to acquire Spanish Sahara and the final disposition of this issue will significantly affect the stability of the region.

B. Role in LDC Movement

Rabat has played only a nominal role in nonaligned movement, and it does not appear to aspire to leadership. It is uncomfortable with much of the militant rhetoric and positions adopted by the nonaligned. Its primary concern within the movement is to gain support for its claim to Spanish Sahara.

C. Oil Strategy

Morocco's domestic resources provide about 30% of the country's energy requirements, mainly in the form of coal and hydroelectric power. It had earlier hoped that it could be a major oil producer, but exploration 25X1 never paid off in commercial finds. The search continues -- mostly offshore.

[redacted] 25X1

The domestic potential is not great. Coal is in remote areas, poor in quality, and expensive to mine. Heavy reliance on hydroelectric power has caused serious concern because of recurrent droughts. As an Arab state, Morocco has benefited from aid from its richer neighbors, via the Arab Fund for Economic and Social Development, the Kuwait Fund, and other bilateral channels. Rabat would not publically attack oil actions taken by other Moslim states. 25X1

[redacted]

[redacted]

25X1

[redacted]

25X1

[redacted]

F. ECONOMIC DEVELOPMENT STRAGEGY

The development plan calls for broader distribution of growth benefits among the population, largely through land redistribution, Moroccanization of industry and services, job creation, housing and social services, and rural uplift programs. The plan aims at an annual real growth of 9% in 1975 through 1977, compared with 5.6% in 1973 and 1974. Government investment is to reach 20% of GDP by 1977 compared with 8% in 1974. To accomplish these goals, the plan emphasizes export diversification and more productive agricultural investments. At the same time, a slowdown in infrastructural development is contemplated. These structural changes will undoubtedly require more time than optimistic planners project because the government lacks the ability to mobilize the necessary manpower and financial resources.

25X1

[redacted]

25X1

G. Interest in International Marketing Arrangements

Morocco has not been a particularly vocal proponent of the UNCTAD integrated commodities program or general Third World commodity demands. It has, however, expressed interest in having phosphates discussed in any forthcoming energy conference. Morocco also participated in the last UN sugar conference.

In recent years, Morocco has not felt the pressure of commodity problems, because it is in the unique position of being able to exercise cartel-like pricing powers in its major export -- phosphate rock -- without being in a cartel. Morocco is the world's third leading producer (behind the United States and the Soviet Union) but is the world's leading exporter.

Largely because of world recession and high prices for phosphate rock, world demand has begun to slacken. Adding to Morocco's concern is a US Grand Jury investigation of the phosphate (and other fertilizer) products, which may cause further price softening. As a result, Morocco has begun to look favorably on agreements that would help maintain their export earnings. Toward this end, Rabat has established a Phosphate Institute and is attempting to entice other Third World producers to join.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

[redacted] 25X1

II. Balance of Payments Trends

Morocco ran current account surpluses from 1972 through 1974 after a decade of deficits. The deficits are likely to return, however. From 1961 to 1971, Morocco had a negative trade balance despite a fourfold increase in export proceeds. Receipts from tourism and workers' remittances from Europe offset most of the trade deficit, and foreign aid financed the remainder. In 1972-74, export proceeds approached import levels because of higher phosphate prices and sharp gains in tourism and remittances.

This year, higher imports and falling phosphate exports will lead to a large trade deficit. Private capital flows are currently negative as a result of Rabat's Moroccanization program. Since the current account deficit is being financed by aid funds (chiefly from OPEC), however, Morocco will not have any major balance-of-payments problems.

I. US Investment Position

US private investment in Morocco is about $50 million as follows:

Petroleum distribution	40%
Mobil	
EXXON	
Manufacturing	34%
American Tire	
IBM	
Colgate-Palmolive	
American Chewing Gum	
Commerce, Banking & Insurance	14%
Bank of America	
Coca Cola	
Others (agri-business, hotels, transport)	12%
Holiday Inns	

25X1

[redacted]

25X1

The Moroccanization effort, initiated in early 1973, has been relatively problem-free, with several companies successfully making the transition to joint ownership.

The major outstanding issue involves the interest rate to be paid EXXON on the dis-investment proceeds it will receive over the next 6 or 7 years. Other American oil companies have accepted Moroccanization terms.

25X1

MOROCCO
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	1,750
Of which:	
Oil	net importer
Non-oil raw materials	1,170
Total Imports (cif)	2,000

Exports	Phosphates	Citrus Fruit
Million US $	980	105
Percent of world exports	34	NA
Percent of Exports to:	100	100
United States	negl.	negl.
Western Europe	60	85
Japan	3	0
Others	37	15
US Imports as a percent of US Consumption	net exporter	NA
Country's share of US imports	--	NA

Major Products Imported from US

	Total	Food and Edible Oils	Manufactured Goods	Machinery	Transportation Equipment
Percent from U.S.	11	20	7	7	12

MOROCCO: BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975 a/
Exports	632	911	1,750	2,080
Imports	-698	-1,035	-2,000	-2,700
Trade Balance	-66	-124	-250	-620
Services and Private Transfers (Net)	114	227	452	460
CURRENT ACCOUNT BALANCE	47	104	202	-160
Economic Assistance (Net)	40	-19	67	220
Private Capital (Net)	-23	-60	-183	-40
CAPITAL ACCOUNT FLOWS	17	-79	-116	180
Net errors and omissions and allocation of SDRs	4	5	5	--
CHANGE IN RESERVES	68	30	91	20
RESERVE LEVEL (End of Year)	237	267	358	378

a. Estimated.

25X1

NIGERIA

A. Regional Political Relationships

Nigeria, which has substantial oil revenues along with the largest black African population and standing military force, focuses its attention mainly on African problems. Since the civil war, Nigeria's military leaders have cautiously and pragmatically begun to use these resources to promote Nigeria's image as the continent's most dynamic state and to carve out a larger leadership role in Africa. Nigeria is an active participant in regional economic groupings, particularly in west Africa, and was the prime mover behind the formation last May of the 14-nation Economic Community of West Africa States. The new government in Lagos is not expected to push Nigeria's claim to African leadership any more agressively than its predecessor, in order to avoid provoking fears of Nigerian domination. However, the new leadership probably will take a more strident stand on southern African issues.

B. Role in LDC Movement

Nigeria has not aspired to a leading role in the non-aligned movement. Traditionally inward looking and basically pro-Western, Nigeria over the past five years has developed

25X1 an increasingly assertive and genuinely nonaligned foreign policy. Lagos has taken the lead in seeking better terms

25X1

of trade for developing African countries with the EC and at the GATT talks. Over the short term, Nigeria's new military regime is likely to be preoccupied with internal problems rather than foreign affairs.

C. Oil Strategy

In international oil policy, Nigeria has been satisfied mainly to follow the lead of Middle East producers. It has developed a reputation as one of the more moderate OPEC members. Nigeria's new regime has given no indication so far that radical departures may be in the offing in either its oil policies or its generally good working relations with American oil companies.

Nigeria did not join in the recent Arab oil embargo, and we see no evidence that Nigeria would willingly join a new Arab-sponsored embargo that had its roots in purely Middle East issues. Nigeria's new head of state, Brigadier Muhammed, though a Muslim, is not expected to advocate a pro-Arab stance for Nigeria. Such a course of action would only antagonize Nigeria's non-Muslim minority.

Nigeria has no clearly defined policy toward aiding LDC countries. In African forums, Nigeria has indicated its willingness to consider selling crude oil at unspecified concessionary prices to African countries with oil refineries, if they use the oil for domestic purposes only. At the same time, Nigeria has sought to assure fellow OPEC members

25X1

[redacted] 25X1

that it is prepared to join them in providing economic aid to African LDC countries rather than provide bilateral concessionary oil. Nigeria's equivocal stance has come under public criticism from Algeria.

D. Views on Special Relationships with the United States

The recent surge of oil money has buttressed Nigeria's strongly nationalistic outlook. As a corollary of their increasingly independent political stance, Nigerians do not feel compelled to seek anything from anyone. Nigeria has turned to a wide variety of Western and Communist countries for foreign investment, technical training, and military purchases in order to avoid over dependence on any one source. Nigeria welcomes US investment. Some 400 Nigerian officers are trained in the United States each year. The new regime seems favorably disposed toward the United States and the West in general.

E. Staying Power of Government

Nigeria's new military government has been accepted by the public and the armed forces. [redacted] 25X1 25X1

25X1 [redacted] The cohesion of the new leadership may be put to the test in the months ahead should the government encounter setbacks and frustration in coming to grips with such pressing problems as inflation, commodity shortages, distribution short comings, and unemployment. 25X1

[redacted]

25X1

F. Economic Development Stragegy

Nigeria's primary economic objective as set forth in the Third National Development Plan is to achieve a rapid increase in the standard of living of the average Nigerian. The Plan calls for investments of $48.6 billion over five years, of which $32.4 billion is to come from the public sector. More than half of public sector investment is slated for transport ($12 billion) and industry ($6 billion). Other priority areas are mining and quarrying, education, agriculture, housing, communications, power and health care. Private sector investment is to be concentrated on building and construction, industry, distribution, and agriculture. A scarcity of managerial and technical manpower and inadequate institutions to administer development projects are the major constraints on plan implementation.

G. Interest in International Marketing Arrangements

Nigeria is a member of OPEC and follows OPEC policies. It has traditionally been a follower rather than a leader in OPEC. Its policy has been to maximize revenues and it has steadily increased production and prices. Recently, however, the sagging market for its high priced quality oil has caused Nigerian output to drop dramatically. To reverse the decline, Lagos recently reduced prices. Lagos has also entered into commodity agreements for its exports of coffee, cocoa, sugar, and tin.

25X1

25X1

H. Balance of Payments Trends

Nigeria began to run current account surpluses in 1973 and is expected to continue to run surpluses at least until the late 1970s. Reserves totaled $6.5 billion in May 1975.

I. US Investment Position

US private investment in Nigeria totals about $1 billion, mostly in the oil industry. The three largest investors are: Mobil (gross investment $400 million, net book value $160 million); Gulf ($320 million gross, $103 million net); Phillips ($173 million gross, $44 million net).

On 3 August 1974, the United States and Nigeria signed an investment guarantee agreement providing for political risk coverage for new American investment in Nigeria. There are no outstanding investment disputes in Nigeria, although Lagos has been negotiating for some time with American International Insurance Company for 49% government participation.

25X1

NIGERIA
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	9,317
Of which:	
Oil	8,615
Non-oil raw materials	565
Total Imports (cif)	2,779

Exports	Oil	Cocoa*	Vegetable Oils*
Million US $	8,615	252	120
Percent of world exports	7	16	1
Percent of Exports to:	100	100	100
United States	37	20	3
Western Europe	49	44	88
Japan	4	3	2
Others	10	33	7
US Imports as a percent of US Consumption	36	100	8
Country's share of US imports	14	7	--

	Major Products Imported from US			
	Total	Wheat	Machinery	Transport Equipment
Percent from U.S.	12	NA	NA	NA

* Data are for 1973.

NIGERIA: BALANCE OF PAYMENTS

(Billions US $)

	1972	1973	1974	1975a/
Exports	2.3	3.6	9.8	9.0
Imports	-1.6	-2.0	-2.7	-5.3
Trade Balance	.7	1.6	7.1	3.7
Services and Private Transfers (Net)	-1.3	-1.4	-1.1	-1.2
CURRENT ACCOUNT BALANCE	-.6	.2	6.0	2.6
Economic Assistance (Net)	.1	-.1	--	
Private Capital (Net)	.4	.2	-.9	
CAPITAL ACCOUNT FLOWS	.4	.1	-.9	
Net errors and omissions and allocation of SDRs	--	--	--	
CHANGE IN RESERVES	--	.2	5.1	
RESERVE LEVEL (End of Year)	.4	.6	5.6	

a. Estimated.

25X1

SAUDI ARABIA

A. Regional Political Relationships

Saudi Arabia plays a leading role in Arab councils, both informally and in the Arab League, although so far it has not sought to exploit its position fully. Since the Middle East war in 1967 it has been paying annual subsidies to Egypt and Jordan; since its oil earnings mushroomed in 1974, it has supplemented these payments and broadened the list of recipients to include Syria, Iraq, and both Yemens. The Saudis continue to allow Cairo to take the lead in determining matters of Arab policy, though they will, for example, back a Syrian position when they believe Damascus has been slighted. The fact that Egypt and the other confrontation states have to be careful not to alienate Riyadh gives the Saudis a broad veto over Arab policy.

B. Role in LDC Movement

Saudi Arabia usually avoids participation in non-aligned conferences, partly because it does not wish to be badgered for money and partly because the meetings are usually dominated by leftists. On East-West and Third World issues -- unrelated to the Middle East -- Saudi Arabia's foreign policy has been staunchly pro-

25X1

25X1

American and anti-Communist. It is not attending the coming conference in Lima, according to the deputy foreign minister, because it expects it to be run by the "extreme left." Saudi Arabia is, nevertheless, influential within countries belonging to the nonaligned movement because it is a prime source of loans. The government obligated itself to nearly $3 billion worth of aid in the first half of 1975 alone. Saudi Arabia is already the world's largest aid donor, except for the United States.

C. Oil Strategy

Saudi Arabia clearly has control over the OPEC oil prices because of its large excess production capacity and its ability to lower production sharply and still earn sufficient foreign exchange. Although Riyadh can afford to be more moderate on prices than other OPEC members, it will probably go along with the 15% oil price increase we expect to be adopted at the September OPEC meeting. Oil minister Yamani has several times linked Saudi moderation on the price issue to progress in organizing a joint producer-consumer conference that will discuss not just oil, but energy and raw materials in general.

25X1

25X1

Saudi action triggered the oil embargo during the 1973 Arab-Israeli war, and the Saudis have said repeatedly that the West can expect something similar if another war erupts. The Saudis could employ various combinations of an embargo and/or production cuts.

Saudi Arabia has followed cautious investment policies. As the Saudis become more financially sophisticated, however, they have begun to increase their long-term portfolio holdings. They are nevertheless still concentrating on government issues or government-guaranteed issues. With respect to the US market, they have shown sensitivity to US fears of Arab control of US industry. They are particularly irritated at publicity given to the Arab boycott and to their stated policy of refusing visas to Jews. Such irritants may diminish Saudi enthusiasm for American investments.

D. Views on Special Relationships with the United States

Saudi Arabia considers that it has had a special relationship with the United States ever since Aramco began to explore for oil in the 1930s -- antedating the creation of Israel, as Saudis like to point out. Aramco was for a time so deeply involved in the life of the kingdom that it all but ran the country with little friction. 25X1

25X1

Even recent negotiations to allow greater government ownership of Aramco have been amicable. From the Aramco experience, the Saudis emerged with a marked respect for US technology and a strong preference for US products. The relationship was strengthened in mid-1974, when the two countries signed an agreement creating a variety of commissions to further economic and security cooperation.

US ties with Israel are, of course, the inhibiting factors in the political area. The Saudis have long urged the other Arab states to turn away from the Soviets and towards the United States, in the belief that Washington alone can pressure Israel to agree to acceptable settlement terms.

In the economic sphere, the Saudis have a strong preference for government-to-government relationships with respect to contracts and development projects; they are impatient with the US reliance on the initiative of private companies. A related irritant is the delay they perceive in the supply of US-made weapons. They suspect that protracted delivery delays are a result of a systematic anti-Arab, pro-Israeli bias in defense matters; they claim the Israelis have been resupplied

25X1

25X1

in short order in the past, even where US units had to be stripped to accommodate them. The upshot has been increasing nervousness about dependence on US arms -- fears recently intensified by congressional action on sales to Jordan and Turkey.

E. STAYING POWER OF GOVERNMENT

We consider the Saudi government to be stable, at least at present. There is no significant subversive threat in the kingdom. There has been some minor religious and labor unrest in the Eastern Province -- where the oilfields are located -- but it was never very great and has diminished in recent years. The army is considered loyal. The country's manpower shortage guarantees more than eough work for everyone. There are long-term threats; the population has been shielded from the twentieth century to a degree possibly unmatched anywhere else, and development will presumably stir new ideas. There may be an increased demand for political freedom. As foreigners are brought in to work on development projects, there could be labor discontent and various forms of religious-nationalist-ethnic friction. But continuing prosperity will ease even these strains.

Meanwhile, such dangers as exist at present are within the royal family, where individuals step on

25X1

25X1

in short order in the past, even where US units had to be stripped to accommodate them. The upshot has been increasing nervousness about dependence on US arms -- fears recently intensified by congressional action on sales to Jordan and Turkey.

E. Staying Power of Government

We consider the Saudi government to be stable, at least at present. There is no significant subversive threat in the kingdom. There has been some minor religious and labor unrest in the Eastern Province -- where the oilfields are located -- but it was never very great and has diminished in recent years. The army is considered loyal. The country's manpower shortage guarantees more than eough work for everyone. There are long-term threats; the population has been shielded from the twentieth century to a degree possibly unmatched anywhere else, and development will presumably stir new ideas. There may be an increased demand for political freedom. As foreigners are brought in to work on development projects, there could be labor discontent and various forms of religious-nationalist-ethnic friction. But continuing prosperity will ease even these strains.

Meanwhile, such dangers as exist at present are within the royal family, where individuals step on

25X1

[redacted] 25X1

one another's toes as they maneuver for power. So far, King Khalid and Crown Prince Fahd are operating in harmony, though problems could develop out of the division of power between them. [redacted] 25X6 The family has always, despite intense rivalry, managed to hang together in a crunch; they can be expected to do so in the present situation.

F. ECONOMIC DEVELOPMENT STRATEGY

Saudi Arabia's development plan -- $142 billion for 1975-80 -- is the world's most ambitious. Industrial development, agriculture, housing, defense, and socially orientated infrastructure programs have all been allocated massive amounts of funds under the current plan. While Saudi Arabia has no financial constraints on its development programs, it is unlikely that even one-half of the scheduled projects will be completed by 1980. Lack of manpower, transportation facilities, and administrative controls will all be factors disrupting the various programs. As a result, costs of most projects are expected to soar beyond original estimates as shortages of skilled labor and critical materials lead to higher prices. 25X1
A constant reexamination of the development effort

[redacted]

[redacted]

25X1

will be necessary if serious disruption of the domestic economic and social order is to be averted in the years ahead.

G. Interest in International Marketing Arrangements

Saudi Arabia has no interest in marketing arrangements, except where they ensure a steady supply of high technology imports and technical assistance. The Saudis generally prefer to deal in cash with such suppliers. Negotiations are continuing, however, with potential suppliers of high technology both on a government-to-government and government-to-private basis. Negotiations with France are aimed at a long-term oil deal in return for technical assistance on industrial projects. [redacted]

25X1

25X1

H. Balance of Payments Trends

Saudi Arabia's current account surplus has ballooned from $1 billion in 1972 to over $25 billion in 1974 as a result of higher oil prices. Slowed demand for oil in 1975 has cut exports slightly, but the current account surplus is still expected to be over $22 billion.

25X1

[redacted]

25X1

As demand picks up in 1976-79, Saudi Arabia is expected to run surpluses in excess of $25 billion per year. The resulting growth in reserves is expected to continue on through 1980, albeit at a reduced level. As a result, Saudi leaders will continue to face a major challenge in investing their surplus revenues for the next five years at least.

I. US Investment Position

US private direct investment in Saudi Arabia totaled some $1.3 billion at the end of 1974, including some $600 million in Aramco. Other investments are primarily concentrated in manufacturing and petroleum-related industries such as Tapline. Investment in industry, particularly on a joint-venture basis, is expected to grow rapidly during the next several years. Key projects involving US partners include petrochemical plants, refineries, automotive production facilities, and other heavy industry.

The only outstanding major investment dispute concerns the Saudi takeover of Aramco. Still under negotiation are the service fees per barrel Aramco will be granted, production entitlements, and final compensation. While negotiations have been protracted, they appear to be progressing in a fairly amicable atmosphere.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

[redacted] 25X1

The Saudis clearly desire a continuing role for Aramco and have no desire to alienate foreign investors -- current or potential.

25X1

[redacted]

SAUDI ARABIA
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	31,400
Of which:	
Oil	31,400
Non-oil raw materials	--
Total Imports (cif)	3,800

Exports	Oil
Million US $	31,400
Percent of world exports	26
Percent of Exports to:	100
United States	9
Western Europe	52
Japan	16
Others	23
US Imports as a percent of US Consumption	36
Country's share of US imports	12

	Major Products Imported from US		
	Total	Machinery	Transport and Military Equipment
Percent from U.S.	23	NA	NA

SAUDI ARABIA: BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975*
Exports	5,110	8,793	31,400	28,900
Imports	-1,275	-1,817	-3,600	-5,000
Trade Balance	3,835	6,976	27,800	23,900
Services and Private Transfers (Net)	-2,346	-3,908	-1,100	-200
CURRENT ACCOUNT BALANCE	1,489	3,068	26,700	23,700
Economic Assistance (Net)	-56	-377	-1,400	-1,100
Private Capital (Net)	111	-1,014	-8,600	-5,700
CAPITAL ACCOUNT FLOWS	55	-1,391	-10,000	-6,800
Net errors and omissions and allocation of SDRs	-174	+105	-371	--
CHANGE IN RESERVES	1,370	1,782	16,329	16,900
Official Reserves	1,056	1,375	12,149	12,900
Other Foreign Assets (Net)	314	407	4,180	4,000
RESERVE LEVEL (End of Year)	2,893	4,675	21,004	37,904
Of which:				
Official Reserves	2,500	3,875	16,024	28,924
Other Foreign Assets	393	800	4,980	8,980

a. Estimated.

25X1

ZAIRE

A. Regional Political Relationships

Over the past several years, President Mobutu has made rapid strides in bringing Zaire into the mainstream of African affairs. Zaire has a major vo 'n African forums and President Mobutou is cultivati e image of a leading African statesman.

B. Role in LDC Movement

Despite Mobutu's aspirations, Zaire has not played a major role in the nonaligned movement to date. He is moving closer to China and the Arab World and at the same time distancing himself somewhat from Belgium and the United States.

C. Oil Strategy

Zaire currently relies on imports to meet its 15,000 b/d petroleum consumption. Later this year, however, production from offshore fields will be initiated at the 25,000 b/d level. Zaire also has a vast hydroelectric potential -- 13% of the world total -- of which less than 1% has been exploited.

D. Views on Special Relationships with the United States

Mobutu's relations with the United States are a source of frustration to him. His aspirations to become a third world leader are hampered by his close association with the United States and our strong support for him in the

25X1

25X1

early years of his regime. At the same time, he is heavily dependent on US financial interest to help him solve serious economic problems he now faces. He has been unable to obtain significant financial support from the Arab World or from West European countries.

E. STAYING POWER OF GOVERNMENT

Although Zaire's economic problems have produced an almost steady stream of popular grumbling and many of Mobutu's policies are not popular with either the people or government officials, there are no indications that anyone in Zaire can translate that dissatisfaction into a move to unseat Mobutu. Mobutu's security forces appear completely loyal to him and maintain a careful watch of disgruntled elements.

F. ECONOMIC DEVELOPMENT STRAGEGY

Zaire has no official development plan, but general economic policies include: (1) industrialization through state participation in economic ventures and granting incentives to private investment; (2) improvement of management of the economy through reorganization of enterprises and markets and replacement of expatriates by nationals; (3) prevention of urban food shortages by increasing agricultural production and reducing food imports; and (4) development of the poorest areas of the country.

25X1

25X1

A major economic goal of President Mobutu is his "drive for economic independence." Steps to achieve this included the expropriation of Union Miniere's assets in 1967, the turning over to Zairians of certain foreign-owned agricultural and commercial enterprises in November 1973, and the "radicalization" measures of December 1974 which included the extension of state control over more than 100 firms of both foreign and Zairian ownership.

G. Interest in International Marketing Arrangements

Zaire participates in commodity agreements on sugar and tin and belongs to producer organizations for both copper and wood. Zaire's decisions on trading arrangements will inevitably be conditioned by its increasing requirements for revenues and foreign exchange.

H. Balance of Payments Trends

Low copper prices and improvident economic policies have created a foreign exchange crunch in Zaire. In the first quarter of 1975, expenditures exceeded receipts forcing Kinshasa had to draw down its reserves to $90 million. Zaire now finds itself unable to borrow sufficient funds to maintain imports and meet its debt obligations. To cope with the situation, Zaire introduced import controls in early 1975. Only foods, drugs, and raw materials for domestic processing may be imported freely. Even

25X1

25X1

authorized imports are often canceled as suppliers demand -- but are unable to obtain -- advance payment. The reduction in imports is disrupting the industrial sector, which is heavily dependent on foreign inputs.

Kinshasa must obtain large foreign loans if it is to survive the current crunch without severe shortages, inflation, and unemployment. Copper prices are unlikely to rise enough over the next year or two to finance imports at the 1974 level, and other exports show little promise of expanding enough to make up the difference.

I. US Investment Position

US investment in Zaire rose from about $25 million in 1970 to between $100 million and $200 million in 1974. The principal US investments are in oil exploration and production, copper mining, flour milling, auto assembly, textiles, tire and battery production, and tourist facilities.

While most large US investments are protected by the Investment Code of 1969, assets of US petroleum marketing companies -- Mobil and Texaco -- were nationalized in early 1974. Compensation negotiations are moving slowly.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

ZAIRE
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	1,294
Of which:	
Oil	net importer
Non-oil raw materials	1,280
Total Imports (cif)	911

Exports	Copper
Million US $	850
Percent of world exports	10
Percent of Exports to:	100
United States	negl.
Western Europe	90
Japan	2
Others	8
US Imports as a percent of US Consumption	15
Country's share of US imports	--

	Total	Major Products Imported from US: Construction, Transport, and Mining Equipment
Percent from U.S.	16	NA

ZAIRE: BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975
Exports	764	1,044	1,333	NA
Imports	-826	-948	-1,193	NA
Trade Balance	-62	96	140	NA
Services and Private Transfers (Net)	-350	-360	-506	NA
CURRENT ACCOUNT BALANCE	-412	-264	-366	NA
Economic Assistance (Net)	--	--	--	
Private Capital (Net)	--	--	--	
CAPITAL ACCOUNT FLOWS	374	318	139	NA
Net errors and omissions and allocation of SDRs	32	8	134	NA
CHANGE IN RESERVES	-6	62	-93	NA
RESERVE LEVEL (End of Year)	178	235	140	NA

25X1

ZAMBIA

A. Regional Political Relationships

Zambia's active and influential role in the Organization of African Unity (OAU) stems from its proximity to the white-ruled southern Africa. Since Zambia gained independence from Britain in 1964, President Kenneth Kaunda has given a high priority to attaining majority rule in Rhodesia, Mozambique, Angola, and South Africa. Although Zambia has been a staging area for southern African liberation movements, Kaunda has always argued that peaceful change is preferable to violent revolt.

During the past year, Kaunda and the Presidents of Tanzania, Mozambique, and Botswana had cooperated with South African Prime Minister Vorster in an effort to bring peace and majority rule to Rhodesia. Kaunda's diplomacy, following the coup in Protugal, also helped to end the years of guerrilla warfare in Mozambique. He is now deeply involved in efforts to forge unity among the rival nationalist groups in Angola.

B. Role in LDC Movement

In 1970 Kaunda was chosen chairman of an OAU summit conference in Addis Ababa, and he hosted a conference of nonaligned nations in Lusaka. Both

25X1

25X1

bodies designated him as chief spokesman in the effort to establish an arms embargo against Portugal and South Africa. In this role he visited Germany, France, Britain, and the United States and also addressed the U.N. General Assembly. Kaunda subsequently toured the Soviet Union and also traveled to South Asia and Caribbean countries. Kaunda, however, is unlikely to pursue an international leadership role much further than his goals for southern Africa. He is a modest man, compared with Nkrumah or Mobutu, and has drawn criticism for neglecting domestic problems.

C. Oil Strategy

Zambia imports all of its petroleum -- about 17,500 b/d -- as well as small amounts of coal and electricity. Development projects nearing completion will eliminate requirements for coal and electricity imports by 1978. Prospects for discovering oil are poor. Land-locked Zambia's petroleum-related priorities are to expand domestic refinery capacity, add alternative pipeline systems to the one now leading from Dar-Es-Salaam, and develop government-to-government purchasing channels with Arab states, principally Saudi Arabia. Although the cost of petroleum imports has nearly quadrupled since 1973 to about $80 million, the impact on the balance of payments has been small compared with that from copper prices.

25X1

25X1

D. Views on Special Relationships with the United States

Although US-Zambia relations have never been seriously strained, Kaunda is convinced that the United States could do more to loosen white rule in Rhodesia. Zambia's participation in the U.N. sanctions against Rhodesia has been costly, and Kaunda would like the United States to apply the sanctions more tightly. Since Kaunda has assumed a key role in the Rhodesian negotiations, he also has urged the United States to encourage Pretoria to withdraw South African support from Smith unless he accedes to majority rule.

E. Staying Power of Government

Kaunda's stability is well above the African norm. After 11 years as president, he has no apparent challengers. Zambia, however, has its share of the ethnic tensions and economic discontents that have brought sudden overthrows of seemingly entrenched leaders elsewhere. Without an heir apparent, Kaunda's sudden demise would result in a leadership struggle.

F. Economic Development Strategy

Zambia's principal economic goals, expressed in the 1972-76 National Development Plan, are to achieve self-sufficiency in food production and develop import-substitution industries. Production of corn, oilseeds,

25X1

25X1

and sugar are assigned the highest priorities. Progress so far has been irregular. The decade-long search for alternatives to Rhodesian trade routes has been costly, diverting financial and administrative resources from development. Wide fluctuations in copper prices also have upset financing. Recent moves to broaden governmental control over the economy may undermine the confidence of potential foreign investors, further impeding development.

G. Interest in International Marketing Arrangements

Zambia is a founding member of CIPEC (Inter-governmental Council of Copper Producing Countries). President Kaunda has recognized that copper producers do not enjoy the strength of oil producers. He has stated that CIPEC is not seeking extortionate prices for copper, only what is "fair and equitable." As the majority stockholder in its copper industry, Zambia is free to seek the best possible conditions of sale. But it would probably resist proffered bilateral agreements on copper by the United States if they encroached on Zambia's commitment to CIPEC.

H. Balance of Payments Trends

Low international copper prices can be expected to produce a large current account deficit in 1975, the first in three years. Zambia plans to rely mainly on increased

25X1

25X1

foreign borrowing to offset the deficit. Loans totaling over $300 million are being negotiated with US, European, and Saudi Arabian banks. In addition, import restrictions have been tightened. Nonetheless, Lusaka may have to reduce its foreign exchange reserves to exceptionally low levels.

I. US Investment Position

US private investment in Zambia totals about $250 million to $300 million. Most is in copper mining (American Metals Climax, Inc.) and in petroleum supply and distribution (Mobil and Caltex). Other important US investors include Coca Cola, Westinghouse Air Brake, International Telephone and Telegraph, National Cash Register, St. Regis Paper Co., and Ingersoll Rand. There are no major investment disputes involving US companies.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

ZAMBIA
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	1,405
Of which:	
Oil	Net importer
Non-oil raw materials	1,380
Total Imports (cif)	800

Exports	Copper
Million US $	1,300
Percent of world exports	15
Percent of Exports to:	100
United States	negl
Western Europe	51
Japan	31
Others	18
US Imports as a percent of US Consumption	15
Country's share of US imports	1

Major Products Imported from US

	Total
Percent from U.S.	8

ZAMBIA: BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974 a/	1975 b/
Exports	760	1,153	1,324	900
Imports	-566	-541	-778	-800
Trade Balance	194	612	546	100
Services and Private Transfers (Net)	-391	-485	-468	-500
CURRENT ACCOUNT BALANCE	-197	127	78	-400
Economic Assistance (Net)	NA	NA	NA	NA
Private Capital (Net)	87	-285	NA	NA
CAPITAL ACCOUNT FLOWS	110	-51	NA	NA
Net errors and omissions and allocation of SDRs	-61	-48	NA	NA
CHANGE IN RESERVES	148	28	-21	-100
RESERVE LEVEL (End of Year)	165	193	172	72

a. Preliminary.
b. Estimated.

25X1

INDIA

A. REGIONAL POLITICAL RELATIONSHIPS

India is the preeminent power in South Asia, but it does not provide leadership for South Asia, or for the larger Indian Ocean region. India's relations with its immediate neighbors are such as to give New Delhi no real opportunity of playing the role of leader. Pakistan is the traditional enemy, Nepal and Sri Lanka mistrust their giant neighbor, and Bangladesh, while publicly proclaiming its close ties with India, is presently trying to extricate itself from too close an embrace in order to improve relations with antagonists of India such as China. Indian relations with Afghanistan are good, in very large part because of a common distrust of Pakistan.

In the larger Indian Ocean area, New Delhi exercises little influence anywhere, with the exception of Mauritius. The government of that island, influenced by the large Hindu population, apparently feels a strong cultural and political attraction for the much larger Hindu nation to the north. In international forums, the Muslim nations of the Near East, Africa, and Southeast Asia are frequently forced to choose between Pakistan and India. Often, cultural and religious ties are determinants in their

25X1

25X1

decision to support the former. In Southeast Asia, Indians as individuals are generally unpopular, and India, as a nation, is often ignored. Finally, there are many governments in the region that have viewed New Delhi as a stalking horse for the Soviet Union ever since conclusion of the Indo-Soviet Treaty of Peace, Friendship, and Cooperation in 1971.

B. Role in LDC Movement

India, along with Egypt and Yugoslavia, was one of the early leaders of the nonaligned movement. Following war with China in 1962 and the death of Nehru two years later, India began to lose its leadership role. It still belongs to both the Nonaligned Conference and the Group of 77. Domestic crises over the past decade, both economic and political, have focused government attention on internal matters. Detente has tended to limit New Delhi's ability to maneuver between blocs. Pakistan has played down its once close identification with Western-sponsored defense pacts and has drawn the Muslim nations closer to its side. Peking is now a permanent member of the Security Council and claims to speak for Asia. Finally, the leadership of the nonaligned group of nations has fallen to Arab and African activists such as Algeria. Indian influence today is limited, although as a nation of 600 million people, having a 1-million-man

25X1

25X1

army, and able to explode a nuclear device, its voice cannot be ignored. India would like to play a leadership role again, but the changing world situation, combined with India's current concentration on internal problems, will keep it from doing so.

C. Oil Strategy

India relies heavily on petroleum imports to satisfy its energy needs. Domestic production of 148,000 b/d covers only one-third of consumption. The cost of imported oil reached $1.5 billion in 1974 and equalled 37% of export earnings. India has discovered extensive offshore oil reserves, but any significant reduction in oil imports is unlikely before 1980 and self-sufficiency is at least a decade away if it can ever be attained. Coal reserves are extensive but underdeveloped, mainly because of low coal min productivity and the high cost of transportation.

New Delhi has actively sought price concessions and aid from OPEC members. Although dismayed at the reluctance of OPEC to be more concessional to the most seriously affected nations, New Delhi has continued to give OPEC strong diplomatic support in international forums.

25X1

25X1

D. VIEWS ON SPECIAL RELATIONSHIPS WITH THE UNITED STATES

India's relations with the United States have frequently been troubled by misunderstandings and conflicting goals over the past quarter century. Many Indian leaders, particularly those of the left, still view US foreign policy as dominated by neo-colonialism, militarism, imperialism, and racism. Despite this, there is still a reservoir of good will for Americans, caused in large part by traditional common interests in democracy and by large scale US economic and technical assistance over a period of many years. Two current sticking points between India and the United States involve the possible sale of US arms to Pakistan and the United States' decision to expand the naval and air base on the Indian Ocean island of Diego Garcia. In the past year, however, leaders of the Indian government have repeatedly emphasized their desire for improved relations with Washington.

The constraints on the press and politicians in India since the June emergency proclamation could result in less moralizing over the alleged faults of the United States. In case of governmental reverses, however, the United States will remain the most likely foreign scapegoat.

25X1

[redacted]

25X1

E. STAYING POWER OF GOVERNMENT

[redacted]

25X1

25X1

[redacted] Mrs. Gandhi has dramatically consolidated her control over the government since proclamation of a state of emergency on 26 June and is likely to remain in power for at least the next year. Mrs. Gandhi has given no hint as to when she will lift the emergency, but most observers believe it will continue well into 1976 or beyond. The emergency can be retained indefinitely, and there is no constitutional requirement for new elections so long as a majority of the legislature is willing to extend the life of the present parliament. Prime Minister Gandhi has an overwhelming majority in that parliament. The opposition is in disarray, with many leaders in jail, others in hiding. The press is muzzled and the security forces are alert and apparently loyal to the government. Over a period of time, particularly if a serious economic crisis were to occur, an effective underground opposition could develop in India, but this seems to be at least several months away.

25X1

[redacted]

25X1

[redacted]

F. Economic Development Strategy

India has persistently given industrialization more priority than agricultural development. Industrialization programs have been characterized by enlargement of the public sector, rigid constraints on private investment, and mushrooming bureaucratic requirements. Shortages of public investment funds, raw materials, capital goods, and energy have been the major constraints on industrial growth, along with the bewildering plexus of government regulations.

India is combating these constraints rather than changing its priorities. During the past year, New Delhi has liberalized some industrial and import controls in an effort to stimulate industrial production. Businessmen are optimistic concerning Mrs. Gandhi's more authoritarian measures, such as prohibiting strikes. She also has not nationalized any more private industries. Agriculture is largely left to respond to the annual monsoon rains.

G. Interest in International Marketing Arrangements

India is very interested in international marketing arrangements as a method to improve prices of its major exports. India took a leading role in organizing the iron ore exporters' association and has participated in recent coffee, sugar, and tin conferences. With Bangladesh, India has established a jute promotion organization.

25X1

25X1

India is a member of the tea exporters group which meets under FAO auspices. This group has discussed potential joint policies to benefit tea exporters but has been unable to agree on what actions are appropriate.

H. Balance of Payments Trends

Since 1972, the balance of trade has deteriorated dramatically. During the past two years, a 63% growth in exports was dwarfed by a 104% rise in imports as world market prices soared and poor grain harvests increased import requirements. Outlays on petroleum, foodgrains, and fertilizers accounted for most of the growth in imports. Export growth has reflected the world commodity boom. Sugar sales, the most dramatic example, rose to an estimated $300 million in 1974 from $55 million in 1973.

India's net economic assistance climbed from about $500 million in 1972 to nearly $2 billion last year. With a larger trade deficit this year, India's aid requirements will remain high. Since an increase in new aid seems unlikely, New Delhi will have to take some combination of the following steps: dip into its foreign exchange reserves which amounted to $1.4 billion at the end of March; further increase IMF borrowings; press for debt rescheduling; or, as a last resort, further curtail imports.

25X1

25X1

I. US Investment Position

New Delhi has been forcing US oil companies with refineries in India to sell it a majority of the equity. The US companies are glad to do so because Indian price regulations were used to make their refining operations unprofitable. EXXON has already sold 75% of its Bombay refinery to the government, and Caltex is currently negotiating for a similar sale. New Delhi has allowed oil companies to contribute technology in return for minor equity in public sector refineries -- Phillips Petroleum owns 25% of the Cochin refinery, and American Oil owns 13% of the Madras refinery. There are no major investment disputes with India.

25X1

India
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports Of which:	4,100
Oil	Net Importer
Non-oil raw materials	2,000
Total Imports (c.i.f.)	5,400

Exports*	Tea	Iron Ore	Cotton Textiles	Leather Manufactures	Jute Manufactures
Million US $	186	170	301	235	292
Percent of world exports	25	5	NA	NA	NA
Percent of Exports to:	100	100	100	100	100
United States	4	--	16	5	42
Western Europe	39	1	28	52	4
Japan	negl.	78	7	8	5
Others	56	21	48	35	50
US Imports as a percent of US Consumption	100	37	NA	NA	NA
Country's share of US imports	9	--	NA	NA	NA

Major Products Imported from US*

	Total	Wheat	Other Cereals	Transport Equipment	Fertilizer	Machinery	Organic Chemicals
Percent from U.S.	20	56	64	25	23	11	12

*For year ending 31 March 1974.

India
BALANCE OF PAYMENTS

(Millions US $)

	Fiscal Years*			
	1972	1973 est.	1974 est.	1975 proj.
Exports	2,520	3,187	4,100	4,300
Imports	-2,643	-3,952	-5,400	-5,800
Trade Balance	-122	-765	-1,300	-1,500
Services and Private Transfers (Net)	-287	-340	-370	-400
CURRENT ACCOUNT BALANCE	-409	-1,105	-1,670	-1,900
Economic Assistance (Net)**	503	866	1,875	1,790
Private Capital (Net)	- 18	- 20	- 20	- 20
CAPITAL ACCOUNT FLOWS	485	846	1,855	1,770
Net errors and omissions and allocation of SDRs	- 42	365	-223	- 20
CHANGE IN RESERVES	34	106	- 38	-150
RESERVE LEVEL (End of Year)	1,311	1,417	1,379	1,229

*FY 1975 = 1 April 1975 - 31 March 1976.

**Includes IMF transactions.

25X1

INDONESIA

A. Regional Political Relationships

Indonesian leaders believe that their country is destined to play an important leadership role in Southeast Asia. Jakarta has been a major driving force within the Association of Southeast Asian Nations (ASEAN) since its founding in 1967. Indonesian diplomats have pushed to expand the association's discussions beyond its original limited goals of economic and educational cooperation to include political and defense problems. Since the fall of Saigon, Jakarta has emphasized the need for greater intelligence and military cooperation among the ASEAN states.

B. Role in LDC Movement

Indonesia is a charter member of the nonaligned movement, but in recent years the Suharto government has been criticized by some radical third world states for its avowedly anti-Communist attitudes. This has to some extent blunted Indonesia's effectiveness as a leader of the moderate group within the Nonaligned Conference. President Suharto is now working to refurbish Indonesia's third world credentials through meetings with other nonaligned leaders.

25X1

[redacted]

25X1

C. Oil Strategy

Indonesia is a member of OPEC and has supported price increases. Because the country is poor and has a large population, its oil strategy has been to pump as much oil for as much money as fast as possible. Jakarta opposes using oil as a political weapon and did not participate in the October 1973 embargo even though it is mainly a Muslim country. Jakarta is not financially able to aid other LDCs although it has tried to help its ASEAN colleagues meet short-term energy shortages.

D. Views on Special Relationships with the United States

Indonesian leaders will be careful about entering any special relationships with the United States that might prejudice their country's independent image.

E. Staying Power of Government

25X1

[redacted] the Suharto government will probably maintain power over the next five years, but that festering social and economic problems combined with increased government suppression will lead to political instability over the longer term. Suharto's staying power depends on continued military unity; some fissures within the military have already appeared and may get worse over time. Many important segments of the population are politically disaffected but thus far they have been unable to find unified leadership or common issues.

25X1

25X1

[redacted]

25X1

F. Economic Development Strategy

Indonesia has three major long-term economic goals: controlling inflation, reducing income inequality, and providing for development needs. Although Jakarta has not yet decided how to allocate its newfound oil wealth to serve these objectives, some steps have been taken. To control inflation -- a serious problem in 1973-74 for the first time since 1968 -- restrictive monetary policies have been undertaken. Major investment projects are being drawn up that are labor-intensive and meet developmental needs in agriculture, transportation, and export-oriented industries. Government planners, although they have developed labor intensive projects, favor capital-intensive, heavy industrial projects where the benefits eventually trickle down to the bulk of the population. Thus, the majority of domestic investment will likely continue to flow into the latter types of projects rather than into ones that employ large numbers of rural peasants.

G. Interest in International Marketing Arrangements

Indonesia belongs to the following international commodity organizations: International Tin Committee, Association of Natural Rubber Producers, and OPEC.

25X1

25X1

Suharto government has also agreed to join with Malaysia and Thailand in establishing a buffer stock and price rationalization scheme for natural rubber.

H. Balance of Payments Trends

Indonesia has run current account deficits even with the recent surge in export revenues. These deficits have been financed by foreign aid from the Inter-Governmental Group for Indonesia (IGGI) (the US is a member) and by private capital. Because of the increased oil prices, Indonesia is now able to finance its current account deficits, mainly through private capital inflows.

I. US Investment Position

US private investment in Indonesia is about $2 billion of which over 90% is in extractive industries (oil and mining). Of the other 10%, more than half is in manufacturing.

There are no major outstanding disputes involving US private investments in Indonesia. Last year, however, President Suharto announced a new program to accelerate indigenous control over the economy. It includes raising Indonesian ownership in joint ventures to 51% from the current 15%-25%, increasing indigenous participation in all other business forms, and broadening local participation.

25X1

Indonesia

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	7,425
Of which:	
Oil	5,210
Non-oil raw materials	1,780
Total Imports (c.i.f.)	3,840

Exports	Oil	Timber	Rubber	Tin	Vegetable Oils
Million US $	5,210	725	480	175	155
Percent of world exports	4	NA	26	13	4
Percent of Exports to:	100	100	100	100	100
United States	25	--	25	NA	NA
Western Europe	negl.	3	18	NA	NA
Japan	64	80	3	NA	NA
Others	11	17	54	NA	NA
US Imports as a percent of US Consumption	36	NA	100	83	8
Country's share of US imports	4	NA	45	9	11

	Total	Major Products Imported from US
Percent from U.S.	16	

INDONESIA
BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975 a/
Exports	1760	2950	7400	7700
Imports	-1450	-2660	-3800	5000
Trade Balance	310	290	3600	2700
Services and Private Transfers (Net)	-720	-1100	-3300	-3700
CURRENT ACCOUNT BALANCE	-410	-810	300	-1000
Economic Assistance (Net)	339	550	635	335
Private Capital (Net)	458	493	-252	1070
CAPITAL ACCOUNT FLOWS	797	1043	383	1405
Net errors and omissions and allocation of SDRs	--	--	--	--
CHANGE IN RESERVES	387	233	683	405
RESERVE LEVEL (End of Year)	574	807	1490	1895

a. Estimated.

25X1

MALAYSIA

A. Regional Political Relationships

Malaysia is probably the most committed member of the Association of Southeast Asian Nations (ASEAN). Although it believes ASEAN should avoid any stance that the region's Communist nations might consider provocative, it sees a strong regional organization as a bulwark against further Communist advances in the wake of Vietnam.

B. Role in LDC Movement

Although Malaysia identifies itself with the non-aligned movement, it is among the more moderate members. It has on at least one occasion walked out of a non-aligned conference to protest what it considered extremist policies. Malaysia does not aspire to a leadership role in the nonaligned world.

C. Oil Strategy

This year, Malaysia is expected to become a small net exporter of petroleum. Crude production reached 80,000 b/d in 1974, while domestic consumption was 90,000 b/d. Malaysia's 1975 production will likely reach nearly 100,000 b/d, and we expect Malaysia to be exporting 300,000 b/d in 1980.

25X1

25X1

D. Views on Special Relationships with the United States

Although Malaysia is well disposed toward the United States, its commitment to a nonaligned policy rules out any close relationship.

E. Staying Power of Government

There is no political threat to the Razak government. It has effectively eliminated a political opposition by absorbing all meaningful opposition parties into a nine-party National Front. The Communist insurgency does not threaten Prime Minister Razak politically.

F. Economic Development Strategy

Malaysia's long-term economic goals focus on continued growth through rapid expansion and diversification of exports. The encouragement of foreign investment in a framework of unencumbered free enterprise has been the linchpin of Malaysia's remarkable economic success over the past decade. A growing sentiment within the government to play a larger role in the control and exploitation of natural resources, however, is undermining this favorable investment climate. This is most evident in the case of oil, where the newly formed National Oil Company is trying to exert tighter control over the foreign oil companies.

G. Interest in International Marketing Arrangements

With several major commodity exports -- natural rubber, tin, and palm oil -- Malaysia is seriously

25X1

25X1

concerned with making suitable marketing arrangements that would stabilize raw material prices. Malaysia's moderate role in the International Tin Council (ITC) probably typifies official thinking about the type of marketing arrangements that should be made. Recently, Malaysia has been attempting to initiate an international buffer stock scheme for natural rubber. The arrangement sought would be fashioned along the lines of the ITC in which floor and ceiling prices would be set and both consumers and producers would participate.

H. Balance of Payments Trends

Malaysia has a very healthy international payments position. Despite drastic fluctuations in prices for raw materials, the country has rarely experienced a trade deficit and has retained a remarkably strong and stable currency. Although net services and transfer payments have traditionally been in deficit, mainly as a result of freight charges and profit repatriation, they are usually outweighed by trade surpluses. Current account deficits -- when they have occurred -- have easily been more than offset by capital inflows that include private foreign investment, and in recent years, official borrowing. International reserves have continued to increase in line with import growth. In 1975, falling exports will probably cause a large current account deficit, but it does not appear that reserve levels will

25X1

25X1

have to be drawn down much, if at all, because of capital inflows.

I. US Investment Position

Most recent estimates place US investment in Malaysia at about $500 million. The United States ranks third, following the United Kingdom and Singapore, among foreign investors in Malaysia. The largest share of US investment is in the oil industry, although in recent years US investment has increased most rapidly in the electronics industries. If major US oil companies continue their exploration and development programs, the extent of US investment can be expected to double within a relatively short period. There are no major investment disputes.

25X1

Malaysia
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	4,530
Of which:	
Oil	300
Non-oil raw materials	4,230
Total Imports (c.i.f.)	4,375

Exports	Rubber	Tin	Timber	Vegetable Oil	Oil
Million US $	1,280	670	650	480	300
Percent of world exports	48	43	NA	11	negl.
Percent of Exports to:					
United States	11	30	2	12	7
Western Europe	25	30	21	30	–
Japan	4	23	42	5	31
Others	60	17	35	53	62
US Imports as a percent of US Consumption	100	83	NA	8	36
Country's share of US imports	32	45	NA	30	negl.

	Major Products Imported from US	
	Total	Machinery and Transport Equipment
Percent from U.S.	9	5

Malaysia
BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974est.	1975
Exports	1,700	2,970	4,530	NA
Imports	-1,570	-2,285	-3,920	NA
Trade Balance	130	685	610	NA
Services and Private Transfers (Net)	-337	-543	-668	NA
CURRENT ACCOUNT BALANCE	-207	142	- 58	NA
Economic Assistance (Net)	126	23	1	NA
Private Capital (Net)	137	131	292	NA
CAPITAL ACCOUNT FLOWS	263	154	293	NA
Net errors and omissions and allocation of SDRs	58	75	-120	NA
CHANGE IN RESERVES	114	371	115	NA
RESERVE LEVEL (End of Year)	1,034	1,405	1,520	NA

25X1

PAKISTAN

A. Regional Political Relationships

Regionally, Pakistan's closest economic, political, and military ties are with China, Iran, and the Arab states. Moreover, Pakistan is formally allied with Iran, Turkey, the United States, and the United Kingdom in the Central Treaty Organization (CENTO) and has become increasingly active in that organization since the early 1970s. It is also a member of Regional Cooperation for Development (RCD), a pact under which Pakistan, Iran, and Turkey cooperate on economic projects.

Pakistan seeks to achieve two basic objectives through its alliances. First, it seeks commitments from its allies to support its security and territorial integrity against what it preceives as ongoing threats from India and Afghanistan; Pakistan claims these two neighbors are working together against it with some support from the Soviet Union. Second, Pakistan seeks material assistance for the development of its economy and the equipping of its armed forces. Iranian and Arab aid commitments to Pakistan have increased sharply in recent years. Pakistan, for its part, provides the Arabs with military advisers and technicians. Pakistan has long received military and economic assistance from

25X1

25X1

China and, since 1965, mostly economic aid from the United States.

B. Role in LDC Movement

In recent years, Pakistan has enjoyed considerable success in gaining acceptance from the nonaligned nations as one of them. To a great extent, this success has been the result of Prime Minister Bhutto's cultiva-tion of closer ties with Muslim Middle East nations. Pakistan is a member of the Group of 77 but is not yet a member of the Nonaligned Conference.

Pakistan generally tries to take relatively moderate stances on issues that concern the nonaligned movement, to avoid antagonizing the US and other Western countries. Nevertheless, it has usually sided with the Chinese or the Arabs when their positions conflicted with Washington's-- for instance, on Indochinese, Korean, or energy issues.

Prime Minister Bhutto may well aspire to a leading role in the nonaligned movement. He probably believes that Pakistan, as one of the most populous Islamic nations, and he as one of the Islamic world's more sophis-ticated leaders. deserve to exert strong influence among the nonaligned nations in general and the Islamic countries in particular. Were he to assume such a leadership role, Bhutto would probably be a force for relative moderation. His actions would be influenced by his own interest in

25X1

25X1

enhancing his personal prestige and his country's interest in maintaining strong ties with China, the Islamic countries, and the United States.

C. Oil Strategy

Pakistan's prospects for achieving energy self-sufficiency during the 1970s are remote. The country's major energy source is an abundant supply of natural gas -- some 10 million cubic feet of proved reserves with more being found. Coal reserves are also extensive but of low quality. Development of both coal and gas reserves have been hampered by limited development funds and by government curbs on foreign investment. Oil production is only 10,000 b/d, compared with imports of 60,000 b/d. The cost of petroleum imports, now running at $350 million annually, has become a major burden on the economy. Exploration has been speeded up in recent years, with four US firms doing most of the researching. Although no important new discoveries have been made, government officials remain optimistic that domestic production will ease the oil import burden by the 1980s. Pakistan has not been critical of OPEC, because it has been a major recipient of OPEC aid. Since January 1974, OPEC aid agreements with Pakistan have exceeded $1 billion.

25X1

[redacted] 25X1

D. Views on Special Relationships with the United States

At present there are no major inhibitions on Pakistan's willingness to contemplate a special relationship with the United States. Since the 1960s, when US-Pakistan relations were poor, several factors have facilitated their improvement:

-- The change in US relations with China;

-- The sympathy extended to Pakistan by the United States in 1971, when most countries sided with India and Bangladesh.

-- Generous US economic assistance. (Pakistan depends heavily on US commodities, especially wheat); and

-- Pakistan's lack of satisfactory alternatives to friendship with the United States, given the Soviet Union's preference for -- and extensive military assistance to -- India.

Pakistan would probably welcome even closer ties with the United States. Its objectives in establishing special relations would be to obtain military equipment, increased US economic aid, and the strongest possible US commitment to help Pakistan in the event of aggression by its unfriendly neighbors. The main developments that could inhibit US relations with Pakistan would be a US decision to give preference to India over Pakistan, or a serious deterioration in US relations with allies of Pakistan such as China, Iran, or the Arab states. 25X1

[redacted]

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

25X1

E. Staying Power of Government

There are no signs that Prime Minister Bhutto's government is likely to face any major threats to its survival in the near future. Bhutto has been successful in outmaneuvering and suppressing his political opponents, in holding down autonomy-seeking elements in the outlying provinces, in retaining the loyalty of the armed forces, and in keeping Pakistan's perennial economic problems from reaching proportions that would generate widespread unrest.

F. Economic Development Strategy

In this primarily agricultural country, the main thrust of economic development has been toward increasing grain production. Wheat is the country's staple food, and cotton, cotton textiles, and rice are the major exports. Increased production of these commodities has been a major economic goal, with development of natural gas and oil reserves a close second. Pakistan has a good chance to become self-sufficient in foodgrains and fertilizer (based on natural gas) by the end of the decade.

G. Interest in International Marketing Arrangements

Pakistan favors international negotiations on individual commodities to ensure "fair and renumerative" prices and reliable supplies for consumers. Islamabad

25X1

25X1

seeks the adoption of a program phased over the next five to ten years which would remove tariff and non-tariff barriers that affect imports of developing countries. Particular emphasis would be paid to eliminating tariffs and quotas which discriminate against LDCs as well as those on the manufactured and semi-manufactured exports of these countries.

H. Balance of Payments Trends

The necessity to import large quantities of wheat and fertilizer has caused serious balance-of-payments problems for Pakistan. While prices for these products were increasing, the country's most important exports, cotton and textiles, rose less rapidly under pressure of reduced demand. Aid from Middle East oil producers and the consortium of developed countries as well as a 1974 debt re-scheduling, helped Pakistan through its difficulties. However, the balance-of-payments situation is likely to remain tight for the next several years.

I. US Investment Position

About 40% of the $70 million US investment in Pakistan is in fertilizer plants. Hercules and EXXON own urea plants with a combined capacity of 600,000 tons, 75% of the country's capacity for nitrogenous fertilizer. EXXON has a 75% interest EXXON-Pakistan Fertilizer Company: Hercules has 40% in partnership with Davwood

25X1

25X1

Industries of Pakistan, Davwood owns 40%, and govern-ment and private investors, the remaining 20%. There are no major investment disputes, although Hercules has had problems working with Davwood. Petroleum accounts for 26% of US investment. EXXON also has a 17% share of the 50,000 b/d Karachi petroleum refinery and owns 270 filling stations and a depot marketing operation. Texas-Gulf Inc., Amoco, Marathom International and Western Offshore Drilling are actively exploring for oil both on and offshore.

Government policy encourages foreign investment through tax incentives. Low wages, also encourage investment. However, foreign investors must secure govern-ment approval for virtually all aspects of their operations -- pricing, export and import authorization, marketing facilities, and sometimes profit margin. All these involve frequent and lengthy negotiations with the government.

25X1

Pakistan
BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975
Exports	626	939	1,014	1,230
Imports	-861	-1,044	-1,951	-2,125
Trade Balance	-235	-105	-937	-895
Services and Private Transfers (Net)	- 55	- 13	-102	-125
CURRENT ACCOUNT BALANCE	-290	-118	-1,039	-1,020
Economic Assistance (Net)*	302	309	955	900
Private Capital (Net)	19	5	38	25
CAPITAL ACCOUNT FLOWS	247	314	993	925
Net errors and omissions and allocation of SDRs	65	1	28	25
CHANGE IN RESERVES	57	197	- 18	- 70
RESERVE LEVEL (End of Year)	281	478	460	390

*Includes IMF Transactions.

Pakistan
FOREIGN TRADE PROFILE, 1974*

	Million US $
Total Exports	1,026
Of which:	
Oil	net importer
Non-oil raw materials	350
Total Imports (c.i.f.)	1,370

Exports	Cotton	Cotton Yarn	Cotton Cloth	Rice
Million US $	38	188	143	212
Percent of world exports	4	NA	NA	NA
Percent of Exports to:	100	100	100	100
United States	1	negl		
Western Europe	6	11	13	negl
Japan	20	4	27	1
Others	73	85	4	--
			56	99
US Imports as a percent of US Consumption	net exporter	NA	NA	NA
Country's share of US imports	8	NA	NA	NA

	Major Products Imported from US		
	Total	Wheat	Fertilizer
Percent from U.S.	25	75	37

* 1 July 1973 - 30 June 1974

25X1

PHILIPPINES

A. Regional Political Relationships

The Philippines is a member of the Association of Southeast Asian Nations, but until recently has not been particularly active in association matters. President Marcos' recent campaign to create an independent foreign policy and erase Manila's image as a US client has resulted in his increased interest in regional affairs. The Philippines is unlikely to be an influential member in the association, because other members suspect Marcos is more interested in using the forum for personal glory than for seeking solutions to regional problems.

B. Role in LDC Movement

The Philippines is not a member of the Nonaligned Conference, but Marcos is currently seeking observer status. Manila's participation in SEATO and its close defense and base arrangements with the United States are major obstacles to its acceptance in the nonaligned club.

C. Oil Strategy

The Philippines is poor in energy resources, and the outlook for energy self-sufficience in the next decade is dim. Currently, most of the country's energy needs are met from imported petroleum.

In 1974, domestic oil consumption was about 200,000 b/d at a foreign exchange cost of nearly $700 million. This year the oil bill will be on the order of $850 billion. The government is belatedly pushing oil exploration, but no discoveries have been made.

25X1

25X1

Manila has tried to gain assistance from Arab members of the OPEC states, but with little success. Manila's relations with the Arab oil producers are complicated by Arab criticism of Philippine treatment of its Muslim minority.

Some talks, however, have been conducted for OPEC funding of prospective development projects in Moslem areas of the country. The Philippines' plans for eventual energy self-sufficiency include nuclear power as well as exploitation of geothermal resources.

D. Views on Special Relationships with the United States

The Philippines has a long history of special relationships with the United States. President Marcos is currently working to loosen many of these ties in order to achieve a more balanced foreign policy.

E. Staying Power of Government

President Marcos has a firm hold on political and economic power in the Philippines. There are no opposition groups of any significance; Communist dissidents currently are weak. The most serious internal security problem is the Muslim rebellion in the south. Thus far, the armed forces have been able to contain the fighting to the Muslim areas, which are relatively small and geographically isolated from important economic or political centers.

25X1

25X1

F. Economic Development Strategy

Under President Marcos, the Philippines' major long-range economic goal is to sustain a high rate of economic growth through increased agricultural exports. Concomitant goals are to increase rural living standards through land reform and increased rural credit. Although a somewhat expanded role of the public sector in economic development is foreseen, the government continues to favor the private sector and is encouraging foreign investment. The political and social stability attending martial law and the changes in commercial and investment law since 1972 have given the economy a significant boost and are expected to support continued growth over the next few years.

G. Interest in International Marketing Arrangements

The Philippines has shown an ambivalent attitude toward international marketing arrangements. As a victim of OPEC oil prices, yet an exporter of raw materials, the Philippines has proved to be a moderating influence at international gatherings dealing with primary commodities. Manila has categorically rejected membership in the international copper organization (CIPEC) because the Philippines has a favored position in the lucrative Japanese market. However, the Philippines would probably look favorably on bilateral long-term arrangements for other commodities, particularly sugar. With the expiration of the US Sugar

25X1

25X1

Act (under which the United States has been the sole buyer) and with sugar prices soaring, the Philippines held back exports earlier this year, hoping for higher prices. As prices fell, the government was left holding nearly 1 million tons with no large buyer and a new crop soon to come in. Hence, Manila is eager to find a suitable marketing arrangement for sugar, which in 1974 was the country's largest earner of foreign exchange.

H. Balance of Payment Trends

The Philippines' international payments position has improved radically since the late 1960s and early 1970s, when chronic trade deficits compounded problems of high external debt and low foreign reserves. An extensive debt rescheduling in 1972 was soon followed by the dramatic increase in raw material prices. The export surge carried through most of 1974, but a tripling of the oil import bill led to a current account deficit once again -- $200 million. However, a significant increase in private capital inflows, reflecting a renewed interest by foreign investors, more than offset the current account deficit and resulted in a net increase of international reserves. In 1975 the current account deficit will likely increase as world prices for raw materials remain depressed. The Philippines will probably have to draw down reserves somewhat, but not critically, and will still be in a considerably better position than before 1972.

25X1

25X1

I. US Investment Position

US investment in the Philippines is estimated to be in excess of $1 billion and includes a wide range of manufacturing and extractive industries. The United States accounts for about 75% of the total foreign investment in the Philippines.

Until July 1974, US investment in the Philippines was accorded special consideration under the 1946 Laurel-Langley Treaty. Among other things, the treaty guaranteed that US investors would be be treated on a "parity" with Filipinos in those types of investment involving utilization of public lands and natural resources. The lapse of Laurel-Langley last year, however, has had little overall impact on US interests. Many US firms had been engaged in non parity investment areas, and those that had parity rights were able to negotiate equitable dis-investment arrangements.

Current Philippines investment laws are liberal and are directed at attracting foreign capital. Investment in pioneer industries may be 100% foreign-owned, but must be converted to local ownership within 30 years. Industries deemed "overcrowded" can be denied foreign investment approval. Foreign ownership in public utilities and exploitation of natural resources is limited to 60%. Retail trade must be 100% Philippine-owned. There are no major outstanding US-Philippines investment disputes.

25X1

Philippines
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports Of which:	2,725
Oil	net importer
Non-oil raw materials	2,260
Total Imports (c.i.f.)	3,436

Exports	Sugar	Vegetable Oils	Copper	Timber
Million US $	766	381	393	332
Percent of world exports	7	8	5	NA
Percent of Exports to:	100	100	100	100
United States	85	65	8	10
Western Europe	--	17	4	9
Japan	10	6	86	59
Others	5	12	2	22
US Imports as a percent of US Consumption	51	8	15	NA
Country's share of US imports	25	56	4	NA

Major Products Imported from US

	Total	Non-Electrical Machinery	Cereals	Electrical Machinery	Motor Vehicles and Parts
Percent from U.S.	23	34	41	40	27

Philippines
BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975proj.
Exports	1,138	1,871	2,725	2,500
Imports	-1,260	-1,597	-3,143	-3,200
Trade Balance	-122	274	-418	-700
Services and Private Transfers (Net)	99	154	138	145
CURRENT ACCOUNT BALANCE	-23	428	-280	-555
Economic Assistance (Net)	193	153	181	185
Private Capital (Net)	17	134	285	185
CAPITAL ACCOUNT FLOWS	210	287	466	370
Net errors and omissions and allocation of SDRs	-159	-121	103	-165
CHANGE IN RESERVES	28	594	289	-350
RESERVE LEVEL (End of Year)	282	876	1,165	815

25X1

SRI LANKA

A. REGIONAL POLITICAL RELATIONSHIPS

Sri Lanka has sought to maintain balanced relations with the other countries in South Asia and fancies itself as a potential political broker between India and Pakistan. It thus has scrupulously avoided criticizing both New Delhi and Islamabad over contentious issues and renders as much public support as possible for each in international organizations.

Prime Minister Sirimavo Bandaranaike has worked hard to reach agreements in recent years with New Delhi over lingering problems, including repatriting Tamils--south Indian immigrants in Sri Lanka, only some of whom are Sri Lankan citizens; achieving Sri Lankan sovereignty over an island lying equidistant between the two countries; and improving economic relations. Accords on these issues have helped to allay Colombo's traditional fears of Indian hegemonic intentions for South Asia that had been intensified in 1971 by the Indo-Soviet Treaty, India's defeat of Pakistan the same year, and the Indian nuclear explosion in mid-1974.

At the same time, Sri Lanka continues to enjoy cordial relations with Islamabad. Colombo has pursued a low-key approach designed to gain Pakistani support for Sri Lanka's aspirations to play an important role in the nonaligned movement. The Ceylonese also hope that good relations

25X1

25X1

with Pakistan will somehow yield benefits in the form of economic aid and that Islamabad will use its influence with its oil-rich Muslim friends to secure economic assistance and concessionary terms on petroleum.

Sri Lanka is a member of the Colombo Plan.

B. Role in LDC Movement

Sri Lanka has recently taken an increasingly active role in the nonaligned movement in anticipation of the Summit Conference scheduled to meet in Colombo in August 1976. As host country for the Conference, Sri Lanka becomes the chairman of the 17-member Coordination Bureau for the next three years and thus, in a sense, assumes the role of titular head of the nonaligned movement for that time period. The actual leadership of the nonaligned movememt, however, is likely to remain in the hands of such activist states as Algeria.

Mrs. Bandaranaike is a tough, pragmatic, and skillful negotiator who has been adept at balancing contending forces both domestically and within South Asia. Shortly after assuming power in 1970, she attempted to put Sri Lanka in the forefront of the nonaligned movement by proposing that the Indian Ocean become a "zone of peace." While Sri Lanka has continued to press this issue before the United Nations in recent years, it has done so increasingly in a pro forma manner; it is aware that all major naval powers are opposed. Over the past two years, Mrs. Bandaranaike has adoped the middle ground on most international issues and, despite a socialist-welfare domestic economy, has eschewed doctrinaire polemics.

25X1

25X1

C. OIL STRATEGY

Sri Lanka's prospects for attaining any degree of energy self-sufficiency in the next five years are poor. The island depends entirely on imported crude oil for its single 39,000 b/d refinery. Oil exploration to date has been handled by the Soviets. They have concluded onshore and offshore surveys and drilled exploratory onshore wells. Only traces of oil and gas have been found. While the Soviets are continuing the onshore exploratory drilling program, they are unable to handle offshore drilling. Sri Lanka has turned to Western firms. A US consulting firm has been hired to help with offshore drilling and the government is in the process of hiring drilling services on a contract basis. Sri Lanka could use foreign private investment capital to speed the search for offshore oil, but the country's leftist leanings precludes this.

Colombo has not strongly criticized OPEC policies either publically or privately. Instead, it has decried the detrimental import world inflation has had on its trade balance. Sri Lanka's heavy reliance on food imports and higher food import prices have had a greater impact than the oil price rise. The food import bill rose $126 million in 1974 over 1973, whereas the oil import bill rose $92 million and the net oil import bill (imports less product exports) rose only $60 million. Sri Lanka has also refrained from criticizing OPEC because members are a new source of foreign aid -- $141 million committed in 1974 and 1975. Sri Lanka also does not want to alienate any nonaligned nations prior to hosting the Nonaligned

25X1

25X1

D. Views on Special Relationships with the United States

Sri Lanka would be unwilling to enter into a special relationship with the United States in the foreseeable future. Colombo enjoys cordial relations with Washington and is grateful for US food assistance, especially that granted during the past year. The government, however, views more intimate ties with Washington as potentially damaging to its image as a socialist-oriented developing country and to its aspirations for leadership in the nonaligned movement.

E. Staying Power of Government

Prime Minister Bandaranaike dominates the United Front government, a coalition of her moderate-leftist Sri Lanka Freedom Party and two small leftist parties. She faces no serious political challenges. Her party by itself holds a majority of parliamentary seats; she has succeeded in undercutting the only real opposition party and is not constitutionally required to hold elections until 1977.

The Prime Minister is a wily politician who will do whatever is necessary to retain power without regard for ideology. She has played off contending forces within her party, the coalition, and even the opposition with consistent skill. She continues to enjoy popular support despite general disgruntlement throughout the country over economic issues. While serious problems remain, she has managed, at least temporarily, to control the key problems of food supply and foreign exchange shortages.

25X1

25X1

F. Economic Development Strategy [redacted]

Sri Lanka is attempting to create a socialist-welfare state, and little attention is paid to promoting rapid economic growth. The government has succeeded in improving the distribution of income, providing widespread education and health services, and easing the burden of the poorest through subsidized food distribution. Failure to grow economically, however, has increasingly endangered the country's welfare program. The government's stated shortrun goals are to pursue offshore oil drilling, construct a urea fertilizer plant, work toward food self-sufficiency, and promote investment in industries using domestic raw materials.

G. Interest in International Marketing Arrangements

Sri Lanka is a member of the tea exporters group under FAO auspices and of the natural rubber producing group. Both groups have discussed coordinated actions to improve export earnings, but no actions have been taken.

H. Balance of Payments Trends

Sri Lanka has run a trade deficit in each of the past 10 years and a current account deficit in 9 of these years. Government import controls are used in an effort to keep the trade deficit under control. During the past few years, Sri Lanka has had to rely heavily on short-term foreign loans and suppliers' credits to supplement inflows of economic assistance. This situation is not likely to change. Inflows of long-term private capital are negligible.

25X1

I. US Investment Position

US direct private investment (as of 1972) was $2 million, as follows:

* manufacturing - $1.1 million
* petroleum - $100,000
* other - $800,000

There are no major disputs over US investments in Sri Lanka.

25X1

Sri Lanka
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports Of which:	527
Oil	net importer
Non-oil raw materials	435
Total Imports (c.i.f.)	717

Exports	Tea	Rubber	Coconut Products
Million US $	205	111	81
Percent of world exports	27	4	NA
Percent of Exports to:	100	100	100
United States	9	6	4
Western Europe	24	22	54
Japan	2	2	3
Others	65	70	39
US Imports as a percent of US Consumption	100	100	NA
Country's share of US imports	24	1	NA

	Major Products Imported from US	
	Total	Wheat Flour
Percent from U.S.	3	8

Sri Lanka
BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975 proj.
Exports	316	366	508	525
Imports	-359	-413	-692	-700
Trade Balance	-42	-47	-185	-175
Services and Private Transfers (Net)	- 7	9	11	10
CURRENT ACCOUNT BALANCE	-49	-38	-174	-165
Economic Assistance (Net)	62	43	134	150
Private Capital (Net)	- 1	27	43	15
CAPITAL ACCOUNT FLOWS	61	70	177	165
Net errors and omissions and allocation of SDRs	- 2	-15	- 12	--
CHANGE IN RESERVES	-10	-17	9	--
RESERVE LEVEL (End of Year)	60	87	78	78

25X1

THAILAND

A. Regional Political Relationships

Thailand has played a passive role in regional affairs until recenlty. It now believes that efforts should be undertaken to strengthen the Association of Southeast Asian Nations, to which it belongs.

B. Role in LDC Movement

Thailand does not aspire to a leadership position in the nonaligned movement.

C. Oil Strategy

Thailand imports nearly all of its energy needs in the form of crude and refined oil. Although there are large deposits of lignite (brown coal) in Thailand, few factories and only one of Thailand's electric power plants burn lignite. Even if the Thais decided to convert oil burning facilities to lignite, it would take more than 5 years to accomplish any significant shift away from dependence on imported oil.

Promising traces of both oil and natural gas have been found in the Gulf of Thailand as exploration for oil continues. It would take at least 5 years, however, before any commercially expoitable oil deposits could be developed. In the interim, Thailand must depend almost entirely on imported oil for its energy needs.

25X1

25X1

D. VIEWS ON SEPCIAL RELATIONSHIPS WITH THE UNITED STATES

Bangkok is now attempting to end its "special" relationship with the Washington for political and security reasons. It still desires good relations, especially in trade and economic matters, but wishes to gain some distance from its previously close identification with US foreign policy.

E. STAYING POWER OF GOVERNMENT

The Khukrit Pramot government has recently strengthened its political base, and the odds favor it to remain in power for the next 6 to 12 months.

F. ECONOMIC DEVELOPMENT STRATEGY

Thailand strives for a balance of rapid economic development and a more egalitarian distribution of income. The Thais believe the best path to rapid economic development is through export and trade expansion rather than through import substitution. They also attach much importance to the free play of market forces in a fairly open economy. In this context, foreign investment is expected to play a major role.

The primary limitation on Thai planning objectives is that rapid population growth will expand consumer demand too rapidly. Of particular concern is the prospect that the traditional rice and food surplus, which are Thailand's major foreign exchange earners, will continue to dwindle.

25X1

Approved For Release 2005/06/09 : CIA-RDP86T00608R000600060007-4

25X1

Moreover, it will be difficult for the economy to grow rapidly enough to absorb the increases in the urban labor force in the next 5 to 10 years, threatening Thailand's goals of egalitarian income distribution.

G. Interest in International Marketing Arrangements

Thailand's attitude toward commodity cartels or marketing arrangements is pragmatic. The Thais will on occasion explore a commodity arrangement when they believe it to be in their best interests; but they realize their vulnerability in most areas and consider their customers' potential reactions. Thailand participates in the International Tin Council and is exploring a similar arrangement on rubber with Malaysia and Indonesia. During the height of the grain shortages, Thailand expressed interest in a rice cartel. This, however, was shortlived, as Thailand now has a surplus of exportable rice and prices have fallen to about half their 1974 peak.

H. Balance of Payments Trends

Through conservative financial policies, Thailand has managed to hold down its current account deficits until this year. Capital inflows had more than offset these small current account deficits, enabling Thailand to add to its reserves. Direct investment in the private sector and long-term loans to private enterprises make up the largest part of the capital inflow.

25X1

25X1

Thailand's balance of payments may deteriorate badly this year. Reduced earnings from major exports such as rice, tin, and rubber probably will expand the current account deficit sharply. Moreover, earnings from tourism and US military spending are also likely to be down. To make matters worse, foreign investment has fallen off significantly. In 1975, Thailand probably will have to draw down reserves by $200 million to $300 million to cover the current account deficit. If commodity prices remain soft, some adjustment in subsequent growth of imports can be expected.

I. US Investment Position

After Japan, the United States is the largest source of private foreign investment in Thailand.

US Private Investments

Total	$150 million
Mining and Smelting	44%
Petroleum	28%
Manufacturing	21%
Other	7%

The United States and Thailand have had no serious investment disputes until this year. The Thai government revoked a tin mining concession of TEMCO, a joint US-Dutch company. Although the dispute is well on its way to being amicably settled, the Thai government's actions had unsettling effects on other US investors, especially in the extractive industries.

25X1

Thailand
FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	2,481
Of which:	
Oil	net importer
Non-oil raw materials	2,190
Total Imports (c.i.f.)	3,168

Exports	Rice	Corn	Rubber	Tapioca	Sugar	Tin
Million US $	490	302	252	192	188	154
Percent of world exports	NA	NA	12	NA	3	10
Percent of Exports to:	100	100	100	100	100	100
United States	--	--	6	2	5	26
Western Europe	1	--	6	78	--	9
Japan	2	43	49	8	55	25
Others	97	57	39	12	40	40
US Imports as a percent of US Consumption	NA	NA	100	NA	51	83
Country's share of US imports	NA	NA	3	NA	--	13

	Major Products Imported from US					
	Total	Cotton	Non-electrical Machinery	Iron & Steel	Tobacco	Electrical Machinery
Percent from U.S.	14	68	11	16	99	14

Thailand

BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975
Exports	1,046	1,532	2,481	NA
Imports	-1,473	-2,062	-3,168	NA
Trade Balance	-427	-530	-687	NA
Services and Private Transfers (Net)	346	453	595	NA
CURRENT ACCOUNT BALANCE	- 81	- 77	- 92	NA
Economic Assistance (Net)	41	48	89	NA
Private Capital (Net)	163	92	328	NA
CAPITAL ACCOUNT FLOWS	204	140	417	NA
Net errors and omissions and allocation of SDRs	69	50	157	NA
CHANGE IN RESERVES	192	113	482	NA
RESERVE LEVEL (End of Year)	969	1,082	1,564	NA

25X1

ARGENTINA

A. Regional Political Relationships

Although an active member of nearly all major regional organizations, Argentina's current hemispheric influence is much less than in years past and far less than historic Argentine expectations. This largely reflects the country's preoccupation with its serious internal political and economic problems. The recent election of Argentina's Ambassadro Orfila as secretary general of the Organization of Aemrican States (OAS) is a source of pride and relief, since the Argentines went to considerable lengths to promote his candidacy but does not begin to compensate for the nation's expectations. Brasila is a particular annoyance to Buenos Aires, given Argentine jealousy of Brazilian economic advances and Argentine feelings of cultural superiority.

B. Role in LDC Movement

Argentina has sought to identify with the Third World, but has not pursued a leadership role.

C. Oil Strategy

Argentina is 85%-90% self-sufficient in oil. In recent years, however, crude oil production has been declining 2%-3% per year, and in the first quarter of 1975 production was nearly 4% below the same 1974 period. In June, former

25X1

25X1

Economics Minister Rodrigo suggested that self-sufficiency might be possible by 1977 if foreign money and technology could be obtained to exploit a newly discovered field. Under current economic and political conditions, however, large-scale foreign assistance is unlikely. Argentina apparently has received no special treatment or financial aid from OPEC countries. Last spring, an attempt to obtain a $600 million loan from Venezuela was unsuccessful. So far as is known, however, OPEC policies have not been specifically criticized in Argentina.

D. Views on Special Relationships with the United States

The Peronist government puts much importance on the maintenance of good relations with the United States. It established diplomatic relations with Cuba long before the OAS vote to lift sanctions. Nevertheless, it has not attempted to antagonize the United States and has recently sought to modify its traditionally nationalistic, autarkic Peronist rhetoric by issuing statements welcoming an increased role for foreign capital, especially from the US.

E. Staying Power of Government

There is a strong possibility that the military may take over actual power if the political and economic situation deteriorates further, but a strong desire to maintain constitutionality would incline them to retain Mrs. Peron as titular president if she is willing to continue in office.

25X1

25X1

F. Economic Development Strategy

Argentina's principal long-term economic objectives are to achieve a industrial country status and to increase exports of manufactured goods. Objectives of the Peronist government now in power also include increasing labor's standard of living and its share in the national income. Pursuit of the latter objectives by ill-considered means has caused serious economic difficulties. Inflation is rampant, production sluggish, exports declining, investment stagnant, the budget deficit skyrocketing, reserves disappearing, and the balance of payments deteriorating drastically. For the time being, the only economic objective is to stabilize the economy. Until a government comes to power that is strong enough to take needed, but unpopular, austerity measures, pursuit of forward-looking economic objectives is impossible.

G. Interest in Internatonal Marketing Arrangements

Because the United States is not an important customer for Argentina's principal exports, long-term contracts or other marketing arrangements would be of minimal interest. The exception is meat, where contracts would be well-received in view of current problems with sales to its major market -- Western Europe.

Argentina is a member of the International Wheat Council. It has been cooperating with other South American meat-exporting countries to develop a coordinated position vis-a-vis the European Common Market in ongoing talks concerning access to meat importers.

25X1

25X1

II. BALANCE OF PAYMENTS TRENDS

Argentina's balance of payments was favorable in 1973 and 1974, but this year it has become critical. Its trade balance has deteriorated markedly, and large foreign debt payments are due at a time when its credit worthiness is questionable. The situation will remain precarious for the foreseeable future unless an economic stabilization program is instituted that will inspire enough confidence to greatly increase the flow of capital into the country. The trade balance cannot be expected to improve much, even with limitations on imports, because the principal exports -- grains, meat, and other agricultural products -- are restricted by reduced production and lower demands of purchasers, especially in Western Europe. Reserves have been drawn down to unacceptably low levels.

Debt renegotiation is inevitable, and Argentina's creditors will undoubtedly insist that it work out an economic stabilization package with the IMF. Argentina had hoped to avoid this, as the price will be a limitation on national discretion in economic decision-making. The US government accounts for less than 5% of Argentina's foreign debt. Nearly two-thirds of this is Export-Import Bank credit, the remainder extended under various assistance programs. Other governments account for 13%, and

25X1

25X1

international organizations for 22%. The remainder is from suppliers (nearly 25%), private banks (19%), and bonds (18%).

I. US Investment Position

US investment in Argentina was estimated at $1.4 billion at the end of 1973, nearly two-thirds of it in manufacturing. There probably has been little if any growth since then because of the generally unfavorable climate for foreign investment. In particular, a law was passed in February 1974 that limits repatriation of profits of foreign-owned firms and restricts foreign ownership in new firms. Former Economics Minister Rodrigo announced plans to revise the law to encourage the inflow of capital and technology. It is not yet known whether Bonanni, the present Minister, will follow through on them. The general economic situation, which has squeezed business profits, has discouraged foreign as well as domestic investment. At least two US firms are involved in disputes with the Argentine government that could lead to nationalization of their holdings.

25X1

ARGENTINA

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	3,850
Of which:	
Oil	Net importer
Non-oil raw materials	N.A.
Total Imports (f.o.b.)	3,100

Exports 1/

	Grains
Million US $	900
Percent of world exports	N.A.
Percent of Exports to:	100
United States	negl.
Western Europe	49
Japan	negl.
Others	51
US Imports as a percent of US Consumption	N.A.
Country's share of US imports	N.A.

Major Products Imported from US 1/

	Total
Percent from U.S.	21

1. Data are for 1973.

ARGENTINA

BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975
Exports	1,941.1	3,266.2	3,850.0	N.A.
Imports	-1,904.7	-2,235.3	-3,100.0	N.A.
Trade Balance	36.4	1,072.0	750.0	N.A.
Services and Private Transfers (Net)	-259.3	-315.8	-182.0	N.A.
CURRENT ACCOUNT BALANCE	-222.9	756.2	568.0	N.A.
Economic Assistance (Net)	262.4	68.1	N.A.	N.A.
Private Capital (Net)	44.7	119.8	N.A.	N.A.
CAPITAL ACCOUNT FLOWS	307.1	187.9	N.A.	N.A.
Net errors and omissions and allocation of SDRs 1/	82.9	-23.1	N.A.	N.A.
CHANGE IN RESERVES	167.1	921.0	-52.3	N.A.
RESERVE LEVEL (End of Year)	457.1	1,378.1	1,325.8	N.A.

1. Includes exchange adjustments.

25X1

BRAZIL

A. Regional Political Relationships

Brazil's major interest in Latin America is the preservation and enhancement of its economic position and the maintenance of its influence with the conservative governments of nearby nations. Brazil exerts strong influence on the economics and politics of Paraguay, Uruguay, and Bolivia, and fear of Brazilian power has produced defensive reactions in Argentina, Peru, and Venezuela. Although Brazila has attempted to reassure the continent's Spanish-speaking nations that its intentions are non-aggressive, it is particularly wary of attempts by other Latin nations to establish themselves as competitors for regional leadership.

B. Role in LDC Movement

Brazil has some common interests with the less developed countries that are bent on securing economic concessions from the industrialized nations. Brazil's political orientation, however, makes it suspect to the nonaligned nations, and the closer Brazil comes to realizing its developmental goals, the less it has in common with these countries.

C. Oil Strategy

Brazil imports nearly half its energy sources, almost entirely in the form of petroleum. About 80%

25X1

25X1

of its oil requirements are imported, mostly from the Middle East. Although Brazil has stepped up exploration and developmental of domestic petroleum sources and has discovered some important new fields, it will remain dependent upon imports at least into the 1980s. Brazil has sought capital from OPEC sources with little success. It continues to negotiate for loans and equity capital, however, and to develop its ties with the OPEC countries. High government officials recognize that Brazil needs foreign capital, technology, and experience to fully develop its petroleum resources. Powerful nationalist support for the state oil monopoly, however, has blocked any move in this direction.

D. Views on Special Relationships with the United States

Brazil desires close and cooperative relations with the United States despite differences on specific issues — trade, nuclear proliferation, and the role of multinational corporations. It realizes its dependency in the economic and security fields.

E. Staying Power of Government

The military is firmly entrenched as the ultimate authority in Brazilian politics. Given the military's concern for an appearance of order, unity, and rationality in government, President Ernesto Geisel will probably complete his five-year term in office, scheduled to end in 1979.

25X1

25X1

F. Economic Development Strategy

Brazil's basic economic objective is the rapid development and modernization of its economy, but with growth held to limits consistent with balance-of-payments stability and the control of inflation. To achieve both high growth rates and favorable balances of payments, Brasila is promoting export expansion and diversification by providing tax incentives, by altering the Cruzeiro's exchange rate, and by supporting Third World demands for special trade concessions. It also has successfully attracted the large foreign capital inflows needed to overcome current account deficits and to ease the inflationary impact of Brazil's high investment rate. To contain inflation, the government has followed fairly conservative fiscal and monetary policies and has developed programs to encourage private savings.

Equitable income distribution and social welfare also are important economic policy goals, but they are subordinated to growth and the control of inflation. Nevertheless, the government has developed a wage policy and a variety of social development programs to help low income Brazilians benefit from the country's rapid economic progress.

25X1

25X1

G. Interest in International Marketing Arrangements

Brazil generally favors international commodity agreements representing both consumer and producer interests. It has supported efforts to restore export controls under the International Coffee Agreement and probably would support an effort to revive the International Sugar Agreement. Brazil is also a member of the International Cocoa Organization. Although it was a leader in the futile effort to organize a coffee exporter cartel, Brazil has given little support to producer cartel arrangements. For example, it has not favored cartel-like organization among sugar and iron ore exporters and has warned against confrontation with consumer interests. This position particularly reflects Brazil's desire to acquire a larger share of the world market.

H. Balance of Payments Trends

Brazil's current account deficit rose gradually during 1968-73 and then soared dramatically in 1974. Tight import controls, slower economic growth and continued rapid export growth are now beginning to reduce the deficit, although it will remain high in 1975. Until 1974, current account deficits were easily financed by heavy borrowing in the world money market, by a large inflow of credit from official lending agencies and suppliers, and by a steady inflow of equity capital.

25X1

25X1

The capital inflow was much larger than required to meet the current account deficits, and thus foreign reserves grew rapidly, reaching a peak of $6.5 billion in March 1974. Since then, Brazil has drawn down reserves by $2 billion.

I. US Investment Position

US private investment in Brazil totaled $3.2 billion at the close of 1973. Nearly 70% was invested in manufacturing firms, while almost all the rest was in financial and other services. Investment in mining or other extractive industry is quite small, although there is some US capital in iron, manganese, and tin mining. There are no investment disputes involving US interests.

Brazil has relatively few laws restricting foreign investment. State control is required in petroleum and domestic ownership in a few other basic industries such as communications and some areas of transportation. Additionally, in practice, the government usually requires majority domestic ownership in mining and establishes state-owned firms in such basic industries as steel to ensure the predominance of domestic control.

25X1

BRAZIL

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	7,968
Of which:	
Oil	Net Importer
Non-oil raw materials	4,940
Total Imports (f.o.b.)	12,531

Exports	Coffee	Sugar	Soybeans	Iron Ore
Million US $	877	1,259	888	571
Percent of world exports	23	11	18	13
Percent of Exports to:	100	100	100	100
United States	27	30	negl.	12
Western Europe	50	13	82	46
Japan	3	10	2	30
Others	20	47	16	12
US Imports as a percent of US Consumption	100	51	0	37
Country's share of US imports	14	14	....	14

Major Products Imported from US 1/

	Total	Wheat	Met. Coal	Chemicals	Iron & Steel	Machinery
Percent from U.S.	29	40	90	33	15	35

1. Data are for 1973.

BRAZIL

BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975 1/
Exports	3,991	6,199	7,968	9,600
Imports	-4,235	-6,192	-12,531	-12,600
Trade Balance	-244	7	-4,563	-3,000
Services and Private Transfers (Net)	-1,245	-1,695	-2,313	-3,000
CURRENT ACCOUNT BALANCE	-1,489	-1,688	-6,876	-6,000
Economic Assistance (Net)	438	528	730	1,500
Private Capital (Net)	2,948	3,543	4,981	3,500
CAPITAL ACCOUNT FLOWS	3,386	4,071	5,711	5,000
Net errors and omissions and allocation of SDRs	489	-188	2/	2/
CHANGE IN RESERVES	2,386	2,195	-1,165	-1,000
RESERVE LEVEL (End of Year)	4,183	6,417	5,252	4,252

1. Projected
2. Included in Private Capital (net)

 25X1

COLOMBIA

A. Regional Political Relationships

Along with Venezuela and Costa Rica, Columbia has successfully encouraged the Organization of American States to end sanctions against Cuba. Colombia also plays a leading role among the Andean Pact nations.

B. Role in LDC Movement

Colombia aggressively pursues what it terms "ideological pluralism" in its foreign relations. In this context, it is interested in dealing diplomatically and economically with East and West, as well as with non-aligned countries. It does not especially aspire to a leadership role among the nonaligned, however, as that might jeopardize its traditionally close relations with the United States.

C. Oil Strategy

Until this year, Colombia was a net exporter of oil. It will likely have to depend on some oil imports for the next several years. Colombia needs external financing and expertise to expand oil production. Colombia has no ties with OPEC, positive or negative

25X1

25X1

D. Views on Special Relationships with the United States

No significant barrier exists to a special relationship with the United States.

E. Staying Power of Government

The likelihood is excellent that the Colombian government will complete its constitutional term of office and be succeeded in an orderly fashion by another constitutional government.

F. Economic Development Strategy

The Lopez government has developed a rather clear economic strategy since it came to power in August 1974. This strategy has two elements designed to accelerate economic growth:

(1) The removal of many of the extensive administrative controls placed on the private sector; and

(2) Greater use of specific programs to achieve social objectives rather than general economic controls.

Colombia is in the process of achieving the first objective; success with specific social programs is impeded by the lack of capable personnel.

G. Interest in International Marketing Arrangements

The large share of export earnings stemming from coffee makes Colombia interested in stabilizing its price. The recent surge in coffee prices resulting from crop damage in Brazil, however, has reudced producer interest in an

25X1

25X1

agreement and has weakened the position of consumers.

Colombia devoted some time and energy to a plan aimed at cooperating with several other Latin countries against the United States on textile negotiations earlier this year. The plan fell through for lack of Mexican and Brazilian support, but may be indicative of actions Colombia could repeat in the future.

H. Balance of Payments Trends

In 1972 and 1973 a combination of favorable export prices, import controls, and large inflows of official capital led to a balance-of-payments surplus. By contrast, during 1974 Colombia incurred a deficit, in part reflecting a deterioration in its current account but, more importantly, a sharp turnaround in the capital account. In 1975 a further current account deterioration is certain, but Bogata is now more willing to borrow abroad. In 1976 the country's balance-of-payments situation should improve because of higher coffee prices.

I. US Investment Position

US private investment in Colombia totals $727 million The petroleum sector accounts for 38.1%; manufacturing for 41.5%; and other extractive industries less than 20%. Major US investments in Colombia include Avianca Airlines (US 40%), the Colombian Petroleum properties, the Texas Petroleum properties, the Hanna Mining nickel deposits, and the Peabody Company coal deposits. The oil sector 25X1
is being reshaped as Bogota buys out foreign oil companies

25X1

and enters into joint operations for new ventures. Negotiations with Hanna and Peabody are still in progress. New bank investment laws proposed may eliminate foreign banks over the next several years.

25X1

COLOMBIA

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	1,200
Of which:	
Oil	83
Non-oil raw materials	740
Total Imports (c.i.f.)	1,200

Exports	Coffee	Sugar	Cotton	Clothing
Million US $	624	84	159	73
Percent of world exports	15	1	1	N.A.
Percent of Exports to:	100	100	100	100
United States	42	52	5	20
Western Europe	N.A.	N.A.	N.A.	N.A.
Japan	N.A.	N.A.	N.A.	N.A.
Others	N.A.	N.A.	N.A.	N.A.
US Imports as a percent of US Consumption	100	51	Net exporter	N.A.
Country's share of US imports	16	2	....	N.A.

	Total	Automobiles & Parts	Organic Chemicals	Iron & Steel	Electrical Machinery	Other Machinery
		Major Products Imported from US				
Percent from U.S.	40	49	39	20	31	46

COLOMBIA

BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975a/
Exports	855	1,021	1,231	1,338
Imports	-658	-743	-1,048	-1,330
Trade Balance	197	278	183	8
Services and Private Transfers (Net)	-199	-209	-295	-338
CURRENT ACCOUNT BALANCE	-2	69	-112	-330
Economic Assistance (Net)	125	95	-14	....
Private Capital (Net)	37	16	32	50
CAPITAL ACCOUNT FLOWS	162	111	18	....
Net errors and omissions and allocation of SDRs	18	-	-	
CHANGE IN RESERVES	178	180	-94	
RESERVE LEVEL (End of Year)	325	534	449	

a. Estimated.

25X1

MEXICO

A. Regional Political Relationships

Under President Luis Echeverria, Mexico is paying much more attention to its role in the hemisphere than under previous administrations. The most dramatic evidence of this new interest has been Mexico's attempt to promote the establishment of a Latin American Economic System (SELA). SELA's fundamental objectives are to formulate common positions and strategies on economic problems facing the area and to promote multilateral projects and programs among members. Echeverria and co-sponsor President Perez of Venezuela clearly consider the political gains to them as instigators of SELA as important as the purely economic considerations. They are driving hard to lay claim to leadership in the hemisphere and in the Third World and no doubt see their sponsorship of SELA as a good way to promote their political aspirations.

B. Role in LDC Movement

A major feature of Echeverria's administration has been a break with Mexico's passive foreign policy of the past. Mexico under Echeverria is attempting to reduce its economic dependence on the United States and pursue a "new world economic order", where the LDCs play a more important role.

25X1

Echeverria's most significant foreign policy triumph was the adoption in December 1974 by the UN of his proposed "Charter of Economic Rights and Duties of States" (CERDS). His other pressing aspiration is to become UN Secretary General, and this is a central goal of his current 15 nation tour. President Echeverria believes that Mexico's future is linked to the Third World, and all his public pronouncements reflect this position. Mexico presently has observer status in the Non-aligned Movement -- it attended the 1973 Algiers conference in this role -- and it may aspire to full member status at the conference in Lima this August.

C. Oil Strategy

The development of the recently discovered enormous oil deposits in Chiapas and Tobasco has allowed Mexico to rejoin the ranks of oil exporters. Mexican sensitivity about economic independence has led the nation to follow policies independent of OPEC. By maintaining this posture, Mexico can retain a considerable amount of independence in formulating an oil policy, avoid exposure to any anti-OPEC moves of the United States, and retain the benefits of high international crude oil prices. The government has shown a willingness to offer its oil to other Latin countries first but has refused to make any price concessions.

25X1

D. Views on Special Relationships with the United States

Echeverria's motives for plunging Mexico into the Third World mainstream probably do not arise from any basic hostility toward the United States. Rather they seem to be embodied in his great concern about Mexico's economic dependence upon the United States and pervasive US influence upon Mexico across a broad spectrum ranging from commerce to culture. Therefore, because of these concerns and his desire for a leadership role in the Third World, Echeverria is highly unlikely to enter Mexico into any special relationship with the United States.

E. Staying Power of Government

Echeverria has a little more than one year left in office. There are almost no circumstances that would result in his government's demise.

F. Economic Development Strategy

Mexico would like to continue its successful growth-with-stability policy of the last twenty years. Mexico, however, is faced with a population growth rate that is among the highest in the world and with a high rate of rural-urban migration resulting in increasing unemployment and underemployment and a worsening in income distribution. Government hopes to reverse this trend will require increasing the long-term real growth rate to at least

25X1

[redacted] 25X1

8% from the 6% rate of recent years. In order to maintain its monetary stability and to relieve balance-of-payments constraints to this high growth rate, Mexico can be expected to rapidly expand oil exports in the next few years.

G. INTEREST IN INTERNATIONAL MARKETING ARRANGEMENTS

The objectives of Mexican foreign policy under Echeverria include the establishment and maintenance of the most favorable conditions possible for the growth of the domestic economy. They involve a search for nonreciprocal benefits in trade and commerce with major trading partners, maintenance of the highest possible market prices for Mexican raw materials (including oil), and participation in producers' organizations -- though probably not OPEC -- where this would be helpful. In pursuit of these objectives, Mexico has sought the formation of producers' organizations -- such as the Latin American Sugar Producers -- in order to create marketing arrangements favorable to producers. Mexican views are also expressed in the CERDS, which states "All states have the right to associate in organizations of primary commodity producers. . . All states have the duty to respect this right by refraining from applying economic and political measures that would limit it."

25X1

H. Balance of Payments Trends

Mexico in recent years has depended heavily on long-term public borrowing to cover its rapidly growing current account deficits. In 1974 the current account deficit reached $2.6 billion and new foreign borrowing as a percent of GDP reached 4.1%, compared with only 2.4% in 1966. Mexico has encountered no problems in obtaining international financing. Because of its political stability and oil situation, Mexico carries a very high credit rating -- perhaps the highest in Latin America. Mexico has depended primarily on US and Eurodollar markets to obtain financing, but in recent weeks it has begun to tap the Arab petro-dollar market.

I. US Investment Position

During 1961-73, the book value of US investment in Mexico rose by about 180%, reaching $2.2 billion. US investment in Mexico grew despite government restrictions, which are among the strictest in the Western Hemisphere. Under Mexicanization legislation, foreign investors have been excluded from petroleum extraction, banking, public utilites, and certain other service activities. In addition, foreign investors have been restricted to minority ownership in most other extractive industries and agriculture. Because of the restrictions, 70% of the US investment is in manufacturing and only 7% is in extractive industries.

25X1

MEXICO

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	3,198
Of which:	
Oil	123
Non-oil raw materials	930
Total Imports (c.i.f.)	3,813

Exports 1/

	Cotton	Coffee	Sugar	Tomatoes
Million US $	166	157	115	127
Percent of world exports	5	3	11	N.A.
Percent of Exports to:	100	100	100	100
United States	13	72	99	100
Western Europe	10	17	....	....
Japan	42	1		
Others	35	10	 1	.... Negl.
US Imports as a percent of US Consumption	Net exporter	100	51	N.A.
Country's share of US imports	26	7	9	N.A.

Major Products Imported from US 1/

	Total	Cereals	Iron & Steel	Trucks
Percent from U.S.	60	75	61	87

1. Data are for 1973.

MEXICO

BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975
Exports 1/	1,830	2,341	3,198	NA
Imports	-2,718	-3,813	-5,947	NA
Trade Balance	-888	-1,472	-2,749	NA
Services and Private Transfers (Net) 2/	127	249	136	NA
CURRENT ACCOUNT BALANCE	-761	-1,223	-2,613	NA
Economic Assistance (Net) 3/	359	1,047	2,039	NA
Private Capital (Net)	395	638	485	NA
CAPITAL ACCOUNT FLOWS	754	1,685	2,524	NA
Net errors and omissions and allocation of SDRs 4/	272	-340	126	NA
CHANGE IN RESERVES	265	122	37	NA
RESERVE LEVEL (End of Year)	1,164	1,356	1,395	NA

1. Includes value added by border industries.
2. Includes net border transactions.
3. Represents public sector borrowing at commercial rates.
4. Includes net short term capital flows.

25X1

PERU

A. Regional Political Relationships

Peru is an active participant in regional activities designed to increase Latin American unity and to decrease the region's ties with the United States. Its military leaders argue that their country, Latin America, and the Third World, in general, have been exploited by the developed world and that the time is overdue to redress the imbalance. They stress the need for LDCs to band together politically and economically so as to bargain from a position of strength. Lima is most concerned with reducing Washington's historic role in hemispheric affairs. It firmly supports Panama's efforts to gain control of the Panama Canal and favors increased regional contacts with Cuba.

B. Role in LDC Movement

Peru has been a formal member of the nonaligned movement since 1973 and is hosting the nonaligned foreign ministers' meeting in late August. Lima aspires to a leadership role in the nonaligned movement, and already views itself as something of a spokesman for Latin American interests in that organization. There are issues on which Peru and the more radical African and Middle East members of the movement are not in complete agreement. For example, Peruvian leaders do not favor action designed to expel Israel from the United Nations. In broader terms,

25X1

25X1

[redacted]

Peru's military leaders are among the most radical regional spokesman, but in the nonaligned movement, they

C. OIL STRATEGY

Peru is able to satisfy nearly 65% of its domestic oil needs, currently 110,000 b/d. It espouses great solidarity with OPEC, in part because its oil situation permits it to do so. Venezuela is financing 50% of its oil imports through a pay-half-now-and-half-later scheme. By late 1977, when the Trans Andean pipeline begins to bring newly discovered jungle oil to the coast, Peru will have the capacity to supply all of its domestic needs.

D. VIEWS ON SPECIAL RELATIONSHIPS WITH THE UNITED STATES

Economic and political independence from the United States is an important cornerstone of Peru's 7-year old revolution; any sort of "special relationship" with Washington in the traditional sense is not compatible with the military's domestic or foreign policy blueprint. Many of Peru's foreign policy postures are dictated largely by a desire to stress that relations with the United States are conducted between two "equal," sovereign states. Expropriations of a number of US-owned companies since 1968 highlight this philosophy. Peru remains interested in receiving US economic and military aid,

25X1

[redacted]

25X1

although it rejects attempts to place restrictions on such assistance (e.g., the Hickenlooper Amendment or restrictions on the sale of "sophisticated" weapons systems to Latin American countries).

E. Staying Power of Government

Peru will continue to be governed by the armed forces for the foreseeable future. The health of the current President, General Juan Velasco Alvarado, remains poor.

His probable successor, Prime Minister Morales Bermudez, already has assumed many decision-making responsibilities. Although Morales Bermudez may pursue a more friendly relationship with the United States, we expect no significant change in the basic nationalistic/socialist orientation of Peruvian policies.

F. Economic Development Strategy

Peru's goals call for an annual real growth rate of 6.5% over the next four years spurred by increased production in socialized sectors. The country's increased prosperity is to be financed by exports of processed raw materials and greater diversification into semi-manufactured and manufactured goods. Plans are being laid for expansion into steel-making, petrochemicals, pharmaceuticals, chemicals, and agroindustrial development. The inexperienced Peruvians, however, will be greatly

25X1

25X1

dependent upon foreign technology to accomplish these goals.

G. Interest in International Marketing Arrangements

Peru would probably be only marginally interested in any special marketing arrangements with the United States since it continually seeks to diversify its export markets. It is interested, however, in receiving more CCC export credits for its wheat imports. Other countries, primarily Australia and Canada, have been quite willing to sell Peru large amounts of wheat under favorable terms. The only other area of interest to the government is military sales. Peru is extremely dissatisfied with US response to its arms requests and has turned to the USSR to fill its needs.

Peru is a member of the Intergovernmental Council of Copper Exporting Countries (CIPEC) and the Iron Ore Exporters' Association (AIOEC). In both organizations, Lima strongly advocates action by members to increase prices. Peru is currently cutting back copper exports in line with CIPEC agreements to reduce exports 15%.

H. Balance of Payments Trends

Peru's current account deficit continues to grow. The gap should close somewhat after this year, however, with economic recovery in developed country markets and added production from Peru's expanded mining and petroleum sectors. Until then, the government will probably curb imports rather than cut reserve assets much below the current $640 million level. Peru's development goals for

25X1

25X1

the next four years make it likely that imports of capital goods will continue to rise at the expense of other imports.

Peru will continue to be a heavy borrower. In addition to financing current acc deficits, it will have to cover large debt service c ions. The World Bank estimates that Peru's ratio c t service payments to export earnings will be about 25% between 1976 and 1978.

I. US Investment Position

US investment in Peru is about $1.5 billion. Two-thirds is in extractive industries, principally in the Caujone and Toquepala copper mines. At present, Peru holds no equity in these operations. Another 27% is in the petroleum sector. Over 50% of Peru's domestic oil output is produced by Belco Petroleum, a US company. Moreover, most of the new jungle oil is being exploited by US companies.

Under the military government, Peru has had a series of investment problems with US companies. In 1974, after long negotiations between Peru and the United States, Lima agreed to pay compensation for US firms nationalized during 1968- 74.

25X1

25X1

Peru nationalized the Marcona Mining Company, a subsidiary of Cyprus Mines and Utah International, on 22 July 1975, charging the company with "immoral conduct." Peru claims that Marcona owes the country approximately $37 million -- $16 million for failure to maintain adequate iron ore reserves to supply Peru's future steel industry and $21 million in taxes. The claim will probably be a major factor in determining compensation. A wide divergence exists between Marcona's valuation of its Peruvian holdings and the government's assessment. The company is holding to the book value of $170 million while Lima maintains that the company is only worth about $116 million. There is also some question of ownership of ore in transit and equipment that Marcona had previously ordered for mine operations. The fact that expropriation has been followed by much rhetoric by high-level Peruvian officials does not augur well for an amicable settlement.

25X1

PERU

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	1,522
Of which:	
Oil	Net importer
Non-oil raw materials	1,325
Total Imports (c.i.f.)	1,900

Exports 1/

	Copper	Fishmeal	Zinc	Silver	Sugar	Iron Ore
Million US $	337	139	98	84	78	66
Percent of world exports	5	N.A.	N.A.	N.A.	2	2
Percent of Exports to:	100	100	100	100	100	100
United States	40	4	10	40	93	26
Western Europe	14	39	22	10	....	8
Japan	15	3	39	24	....	53
Others	31	54	29	26	7	13
US Imports as a percent of US Consumption	15	N.A.	N.A.	N.A.	51	37
Country's share of US imports	35	N.A.	N.A.	N.A.	8	4

Major Products Imported from US 1/

	Total	Food & Live Animals	Chemicals	Transport Equipment	Non-electric Machinery
Percent from U.S.	40	75	36	57	63

1. Data are for 1973.

PERU

BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975 a/
Exports	945	1,136	1,522	1,740
Imports	-840	-1,029	-1,900	-2,280
Trade Balance	105	107	-378	-540
Services and Private Transfers (Net)	-198	-251	-383	-458
CURRENT ACCOUNT BALANCE	-93	-144	-761	-998
Economic Assistance (Net)	132	333	691	530
Private Capital (Net)	48	65	91	300
CAPITAL ACCOUNT FLOWS	180	398	782	830
Net errors and omissions and allocation of SDRs 1/	-52	-241	271	....
CHANGE IN RESERVES	35	13	292	-168
RESERVE LEVEL (End of Year) 2/	517	568	860	692

a. Estimated.
1. Includes short-term capital.
2. Central Reserve Bank

25X1

VENEZUELA

A. Regional Political Relationships

Venezuela is rapidly becoming a hemispheric power. To promote itself within the hemisphere, Venezuela has launched a campaign of vigorous diplomacy and is lending out some of its oil revenues. Caracas is a major promoter of a new regional organization, the Latin American Economic System (SELA), designed to encourage economic development without US involvement.

B. Role in LDC Movement

Venezuela participated in the Algiers Conference of Nonaligned Nations and will attend the upcoming conference in Lima. Caracas apparently hopes to become the Latin American spokesman for nonaligned nations. President Perez is also an advocate of establishing groups of commodity producing nations along the lines of OPEC.

C. Oil Strategy

Venezuela views OPEC primarily as an economic instrument to secure high government revenues from oil production and protect members from exploitation by industrialized nations. Venezuela does not want OPEC to be used as a weapon to serve the political ends of individual members. Aid to LDCs has primarily been through international financial institutions and a fairly large oil subsidy to Central America. Direct investment within the industrialized countries has been minimal. Most foreign exchange holdings are placed in overseas bank accounts. Caracas has shown some interest in

25X1

25X1

reserves, which at current production levels will last only 14 years. To carry out the development program, Caracas is not relying on the private sector but instead has reserved basic industries for state ownership. In other sectors, majority local ownership is required.

President Perez has also called for income redistribution. Although high petroleum revenues have pushed Venezuela's per capita income to the highest level in Latin America, the country's income distribution probably remains one of the most unequal in the region. A large segment of the population -- mostly subsistence farmers -- are unaffected by the country's petroleum wealth. The government is devising credit schemes, extensive rural infrastructure projects, and new education and social service programs to improve the agricultural sector.

G. Interest in International Marketing Arrangements

Caracas' one-time interest in a long-term energy agreement with the United States has waned with high oil revenues and the ongoing process of nationalizing the oil industry. Before OPEC boosted petroleum prices in 1973, Venezuela was interested in a special agreement covering price and volume with the United States. In return, Carasas would have gained access to technology to develop its heavy oil reserves in the Orinoco Tar Belt. Once the oil industry is nationalized, Caracas may again become interested in a long-term government-to-government sales agreement

25X1

25X1

investing in various overseas downstream oil industry facilities.

D. Views on Special Relationships with the United States

Venezuela's nonaligned strategy has led to confrontations with the United States over both political and economic issues. President Perez has insisted that US-Venezuelan relations be firmly grounded on US recognition that Venezuela is a sister democracy and has a growing economy fueled by a commodity vital to the United States. Venezuela wants to use this leverage as a means of obtaining economic and commercial benefits. However, Venezuelan dependence on US oil markets, (61% of Venezuelan oil goes to the United States) puts limitations on how far Caracas can risk confrontation with the United States.

E. Staying Power of Government

Venezuela's government remains stable, and no apparent challenges to its democratic institutions are in sight. Despite Venezuela's history of military coups, the military now appears generally satisfied with its relations with the democratic government.

F. Economic Development Strategy

Venezuela is attempting to reduce the country's dependence on petroleum by developing other industries and agricultural resources. Plans call for using the current high petroleum revenues to expand petrochemical, steel, and aluminum production and to increase agricultural self-sufficiency. Meanwhile Caracas intends to conserve the country's conventional oil

25X1

25X1

Venezuela is interested in international marketing arrangements for commodity producers. It is a founding member of the recently formed Association of Iron Ore Exporters and advocates action by the organization to raise international iron ore prices. Some members — for example, Brazil — are likely to prevent the Organization from taking any steps to boost prices, however because of their desire to increase the volume of their ore exports. Caracas also loaned $40 million to Central America nations for a coffee stockpile. In its role as a third world leader, the government stresses formation of other commodity producer groups, but it has not given any other financial support.

H. Balance of Payments Trends

During the late 1960s and early 1970s, Venezuela's trade surplus usually was offset by a services account deficit. Capital inflows more than covered the current account deficit, however, and allowed a continuing small increase in foreign reserves. The huge oil price increase allowed Venezuela to increase its foreign reserves by $4.1 billion in 1974. Although export earnings are expected to drop somewhat in 1975 because of declining oil exports, Caracas will still be able to increase its foreign reserves substantially.

25X1

25X1

I. US Investment Position

The value of US investment in Venezuela dropped 14% during 1961-73, to $2.6 billion, because of the 57% dis-investment in the oil industry. Investment in other sectors nearly doubled, thus preventing a more precipitous drop in the total. During the period, US investment in petroleum fell from 79% of the total to 52%, while investment in manufacturing and other sectors rose from 21% to 48%. In 1975, US investment will drop even more. In January, US iron ore mines were nationalized, and all foreign-owned oil properties will be taken over later this year when the nationalization legislation becomes law. Venezuelan adherence to the foreign investment rules of the Andean Pact, which require state ownership in basic industries and majority local ownership in other sectors, is likely to slow new investment flows, despite the country's growing economy.

There are no outstanding investment disputes between Venezuela and the United States. Compensation for the iron ore mines was granted, and negotiations on compensation and other topics between the oil companies and the government are under way.

25X1

VENEZUELA

FOREIGN TRADE PROFILE, 1974

	Million US $
Total Exports	10,800
Of which:	
Oil	10,400
Non-oil raw materials	300
Total Imports (f.o.b.)	4,700

Exports	Oil	Iron Ore
Million US $	10,400	250
Percent of world exports	9	5
Percent of Exports to:1/	100	100
United States	61	67
Western Europe	11	33
Japan	0	....
Others	28	....
US Imports as a percent of US Consumption	36	37
Country's share of US imports	24	32

	Major Products Imported from US 1/					
	Total	Wheat	Automobiles & Parts	Organic Chemicals	Electrical Machinery	Other Machinery
Percent from U.S.	42	97	57	41	35	40

1. Data are for 1972-73

VENEZUELA

BALANCE OF PAYMENTS

(Millions US $)

	1972	1973	1974	1975 a/
Exports	3,782	5,573	10,800	9,300
Imports	-2,343	-2,840	-4,700	-6,300
Trade Balance	1,439	2,733	6,100	3,000
Services and Private Transfers (Net)	-1,599	-2,298	-1,100	-1,100
CURRENT ACCOUNT BALANCE	-160	435	5,000	1,900
Economic Assistance (Net)	121	102	-216	N.A.
Private Capital (Net)	-358	-78	-784	N.A.
CAPITAL ACCOUNT FLOWS	-237	24	-1,000	N.A.
Net errors and omissions and allocation of SDRs	607	229	1/	1/
CHANGE IN RESERVES	210	688	4,109	1,900
RESERVE LEVEL (End of Year)	1,732	2,420	6,529	8,400

a. Estimated.
1. Included in private capital (net)

Table

Less Developed Countries: Selected Economic Data

	Mid-1974 Population (Millions)	GNP/Capita 1974 (US $)	Real GNP Growth 1969-1974 (Percent)	Real GNP Growth 1974 (Percent)	Total Exports 1974 (Million US $)
Africa/Middle East					
Algeria	15	520	6.0	11.0	5,100
Egypt	36	280	1.9	4.0	1,510
Iran	33	1,310	12.6	17.4	22,000
Morocco	17	310	6.0	10.0	1,750
Nigeria	62	380	12.0	9.7	9,300
Saudi Arabia	5	7,280	13.2	23.9	31,400
Zaire	25	145	6.6	3.5	1,290
Zambia	5	440	1.3	1.3	1,405
Asia					
India	600	150	1.7	1.0	4,200
Indonesia	133	120	7.8	10.0	7,430
Malaysia	12	720	6.8	6.0	4,530
Pakistan	68	120	3.5	5.0	1,026
Philippines	42	330	6.4	5.9	2,720
Sri Lanka	13	220	2.9	3.4	527
Thailand	41	290	6.3	3.9	2,480

Table

Less Developed Countries: Selected Economic Data

	Mid-1974 Population (Millions)	GNP/Capita 1974 (US $)	Real GNP Growth 1969-1974 (Percent)	Real GNP Growth 1974 (Percent)	Total Exports 1974 (Million US $)
Latin America					
Argentina	25	1,400	4.5	5.9	3,850
Brazil	105	830	10.2	9.6	7,970
Colombia	24	510	6.4	5.6	1,200
Mexico	56	1,160	6.2	6.0	2,760
Peru	15	560	5.7	6.0	1,511
Venezuela	12	2,280	4.3	5.1	10,800