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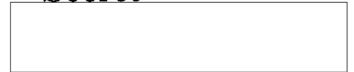

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International Economic & Energy Weekly

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30 September 1983

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30 September 1983

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International Economic & Energy Weekly

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International Economic & Energy Weekly

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Synopsis

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Perspective—*The Soft Oil Market in the Middle East–South Asia*

Lower oil revenues are forcing a more tight-fisted attitude toward government spending throughout the Middle Eastern–South Asian region. Even the oil-rich OPEC states, ever mindful of the need to maintain sufficient economic momentum to forestall political and social unrest, have begun to adopt some restraint.

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Middle East–South Asia: Regional Interdependence and the Soft Oil Market

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Because of the close interdependence among countries in the Middle Eastern–South Asian region, the economic effects of a prolonged soft oil market will be widespread. Although financial reserves will cover the loss of income for the major oil exporters in the short term, they face tough spending cuts if the soft oil market persists beyond the middle of the decade.

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Persian Gulf Oil Still at Risk: Some Economic Implications

The delivery of five French Super Etendard aircraft to Iraq—which we believe is likely—increases the possibility of an escalation of the Iran-Iraq war tha[t] could disrupt Persian Gulf oil exports.

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Iraq: Economy Under Siege

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With major oil export facilities inoperable and Damascus refusing to allow oil deliveries through the Iraq-Syria pipeline, Iraq's oil revenues have plummeted to less than one-third prewar levels. The Iraqis already have virtually shelved their development program, and Baghdad has been forced to slash imports this year for the first time since the war began in 1980.

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OPEC Pesian Gulf States: Reduced Foreign Aid

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Aid disbursements by four OPEC Persian Gulf states—Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar—declined by over 20 percent in 1982 to $11.4 billion. First-half 1983 aid transactions indicate OPEC states have begun to limit new aid pledges and are slowing transfers on previous pledges.

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Perspective

Perspective—The Soft Oil Market in the Middle East and South Asia

Lower oil revenues are forcing a more tightfisted attitude toward government spending throughout the Middle East and South Asia region. Even the oil-rich OPEC states, ever mindful of the need to maintain sufficient economic momentum to forestall political and social unrest, have begun to adopt some restraint.

Thus far, cutbacks are particularly noticeable in:
- Reduced spending for development projects.
- Cuts in social programs—including generous subsidies for petroleum products, electricity, and water.
- Slowdowns in spending for military imports.
- A squeeze on foreign aid expenditures and less timely disbursements.

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We believe that the wealthier OPEC states will be able to weather some reforms—including reductions in benefits to their populations—without undue hardships. They can use their financial reserves and borrowing power to reduce the severity of the reforms. For some of the more financially troubled OPEC members in the region, however, reduced revenues present major difficulties. For example, Iraq's conduct of its war is hampered by financial problems, and Libya has been forced to slash imports.

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The slowdown in economic activity in the OPEC states will reduce the growth or even cut the size of their foreign work forces. For many of the African and Asian countries, a return of migrant workers or lower remittances would exacerbate the economic and social problems already present. Most labor-exporting countries—particularly Egypt, North Yemen, and Pakistan—have limited employment opportunities for even a small fraction of migrant workers. We believe that a large-scale return of workers employed in the Gulf would increase frustration and heighten political tension, particularly in urban areas.

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Reduced revenues are likely to limit the influence of OPEC states with other LDCs. With the prospect that Arab aid programs are likely to be cut—particularly to those countries less vital to the security of the aid donors—potential recipients will have less incentive to support Arab issues. Some African countries, for example, are already more receptive to reopening contacts with Israel.

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While lower oil revenues are posing political challenges to the oil producers, the reduction in oil prices has not given a major boost to Middle East and South Asia oil importers. For the most part, the countries' oil bills are small, and, in any case, savings are threatened by the remittance, aid, and export flows that are now at risk.

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Briefs

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Energy

Soviet Oil Production Plans

there could be a "dramatic decrease" in domestic oil production after 1985 unless offshore resources in the USSR are exploited. As a result, the Soviets are seeking help from Western oil companies in preparing feasibility evaluations, beginning in early 1984, of a large offshore development program in the Barents Sea. the project would be roughly equivalent to the $25 billion Siberian gas pipeline to Western Europe. the Soviets have expressed interest for some time in US and other Western equipment for this and other offshore exploration and production projects.

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Soviet planners apparently are considering actions that they hope will offset a probable leveling off or decline in oil production after 1985. The USSR lacks, however, the manufacturing capability and experience in using machinery suitable for use in the severe climate of the Barents Sea. Moscow would depend heavily on the West for such equipment, and it appears to be laying the groundwork to get US or other Western firms interested in such sales. Even if Western assistance were obtained, the USSR would be unlikely to extract oil commercially from the offshore reserves before the early 1990s.

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Canadian Oil Sands Project Wins Concessions

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Following major tax and royalty concessions by both Ottawa and Alberta, Imperial Oil Limited (Exxon's Canadian subsidiary) has announced it will proceed with a $245 million oil sands project in northern Alberta. The project is expected to produce 19,000 b/d of very heavy crude oil beginning in 1985 and, with additional investment, total output could rise to 57,000 b/d by 1990. Both the federal and provincial governments have been looking to Canada's vast oil sands deposits for additional oil production to help meet the projected shortfall in Canadian requirements in 1990. This project is part of a trend to replace large projects that have failed—such as Alsands, which was to have produced 140,000 b/d—with smaller, more easily financed facilities that can later be expanded.

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Strong Dollar Holds Up Foreign Oil Costs

The continued strength of the US dollar has partly offset lower OPEC crude oil prices in Western Europe and Japan. The average official price of a barrel of OPEC crude oil dropped nearly $6 per barrel, 17 percent, between December 1981 and June 1983. Because crude oil prices are denominated in US dollars, the cost of French crude imports increased by 10 percent during the period, reflecting the sharp appreciation of the dollar vis-a-vis the French franc. In West Germany and Japan the cost of imported crude oil has declined only 8 percent and 11 percent, respectively, since yearend 1981. During the same period, the average US imported price declined by nearly $7 per barrel or 18 percent to $29.33 per barrel.

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Crude Oil Price Trends

	1981 December	1983 June	Percent Change
OPEC weighted official prices *(US $)*	34.48	28.76	−16.6
Crude oil import cost			
France *(francs)*	208.89	230.3	10.2
West Germany *(deutsche mark)*	83.84	76.8	−8.4
Japan *(yen)*	7,862.0	7,003.0	−10.9
United States *(US $)*	35.95	29.33	−18.4

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Dutch Authorize New Gas Exports

The government's energy policy for 1984 outlined this week reverses its previous policy of restricting natural gas export sales and authorizes Gasunie—the state gas distribution monopoly—to negotiate new export contracts. According to government officials, the policy change is due to a decline in Dutch gas sales and a worsening domestic fiscal situation. State gas revenues, which account for 18 percent of the national budget, are expected to fall 25 percent over the next four years. Extra gas volumes will be offered to customers in exchange for higher minimum offtake levels and higher prices to bolster the Dutch position in upcoming contract renegotiations. An immediate increase in gas export sales is unlikely because of sluggish demand growth. By giving in to the Dutch terms, however, customers may assure themselves of some additional volumes in the late 1980s and early 1990s.

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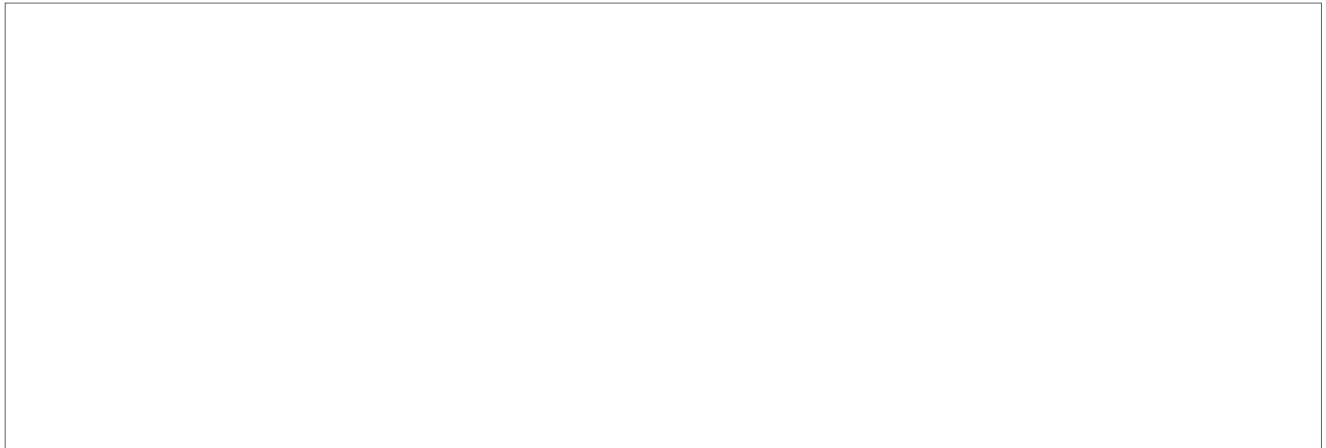

South Korea Delays Nuclear Power Program

South Korea has postponed plans to purchase up to four additional nuclear power plants until at least 1986, according to officials at the Ministry of Energy and Resources. Reduced growth rates for electricity demand, improved conservation, and government efforts to hold down foreign debt all contributed to the postponement. The announcement caught the Korea Electric Power Company in the process of preparing to solicit bids later this year for two 1,000 megawatt-electric (MWe) nuclear power plants. Bids for two follow-on 1,000 MWe units were planned for 1985. Electricity demand growth stagnated in 1980-81 and actually declined in 1982. Despite the current delays, we believe Korea will remain a strong market for nuclear reactor sales later in the decade.

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Romanian Drive For Oil Independence

Romanian President Ceausescu reportedly has authorized imports of Western oil equipment to facilitate the drive for petroleum self-sufficiency. Minister of Petroleum Vlad cited Romania's failure to persuade Moscow to sell oil for soft currency—and his own success in convincing Ceausescu that high-pressure oil tools were the key to increasing domestic output—as reasons for the decision.

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The purchases would be consistent with Ceausescu's effort to free Romania from dependence on imported energy by 1985. Domestic oil production peaked in 1976 at 294,000 b/d and dwindled to an average of 232,000 b/d in 1980-82. Imports, meanwhile, rose from 170,000 b/d in 1976 to an average of 265,000 b/d in 1980-82. In response to hard currency constraints, Romania has reduced oil imports for the last two years and has cut the domestic consuption of oil and petrochemicals by more than 10 percent this year. These cuts have already led to transportation problems, factory closings, and fuel shortages for agricultural machines. Even if the oil equipment is purchased this year, however, it would take several years before oil output would increase because Romania lacks the geological and drilling expertise to exploit the technology quickly.

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International Finance

Mexican Debt Rescheduling Developments

Mexico City has rescheduled the bulk of its public debt and is releasing foreign exchange to reduce private-sector arrearages. International commercial bankers, nevertheless, still project substantial defaults in privately held, nonguaranteed debt. Mexico City signed agreements to restructure $8.6 billion in principal obligations of five large government agencies this week. This brings the total of the restructured debt of the eight largest government agencies to $20 billion; payments will be stretched over eight years. We expect the 20 remaining public agencies negotiating relief on some $2-4 billion to work out agreements by the end of the year. The Central Bank announced plans to release $280 million by the end of this month to cover one-half of the past due private interest held in escrow accounts. The balance, with accrued interest, is to be paid by the end of 1983. Earlier this month, Mexico City released $185 million to cut private-sector arrearages on overdue suppliers' credits.

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Restructuring privately held commercial debt, however, continues to be a slow and difficult process. Less than one-fifth of the $10 billion nonguaranteed private debt maturing by yearend 1984 has been negotiated.

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Many international financiers believe that these problems will restrict private Mexican business access to new foreign lending for at least the next two years. Guarantees from foreign official agencies or the Mexican Government, however, could regain some private businesses access to foreign funding somewhat sooner.

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Brazil's Letter of Intent Brings Little Relief

Brazil's signing of a letter of intent in mid-September agreeing to IMF terms for a revised stabilization program has not yet led to an easing of the country's foreign exchange crunch as earlier expected. A usually reliable source reported that international banks, following the lead of the IMF, do not now intend to release their long-delayed payments—up to $1.9 billion—under existing medium-term loan commitments until the Brazilian congress approves a crucial anti-inflationary wage decree. Bankers almost certainly were unnerved last week by the defeat of a different but analogous wage decree by an increasingly rebellious congress. Although the Brazilian administration continues to press for support for the IMF-sought salary decree, which comes up for vote late next month, prospects for the decree's rejection and a breach of the letter of intent clearly have increased.

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The continued withholding of foreign bank disbursements is severely eroding Brasilia's ability to service debt obligations and to import needed goods. Arrears in interest payments have mounted to nearly $1.5 billion, according to the press, and could result in some US bank loans being declared non-performing assets. Meanwhile, the government's inability to purchase adequate supplies of fertilizers and industrial materials from abroad is threatening major production declines in agriculture and such basic industrial sectors as steel and chemicals. [25X1] because Brazil's foreign exchange needs have become so acute, early this month Petrobras—the state-owned oil company—began selling its accounts receivable to foreign creditors at discounts up to 25 percent. [25X1]

Portugal's Financial Outlook

IMF assistance and commercial loans should cover most of Portugal's 1983 financing needs, but Lisbon will have to sell gold beyond what it has already sold recently. The IMF Board is likely to approve a new standby loan at its 7 October meeting, and according to the US Embassy, Lisbon expects to receive the first tranche of about $100 million at the end of October. Portuguese officials also expect to receive $250 million under the Compensatory Financing Facility for shortfalls in 1981 export earnings. Immediately after the IMF meeting, the Portuguese will begin seeking a second $300 million Eurodollar syndicated loan. Although bankers have expressed confidence in the Soares government's economic policies, they probably will raise the spread on the loan to close to 1 percentage point over LIBOR—twice the spread on Portuguese loans last year. While these funds will cover most of Portugal's needs, Lisbon probably will have to sell gold to repay a $300 million loan from the Bank for International Settlement (BIS) that falls due early in December. [25X1]

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World Bank Project Loans for Hungary

Hungary has obtained more than $500 million in loans from Western commercial banks and the World Bank to finance development projects intended to improve its hard currency trade performance. The World Bank in June authorized development loans of $130 million for grain storage facilities and agricultural mechanization and $109 million for energy diversification and conservation. On 26 September a group of European, Middle Eastern, and Japanese banks provided Hungary with a $200 million Eurodollar loan to cofinance the projects while a group of Japanese banks are completing a yen-denominated loan worth $72 million. The World Bank is contributing $45 million to the two commercial syndications in addition to its original commitments. The Hungarians claim, probably optimistically, that by 1985-86 the agricultural projects will generate $100 million annually in additional exports and by 1987 the energy projects will save $300 million annually in energy imports. [25X1]

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Although World Bank support was crucial, completion of the commercial loans demonstrates that Hungary enjoys a better standing with Western bankers than the other East European countries. Despite the reluctance of banks to extend new loans to financially troubled countries, Budapest has raised more than $725 million in syndicated credits over the past year. The new loans will not help the Hungarians cover large debt service obligations coming due next year because funds are tied to project imports and the payoff from the investments is several years away. Budapest, nonetheless, hopes that these credits will encourage bankers to extend other loans needed to meet its obligations.

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Global and Regional Developments

Big Six Trade Surplus Grows

The Big Six countries as a group boosted their merchandise trade surplus to a seasonally adjusted $4.3 billion in second-quarter 1983, continuing the steady improvement that began in mid-1982. The growing surplus is largely the result of import cuts outpaced declining export sales by these countries. Compared to 1982 Big Six imports in second-quarter 1983 were off 10.5 percent while exports were down 8.4 percent in nominal terms. Among the Six, Japan, France, Italy, and Canada improved their trade balances during the second quarter while the United Kingdom and West Germany experienced a deterioration. Japan's surplus was $5.9 billion, West Germany's $4.0 billion, and Canada's $2.0 billion. The United Kingdom, France, and Italy recorded deficits of $3.7 billion, $3.1 billion, and $1.2 billion, respectively.

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Big Six: Trade Patterns [a] *Million US $*

	1982				1983	
	I	II	III	IV	I	II
Exports (f.o.b.)	171,791	167,796	159,293	154,971	162,351	153,708
Imports (c.i.f.)	172,207	166,947	158,836	153,685	159,346	149,384
Trade Balance	−417	849	457	1,286	3,005	4,324
Trade Balance with the United States	3,155	2,018	3,882	5,404	3,179	5,023

[a] Seasonally adjusted.

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Continued strength of the dollar and increased import demand in the recovering US economy helped to boost the Big Six surplus. Big Six exports to the United States have been on an upward trend over the past year and imports have dipped. Following a first-quarter 1983 drop, the surplus with the United States rebounded to $5.0 billion in the second quarter; only Canada and Italy failed to improve their US balances. For the near term, a sizable Big Six surplus is likely to persist because of continuing strong Japanese export performance and slack import demand in the major West European countries.

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East German Trade Possibly Returning to Normal Levels

Business at the Leipzig Trade Fair held earlier this month appears to have returned to near normal after two years of slow sales. Reduced credits from Western banks and East Berlin's severe austerity measures last year were responsible for the earlier decline. According to the Embassy in Berlin, many West European firms that attended the fair made trade credits available to East Berlin because they believe East Germany's general economic conditions have improved slightly and that it can continue to retire its external debt on schedule. Even Western firms that did not conclude deals appear optimistic about future sales. East Germany's buying practices at Leipzig—it bought more spare parts and luxury consumer items—and its continuing hard currency trade surpluses suggest that East Berlin is not as close to financial crisis as some Western observers have maintained. The Embassy also reported that East Germany was successful in selling to West German companies, indicating a possible reduction for the year of West Germany's large surplus in the first half.

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National Developments

Developed Countries

Australia's Wage Freeze Ends

With the support of the Hawke government, the Australian Arbitration Commission last week ended Canberra's nine-month wage freeze by granting a 4.3-percent increase in wages, representing full indexation with inflation for first-half 1983. The wage increase is consistent with the incomes policy agreed to at last April's economic summit of business, labor, and government leaders and will cover nearly 90 percent of the Australian work force if adopted by state commissions as expected. The Commission also announced that wages will be fully indexed with the CPI for at least the next two years, which will make it difficult for Canberra to sharply lower inflation any further from the 8.6-percent annual rate in second-quarter 1983.

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Less Developed Countries

Mexico Expands Crawling Exchange Rate

Mexico City began depreciating its "free" exchange rate last Friday for the first time since December 1982. The "free peso"—currently at 150 to the dollar—now will slide by 13 centavos a day, matching the daily decline in the controlled exchange rate. During the past nine months, the controlled rate droped from 95 to 132 pesos to the dollar, while the "free" rate remained steady. 25X1

International financiers applaud the move as a step in the right direction, demonstrating that Mexico City is controlling, not reacting to, economic developments. Government financial authorities, who plan to continue this policy until economic circumstances change markedly, believe that the parallel depreciation of the exchange rates will discourage currency speculation and ensure continuing large central bank profits on exchange transactions. The narrowing of the "free" and controlled exchange rates had gradually lowered the Bank of Mexico's gains from purchasing most foreign exchange at the cheaper controlled rate and reselling a substantial portion at the more expensive "free" rate. We believe the current 18 peso differential will allow the Bank of Mexico to net about $600 million from exchange transactions during the next 12 months, compared with some $1 billion during the past nine months. 25X1

The policy initiative, however, does not address costly trade inefficiencies and will probably be insufficient to keep the exchange rate competitive for trade purposes, because we expect inflation to continue outpacing exchange adjustments. Until further exchange adjustments are made, we see only a small chance that ambitious government export expansion goals will be met or that the money Mexicans sent abroad during the last few years will return. The exchange differential has also generated widespread smuggling operations, and aggravated official abuses, despite President de la Madrid's anticorruption campaign. 25X1

Deepening Bolivian Economic Problems

Economic conditions in Bolivia have worsened considerably since President Siles took power a year ago. The new administration's expansionary policies, including increases in the money supply and a burgeoning fiscal deficit, have driven inflation from about 200 percent in 1982 to a current annualized rate of some 350 to 400 percent. Rapidly rising costs, declining private investment, and labor agitation for major wage increases have hobbled national output. Mineral production—the mainstay of the economy—dropped about 10 percent during the first six months of 1983 because of work stoppages and insufficient spare parts for mining equipment. We estimate that these trends coupled with the devastating impact of adverse weather on agricultural output will lead to a 5-percent drop in GDP this year. 25X1

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Major declines in mineral exports and increases in food imports, meanwhile, are boosting Bolivia's current account deficit from $355 million last year to an expected $450 million for 1983, causing a severe drain on reserves and increasing La Paz's difficulties in meeting foreign debt obligations. To relieve its acute foreign exchange pressures, Bolivia continues to seek to reschedule its nearly $4 billion foreign debt, subject to reaching an agreement with the IMF. An IMF agreement, however, will be difficult because of strong labor opposition to further politically sensitive austerity measures. If La Paz accepts IMF demands to drastically cut the fiscal deficit, enforce tight monetary policy, and close the gap between the official and the market exchange rate, these measures will likely heighten social and political pressures, and provide Siles's military opponents with a rationale to intervene. 25X1

Thailand Cuts Tin Royalty

According to the local press, the Thai Cabinet decided in early September to reduce the royalty on tin by 18 percent to about $1.10 per pound in an attempt to curb the widespread smuggling of tin ore from the south of Thailand to smelters in Malaysia and Singapore. Before the cut, Thailand's combined royalty and taxes on tin averaged about $1.40 per pound, compared with about 25 cents in Malaysia. As a result of this differential, about 5,700 tons of tin worth about $50 million—15 percent of official exports in 1982—were smuggled out of the country between October 1982 and April of this year, according to the Thai Department of Mineral Resources. 25X1

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The cut was probably made because of pressure from the International Tin Council, which in August warned Thailand to step up its suppression of smuggling activities before they further depress the world price of tin. The royalty cut is too small to have a major impact on the volume of smuggling, however, and additional substantial cuts are unlikely. The Finance Ministry, concerned about the country's large budget deficit, will fight any attempt to reduce revenues further. 25X1

Mauritanian Economy Under Strain

Faced with serious economic difficulties as a result of weak iron ore prices, a significant decline in fishing revenues, and worsening drought conditions, Mauritania has appealed for emergency food aid and has sent emissaries to OPEC countries to ask for budgetary support loans. Several countries have agreed to supply Mauritania with 30,000 metric tons of food aid, most of which is wheat from the United States. Arab and OPEC multilateral organizations have provided some limited relief, but bilateral assistance from traditional Arab donors has dropped off this year, probably as a result of growing dissatisfaction with Mauritania's management of past funds, annoyance over President Haidalla's failure to reestablish relations with Morocco, and because of lower oil revenues of the donors. Assistance from the IMF is not likely in the near future unless Mauritania takes steps to devalue the ouguiya.

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Communist

East European Trade Trends

Data for first-half 1983 show that Eastern Europe's trade with non-Communist countries is declining for the third consecutive year. Although the region's efforts to raise exports finally paid off in a small gain, the continuing reluctance of Western banks and governments to extend credits has forced more cuts in imports. Eastern Europe's 1983 trade surplus with the West will likely surpass last year's $1.7 billion figure by at least $400 million, but the cut in imports will further depress economic performance and living standards.

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Delays in disbursing the Western financial rescue package forced Yugoslavia to make the deepest cuts in imports in first-half 1983, reducing its hard currency trade deficit by $1.3 billion. Romania's export performance fell far short of expectations, forcing Bucharest to abandon its plans for reviving hard currency imports. Although Hungary posted respectable gains in exports, Budapest also reduced imports sharply to keep its financial recovery on track. Bulgaria and Czechoslovakia do not face the financial difficulties of the other East European countries, but slumping exports and conservative policies on hard currency trade led both regimes to limit imports from the West. Only

Eastern Europe: Trade With Non-Communist Countries, January-June

Million US $

	Trade Balance		Exports (f.o.b.)			Imports (f.o.b.)		
	1982	1983	1982	1983	Percent Change From Previous Year	1982	1983	Percent Change From Previous Year
Total	**−80**	**1,210**	**15,849**	**16,201**	**2.2**	**15,929**	**14,991**	**−5.9**
Bulgaria	311	293	1,454	1,319	−9.3	1,143	1,026	−10.2
Czechoslovakia	365	498	1,998	1,991	−0.4	1,633	1,493	−8.6
East Germany [a]	394	23	2,508	2,595	3.5	2,114	2,572	21.7
Hungary [b]	−370	−86	1,576	1,731	9.8	1,946	1,817	−6.6
Poland	800	732	2,418	2,751	13.8	1,618	2,019	24.8
Romania [c]	671	740	3,150	2,904	−7.8	2,479	2,164	−12.7
Yugoslavia [c]	−2,251	−990	2,745	2,910	6.0	4,996	3,900	−21.9

[a] Does not include trade with developed countries.
[b] Import data on a c.i.f. basis.
[c] Includes hard currency trade with socialist countries.

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Poland and East Germany posted increases in both exports and imports. Poland's gains are somewhat deceiving, however, because trade was extraordinarily low during first-half 1982. East Germany has used its special relationship with West Germany to full advantage, increasing imports from its neighbor by 33 percent in the first six months of 1983. Since trade with West Germany is conducted on a clearing basis, East Germany can save scarce hard currency by buying more from the West Germans and reducing purchases from other Western countries. 25X1

Hungarian Harvest Shortfalls

This year's summer drought has taken a heavy toll on several of Hungary's key export crops. The US agricultural counselor estimates that the overall grain harvest will slump from 14.8 million tons last year to 12.7 million tons, almost entirely as the result of a drop in corn production, which fell from 7.8 million tons to 5.5 million tons. Production of sunflower seed—another important hard currency earner—will be 12 percent below planned levels. The poor weather also thwarted Hungary's plans to increase soybean production and thus reduce expensive imports of soybean meals from the West. Small grains (wheat, barley, rye, and oats), which are harvested earlier in the year, were less affected by the drought. 25X1

Budapest is especially concerned about the impact that the mediocre harvest will have on its hard currency trade balance this year and next. The Chairman of the National Planning office predicted earlier this month that the shorfall in grain production alone could cost Hungary as much as $300 million in hard currency earnings, mainly from traditional CEMA markets. Shortages of corn for winter fodder will also require a slowdown in Hungary's livestock expansion program and could even result in some herd reductions in the hardest hit areas in the southeastern part of the country. We believe that the regime is counting on higher food prices—effective in mid-September—to dampen domestic demand and free additional goods for export. 25X1

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Hungary Establishing Free Trade Zones

Western firms will be able to build facilities in Hungary for coproduction, contract work, and export sales. Foreign managers initially will run the individual firms in these zones. The firms will be expected eventually to train Hungarian managers to assume that responsibility. If adopted, the free trade zones—areas free from customs duties—will be the first in a country belonging to the Warsaw Pact. Budapest is mainly interested in attracting the technologies needed to modernize its heavy equipment industry and in increasing hard currency earnings. 25X1

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The zones are likely to give Hungary an opportunity to gain access to COCOM-controlled manufacturing technologies. There are currently no COCOM procedures specifically governing free trade zones in proscribed countries. Shipments to free trade zones in non-Communist countries are not considered exports, which may cause some confusion within Western industries concerning the need for COCOM review of controlled equipment shipments to such zones in Hungary. By simply working in the plants, moreover, the Hungarians are likely to gain valuable practical experience in advanced manufacturing techniques. 25X1

Vietnam Projects Self-Sufficiency in Food

According to the official media, Vietnam has reached self-sufficency in food and next year will have a small food surplus with which to reestablish a reserve. The improvement in food production is a result of incentive programs instituted in 1979 that slowed collectivization of the south and allowed peasants nationwide to retain increases in grain output for sale on the free market. These policies boosted grain output 21 percent between 1979 and 1982 to reach 10.8 million metric tons. Official trade data show no food imports so far this year. Food imports had been declining for several years, from 1.4 million tons in 1978 to 310,000 tons in 1982. 25X1

Self-sufficiency will be difficult to maintain. The policies that encouraged increases in grain output are already being rescinded by officials concerned about the growing free market. In addition, agriculture remains as vulnerable to drought as before because there has been little expansion of irrigated areas. Finally, the population is growing by about 1.4 million a year. To maintain self-sufficiency at the 1983 level, grain production must increase by about 3 percent a year. 25X1

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The Middle East and South Asia: Regional Interdependence and the Soft Oil Market

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Because of the close interdependence among countries in the Middle East and South Asian region, the economic effects of a prolonged soft oil market will be widespread. Although financial reserves will cover the loss of income for the major oil exporters in the short term, they face tough spending cuts if the soft oil market persists beyond the middle of the decade. Of the region's net oil-importing countries, only India and Israel, with large oil import bills and little dependence on worker remittances or Arab aid, are already benefiting from the oil market downturn. Those countries that depend heavily on the major oil exporters for expatriate worker remittances and/or aid—including key US allies such as Pakistan, Jordan, Egypt, and Morocco—face mounting financial, and possibly political, difficulties if the soft oil market persists beyond a year or two. These nations will look increasingly to the United States and Western financial institutions for support to cover foreign exchange deficits. Segments of their population that suffer from austerity measures will be more susceptible to political manipulation.

Oil Producers: The Big Money Losers

Most of the region's producers have already begun to make adjustments to cope with lower incomes. Revenues in 1982 of $163 billion were more than $60 billion below peak revenues in 1980, and we expect income to decline by an additional $25-50 billion this year. some payments to foreign contractors have been put on hold, and new investment for oil facilities and other capital projects has been slowed or halted. Several of the Gulf states also have tightened new employment opportunities for expatriate laborers, cut domestic subsidies on petroleum products, and are considering cuts in social programs. We expect the major Arab oil exporters to take a harder look at aid requests but believe that they will be discouraged from making sizable cuts because their security and influence abroad rests heavily on cash transfers.

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The impact on military spending has been mixed. According to the Defense Minister and other Saudi officials, the military is committed to stepped-up purchases of equipment. On the other hand, UAE officials have reported to the US Embassy that the high cost of military equipment and maintenance combined with lower oil revenues is likely to slow future purchases.

Although there has been some belt tightening and will be more, we believe that most of the OPEC oil producers can weather the effects of the oil price cuts because of their large reserves. Combined foreign official assets at the end of 1982 were about $300 billion. We expect all of the OPEC states to continue to draw on foreign reserves to forestall political and social unrest. We believe that, among the OPEC states, the governments of Libya and Iraq are least likely to meet domestic expectations because their financial reserves are already limited and they have been least able or willing to give consumer welfare a high priority.

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We believe that a further deterioration in economic conditions in Libya or in the other OPEC states could set the stage for political instability. Additional cutbacks in the availability of basic goods in Libya, for example, could increase popular discontent with the regime. If the soft oil market persists beyond two or three years, we believe that cuts in domestic spending could even foster internal discontent and assist Iranian recruitment of dissident

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Middle Eastern and South Asian Oil Producers: Production and Revenue

	Oil Production [a] (*thousand b/d*)			Oil Earnings [b] (*billion US $*)		
	1980	1981	1982	1980	1981	1982
Total	**21,955**	**18,410**	**15,330**	**224.8**	**206.3**	**163.1**
OPEC	20,760	17,160	14,020	217.5	197.8	154.2
Algeria	1,020	805	700	14.9	12.2	10.7
Iran	1,660	1,380	2,280	12.9	11.3	18.7
Iraq	2,515	995	970	25.1	10.6	9.4
Kuwait [c]	1,660	1,130	820	18.5	13.3	8.4
Libya	1,830	1,135	1,185	22.8	15.2	13.7
Qatar	470	405	330	5.4	5.5	4.2
Saudi Arabia [c]	9,905	9,810	6,485	99.2	110.7	74.3
UAE	1,700	1,500	1,250	18.7	19.0	14.8
Non-OPEC	1,195	1,250	1,310	7.3	8.5	8.9
Bahrain	50	45	45	1.2	1.2	1.2
Egypt	595	600	665	2.5	2.8	2.9
Oman	280	320	320	2.4	3.3	3.1
Syria	160	165	160	0.6	0.6	1.1
Tunisia	110	120	120	0.6	0.6	0.6

[a] Does not include natural gas liquids. Based on industry and US Embassy reporting from producing countries. Data rounded to nearest 5,000 b/d.

[b] CIA estimate. Includes revenue from exports of crude oil, products, and natural gas liquids.

[c] Includes one-half production from the Neutral Zone.

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Shias in politically stable countries such as Saudi Arabia and Kuwait. We believe reduced spending on foreign aid could result in retaliation from aid recipients in the form of support for terrorist activities in the major donor countries of Saudi Arabia, Kuwait, and the UAE.

The non-OPEC oil producers, while also suffering from lower prices for their oil, are taking less severe revenue cuts because they have cut prices to maintain sales. In most cases, they have maintained or even increased production to compensate for lower per-barrel revenue. Output in Egypt and Oman, for example, has reached record levels as they have undercut the terms adhered to by OPEC countries. The non-OPEC states cannot, however, count on growing oil revenues to alleviate tight foreign exchange situations and stimulate economic development because most are already producing near capacity.

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Among the non-OPEC producers, we believe that Egypt and Bahrain face the greatest political threat from lower oil earnings. In Egypt, we believe that austerity measures enacted to cope with financial shortfalls could cause political problems for President Mubarak. In Bahrain, we expect the economic slowdown to exacerbate the government's problems in dealing with a large and often restless Shia population.

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Oil-Importing Countries

The countries in the Middle Eastern and South Asian region that are net oil importers have received immediate benefits from lowered oil import bills. We expect the OPEC price of $29 per barrel combined with interim cuts in spot and unofficial prices to cut about $2 billion this year off the combined 1981 bill of nearly $13 billion.

India, which has accounted for 40 percent of regional oil imports, has the most to gain. If oil prices remain stable, India will save about $600 million in 1983—roughly equivalent to one-sixth of its projected current account deficit. Jordan and Bangladesh, also will benefit from lower oil prices; Jordan's oil bill has been roughly three-fourths of its exports.

Middle Eastern and South Asian Oil Importers: Oil Imports ,1981

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	Net Oil Imports (*thousand*) b/d	Net Oil Import Bill (*million US $*)	Savings [a] in 1983 (*million US $*)
Total	**980**	**12,955**	**1,700**
Middle East and North Africa	410	5,055	755
Israel	160	2,050	310
Jordan	40	540	80
Lebanon	60	700	105
Mauritania	5	65	10
Morocco	95	1,070	160
North Yemen	15	170	25
South Yemen	10	115	15
Sudan	25	345	50
South Asia	570	7,900	945
Afghanistan	10	175	25
Bangladesh	35	460	70
India	400	5,600	600
Pakistan	95	1,260	190
Sri Lanka	30	405	60

[a] Assumes imports maintained at the 1981 level and a 15-percent cut in oil prices except for India, where increased domestic production has allowed for a reduction in oil imports.

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Job Prospects in the Middle East Threatened. The tight job market in the major oil-exporting countries will have a major impact in the region. According to US Embassy reporting and academic studies, approximately 5 million Middle Eastern and South Asian expatriate laborers currently work in the oil-exporting states—more than 80 percent of the total expatriate work force there. They annually remit to their home countries more than $10 billion, which is significant in meeting their hard currency needs.

We expect that if oil prices remain depressed, South Asian worker recruitment and their remittances will slow or even fall in absolute terms. Officials in three Gulf countries—the UAE, Qatar, and Iraq—have already reported a net reduction in the number of expatriate workers. According to US Embassy reporting, however, labor importing countries overall have not reduced the size of their expatriate labor forces.

A leveling or decline in remittances from workers in the major oil-exporting countries will have important implications for hard currency earnings in South Asia. On the basis of official government statistics, we estimate that remittances from the Middle East totaled $3-3.5 billion last year and constituted 60 to 70 percent of total South Asian worker remittances. Pakistan, which has supplied nearly three-fourths (1.5 million, 5 percent of its labor force) of the South Asian workers to the oil-exporting states, has the most to lose if a persistent soft oil market begins to limit jobs.

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We also expect the soft oil market to contribute to the leveling off or even a decline in absolute numbers of expatriate Arab workers. If there is a further drop in oil prices and a large expulsion of foreign workers, however, we would expect the Arab laborers to fare better than the Asians. As

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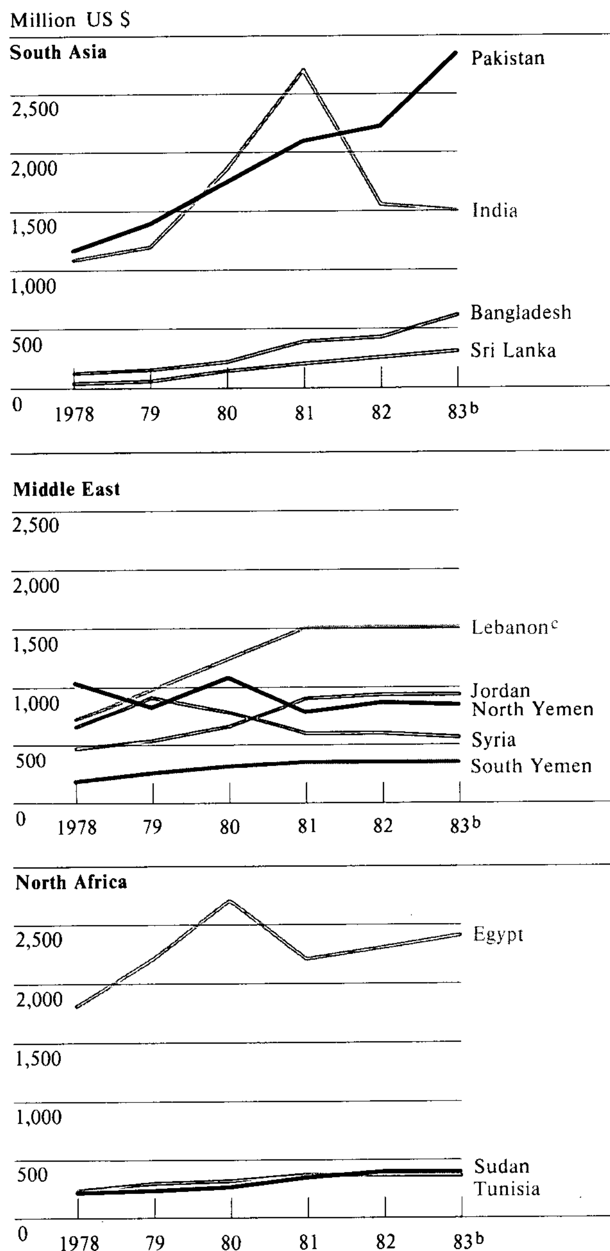
Official Foreign Exchange Earnings From Worker Remittances[a]



a Fiscal years.
b Projected.
c Includes estimate of earnings only from other Middle Eastern countries; total remittances reached an estimated $3 billion in 1982.

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Arabic speakers and the original migrant workers, they stand a better chance of keeping their jobs. In addition, the host governments would face political pressure from other Arab states if Arab "brothers" were sent home before Asians.

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Cutbacks in Arab Aid? Although we do not expect a dramatic cutback in Arab aid unless depressed oil prices persist beyond another year or two, some cutbacks already have been made and more are expected. Preliminary evidence indicates that economic assistance is being hit harder than military assistance. Some of the aid, especially from Saudi Arabia and Kuwait, is now being paid in the form of oil rather than money.

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The Gulf Arab oil exporters have paid out an average of $13 billion annually in bilateral aid, the bulk of this went to fellow Arab states. Saudi Arabia normally disperses $7-8 billion annually, Kuwait and the UAE most of the rest. Libya, while frequently associated with financing radical causes, has not been especially generous with economic aid.

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In our view, if the major Arab oil exporters find that additional cuts in aid disbursements are necessary for domestic reasons, they will look first to cut the states least vital to their security—first the countries outside the Middle East and South Asia, followed by India and Bangladesh, Pakistan, and Morocco. We believe that support to the Arab confrontation states and to Iraq would continue relatively unscathed. We expect, however, that aid payments from some of the states may not be as timely as they were in the past.

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Foreign Trade Only Slightly Affected. We believe that the oil importers will be only marginally affected if, as we expect, reduced revenues to the oil exporters result in cutbacks in their merchandise imports. Merchandise exports from the region's oil importers to the oil exporters total only $3.5 billion, 12 percent of their total exports. Much of this is foodstuffs that are unlikely to be cut off. India

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stands to be a loser because construction materials and equipment for development projects make up about 30 percent of the value of its exports to the Middle East.

Outlook

We expect that, at least for the next two years or so, the populations of most major oil-exporting states, will be sheltered from the adverse impact of the soft oil market by the surplus revenues accumulated throughout the 1970s. Possible exceptions are Libya, already in economic trouble because of bureaucratic mismanagement and questionable military spending, and Iraq, in financial straits because of the war with Iran and the loss of oil production and facilities. In our view, most of the non-OPEC oil producers will not face severe financial hardships from the soft oil market so long as prices remain stable.

On balance, we expect the oil-importing countries in the region to benefit from a soft oil market for the next two years or so. Lower oil prices will provide immediate relief on import bills. The need for foreign workers is not likely to decline appreciably over this period. Aid donations from the oil exporters are lagging behind last year's pace, but we do not believe there will be a dramatic cut from previous levels because of the donors' concerns for their own security if they reduce aid.

In our view, a soft oil market that persists for more than two or three years would raise the risk of political instability even in Saudi Arabia and the Gulf sheikhdoms. Although their small populations could be cared for with financial reserves and revenues from limited oil production, we believe that even the threat of austerity measures could significantly heighten discontent, particularly among the Shias.

In the long term, diminished opportunities for foreign workers in the oil-exporting states would eliminate the major employment outlet for the rapidly growing labor forces in the labor-surplus countries of the region. We expect that the accompanying slowdown in the growth of remittances would adversely affect economic development, especially in Pakistan, Jordan, Egypt, and North Yemen. A sharp decline in hard currency from remittances, particularly if accompanied by a cutoff in Arab aid, would force many to adopt unpopular austerity measures. If the governments failed to meet the economic and social expectations of returning migrants, a likely event under such a scenario, we expect that forces opposing the governments would pick up additional political support and provide opportunities for Soviet or other outside influence.

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Implications for the United States

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We believe that, if the soft oil market persists, the United States will be faced with increased demands for financial assistance. With a reduction in worker remittances and aid from the oil-exporting states, the oil-importing nations will look increasingly to the United States and Western financial institutions for support to cover projected deficits in external accounts.

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We believe that the United States faces a special problem with Pakistan and Egypt on financing their future military purchases and development projects. If Cairo and Islamabad are not successful in soliciting additional funding for their military modernization programs from the Arab oil exporters, we expect them to look to the United States.

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Persian Gulf Oil Still at Risk: Some Economic Implications

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The delivery of five French Super Etendard aircraft to Iraq, which we believe is likely, increases the possibility of an escalation of the Iran-Iraq war that could disrupt Persian Gulf oil exports. We estimate that for each 1 million b/d net loss in oil supplies for one year, oil prices would rise by about $8 per barrel and OECD GNP growth would be reduced by 0.3 percentage point. Under a worse case scenario, closure of the Strait of Hormuz and the Iraq-Turkey pipeline could remove some 13 million b/d of Free World productive oil capacity and reduce net oil supplies to consumers by 5-9 million b/d over the next year. Despite the Strategic Petroleum Reserve and relatively small amount of US oil imports from the Persian Gulf, the United States would not be insulated from the adverse effects of a major disruption in Persian Gulf oil flows.

Western Dependence on Persian Gulf Oil

Persian Gulf countries [1] currently account for nearly 30 percent of non-Communist oil supplies. We and many oil industry analysts expect this level of Free World dependence to continue and perhaps increase through the late 1980s because of the Gulf countries' vast oil reserves. This year US imports of Persian Gulf oil have been reduced to about 200,000 b/d—only 5 percent of total imports and 1 percent of domestic consumption—largely because of conservation and stock drawdowns. Other OECD members last year relied on Persian Gulf oil for about 55 percent of oil imports and 40 percent of consumption. Although the United States could draw on non-Gulf surplus capacity to cover a loss in Persian Gulf imports, it probably would be required to share the burden of any OECD net supply reduction either through the formal IEA program or adjustments in company distribution systems.

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The Worse Case Scenario

Growing economic pressures on Iraqi President Saddam Husayn, together with an enhanced military capability from scheduled delivery of French fighter aircraft, increase the probability that Iraq will take action to cut the flow of Iranian oil exports. 25X1 retired senior military officers are advising Saddam to use French-supplied Super Etendard aircraft to attack tankers transporting Iranian oil from Khark Island. If tanker owners were unwilling to load from Khark Island, nearly all of Iran's current oil exports of 2 million b/d would be lost.

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In our judgment, an Iraqi attack on Khark Island would almost certainly lead Iran to retaliate by shutting down the Iraq-Turkey pipeline, Iraq's only remaining oil outlet. It would probably lead to attacks on Kuwaiti ports that receive Iraqi imports or tankers serving Kuwait. In addition, Tehran could selectively harass tankers serving Iraq's other Gulf allies. Indeed, Ayatollah Khomeini and other Iranian officials have threatened to retaliate against all oil shipping in the Gulf if its exports are cut off. Under this worse case scenario, we estimate that 13 million b/d in Persian Gulf productive capacity would be lost to the market if the Gulf were closed and exports were restricted to 2 million b/d through the Saudi pipeline.

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[1] The Persian Gulf countries are Iran, Iraq, Saudi Arabia, Kuwait, the United Arab Emirates (UAE), and Qatar.

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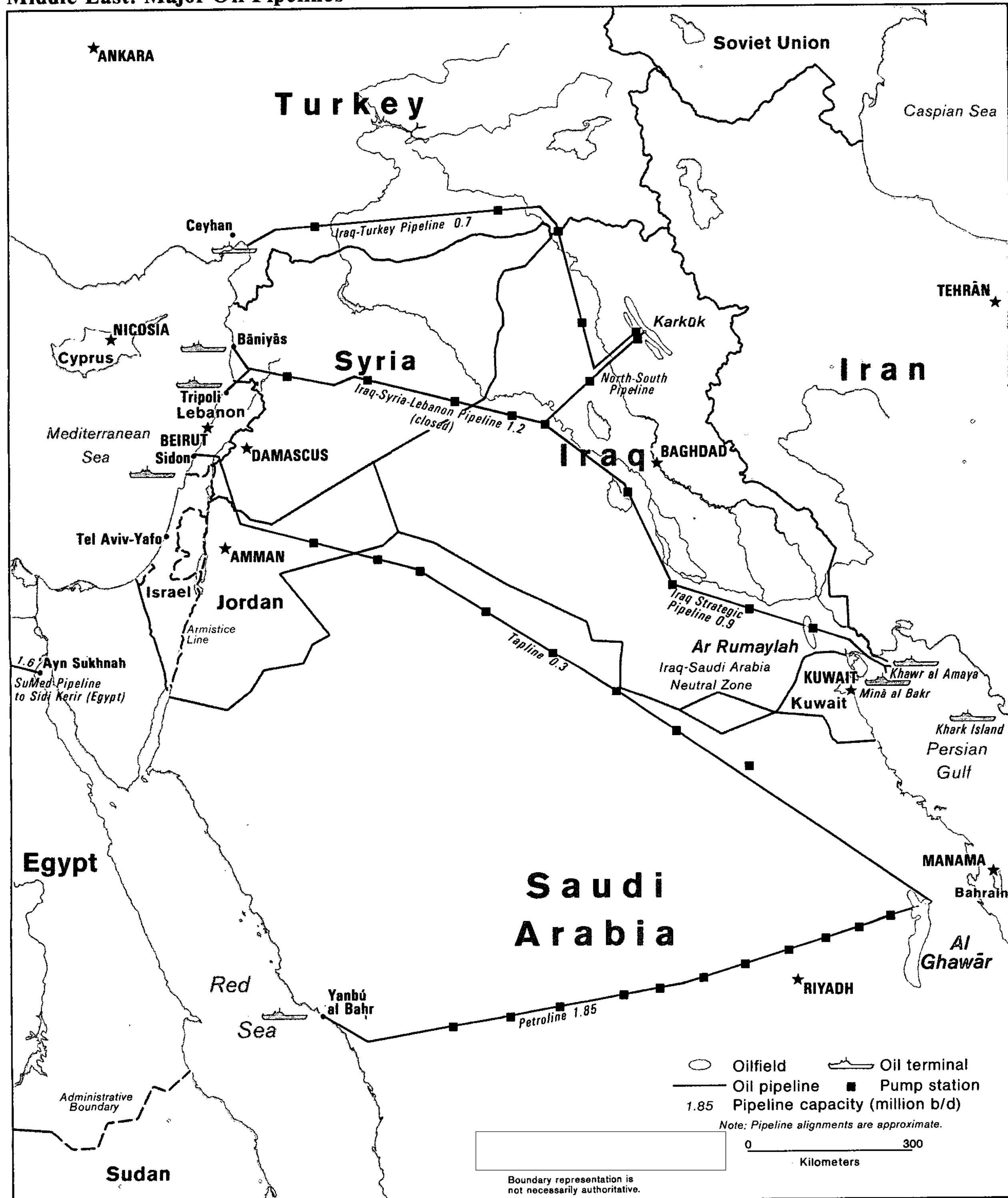
Middle East: Major Oil Pipelines



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Projecting the Net Reduction in Oil Supplies

The magnitude of the net reduction in Free World oil supplies that could result from a disruption of Persian Gulf oil flows depends largely on estimates of oil demand, surplus oil productive capacity, and the level and behavior of stocks.

Oil Demand. Based on oil industry estimates, our low oil demand case assumes average annual OECD growth of about 2.5 percent in 1984 and 1985 with ample nonoil energy supplies and projects Free World oil consumption at 44-45 million b/d at current prices. Under a high demand case with average annual growth of nearly 4.5 percent in 1984 and 1985 and reduced availability of nonoil energy supplies, Free World consumption could run to 48-50 million b/d at current prices.

Surplus Oil Capacity. Currently, we estimate that the surplus of available oil productive capacity in the Free World stands at 8 million b/d, 3 million b/d of which lies outside the Persian Gulf. Because most industry analysts believe at least a 2-million-b/d cushion of surplus capacity is needed for market stability—and historical data substantiate this point—the effective level of surplus capacity is probably about 6 million b/d.

Stocks. While our projected net reductions in oil supplies do not take into account the behavior of inventory holders, stock levels can be critical in shaping the impact of a supply disruption. Price runups following the 1973/74 Arab oil embargo and the 1979 Iranian revolution were due in part to demand pressures from efforts of government and commercial stockholders to rebuild and add to inventories. In contrast, the oil market remained fairly stable following the outbreak of the Iran-Iraq war and the initial 3-4 million b/d loss of exports. This largely reflects weak oil demand and the willingness of commercial stockholders to deplete excess stocks. With current commercial stockpiles near normal levels, we would expect stockholders to be less willing to sharply deplete inventories if supplies were interrupted. In our judgment, there is

CIA Projections of Net Reductions in Free World Oil Supply From Disruption of Persian Gulf Oil Supplies *Million b/d*

	1984	1985
Free World oil productive capacity	52	52
Free World oil consumption		
Low demand case	44	45
High demand case	48	50
Available surplus capacity		
Low demand case	8	7
High demand case	4	2
Persian Gulf capacity	17	17
Pipeline export capacity	3	3
Saudi Arabia	2	2
Iraq	1	1
Domestic use	2	2
Strait of Hormuz	12	12
Net reduction from closure of Strait		
Low demand case	5	6
High demand case	9	11

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a good possibility that attempts would be made to add to inventories because of prospects for higher prices and the uncertainty surrounding the duration of the disruption. Under our assumptions, effective surplus productive capacity outside the Gulf over the next two years would be insufficient to offset losses incurred from the closure of the Strait of Hormuz.

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Impact on Oil Prices and OECD Growth

Based on historical time series, we calculate that for every 1 million b/d net reduction in Free World oil supplies for one year, prices would increase approximately $8 per barrel to clear the market and OECD growth would be reduced by about 0.3 percentage point, assuming unchanged monetary

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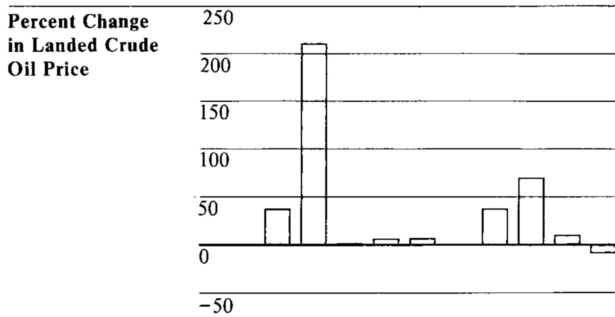
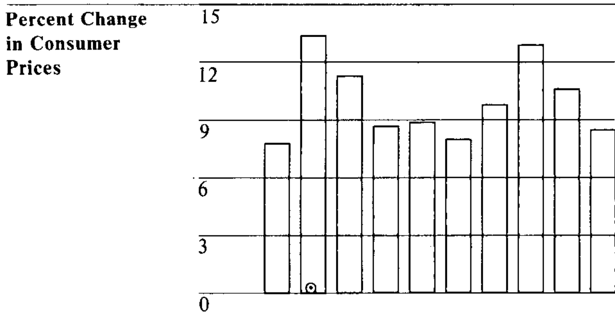
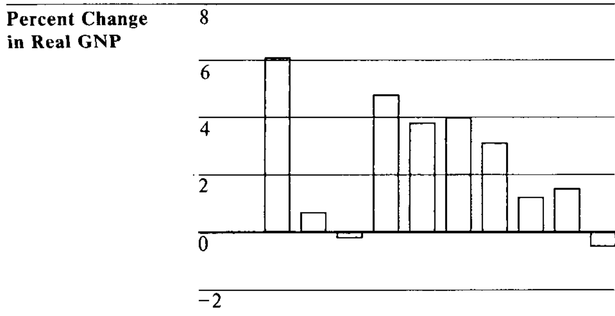
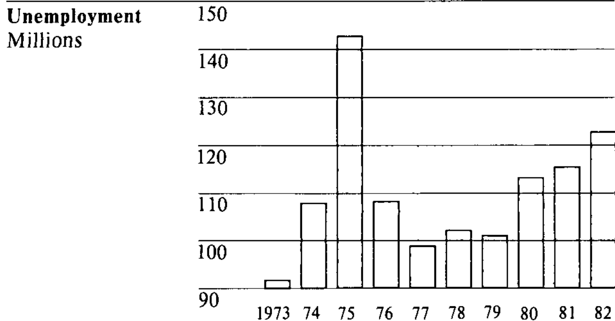
OECD: Economic Indicators and Oil Price Trends









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and fiscal policies in the major developing countries. Policy responses, however, will be an important factor in determining exactly how oil prices will affect growth, inflation, and trade. If most Western governments opt for restrictive policies in the short run to reduce inflationary pressures and ease balance-of-payments problems, as they have in previous oil price runups, real economic losses would be substantially greater than calculated. On the other hand, attempts to offset the contractionary impact of higher oil prices with traditional macroeconomic remedies would increase energy demand and drive oil prices up even further.

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Impact on the International Financial System

We believe a major runup in oil prices resulting from an interruption of Persian Gulf oil supplies would have severe adverse repercussions on the international financial system. While on balance, commercial lenders would be trading the recovery of one group of troubled debtors—non–Persian Gulf oil producers—for worse conditions in another—net oil importers—the initial oil price shock would be destabilizing in our judgment, particularly for those banking centers and countries with high loan exposure to nonoil exporting LDCs. Moreover, recent banker experience with LDC debt moratoriums and reschedulings could hamper smooth recycling of surpluses elsewhere to the nonoil LDCs. In addition, unlike the last two major oil price increases, financial surpluses would accrue largely to those countries with high propensities to spend, currently running balance-of-payments deficits, instead of the wealthy Persian Gulf countries who have large asset holdings and are more likely to deposit their excess funds with international banks. OECD governments, faced with the prospect of severe recessions, are unlikely to increase aid substantially. At the same time, the prospects for increasing IMF resources to handle large new loan requests would dim.

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OPEC Members. We project that even a moderate disruption of Persian Gulf oil leading to a 1-million-b/d net decline in Free World supplies would result in a near balanced current account to a $30 billion surplus depending on the import behavior of non-Gulf members. This would be in sharp contrast to the $20-30 billion deficit we currently project for 1983 and 1984 with current oil prices remaining stable.

The combined current account surpluses for the seven non-Gulf members—Nigeria, Ecuador, Venezuela, Indonesia, Algeria, Libya, and Gabon—would more than offset the limited oil earnings accruing to the Persian Gulf members. While a 1-million-b/d net supply decline would help Lagos to forego rescheduling arrangements and IMF loans, Venezuela and Ecuador would still require some debt rescheduling or large new credits in 1984. A larger windfall, resulting from a complete cutoff of Persian Gulf supplies, would solve their debt problems and allow import growth and the lifting of unpopular austerity measures. In the case of Libya, a Hormuz closure would give Qadhafi unprecedented financial surpluses.

Of the six Persian Gulf producers, Saudi Arabia could experience financial gains from the closure of the Strait of Hormuz provided the current operating pipeline continues to function and major oil price increases occur. Iran and Iraq would be hardest hit by the closure of the Hormuz Strait and the Iraq-Turkey pipeline. Faced with a loss of income and large import needs, Tehran would be forced to draw down foreign assets, which we estimate at $13 billion at yearend 1982, and cut imports, including those needed to fulfill the Khomeini regime's first five-year development plan. With foreign assets nearly depleted closure of the pipeline would make Baghdad even more dependent on foreign financial assistance.

Large foreign asset holdings and modest import needs would enable, Kuwait, UAE, and Qatar to absorb the loss of oil revenue from the Hormuz Strait closure over the short term. We estimate that these governments would have to draw down $15 billion in foreign assets to maintain current import levels and cover projected current account deficits over 12 months. Private capital outflows, which we believe would be high in this pessimistic climate, would force even larger asset drawdowns. Private outflows could also erode any surplus the Saudi Government may accrue. Despite large foreign reserves, the need for economic stringency under these circumstances will pose difficult questions for these governments concerning domestic spending, asset management, and foreign aid levels.

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Non-OPEC LDC Oil Exporters. The economies of Mexico, Egypt, Malaysia, Cameroon, and Peru would benefit from substantially higher oil revenues, and in the case of Mexico and Egypt a large oil price windfall would alleviate current debt servicing problems and substantially reduce the possibility of political or social unrest. Emerging oil exporters, Ivory Coast and Zaire, would gain only if the price hike spurred exploration efforts that could boost net oil exports at a later date.

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Oil Importing LDCs. In our judgment, major debtors, Brazil, Chile, Philippines, Pakistan, Morocco, Sudan, India, and South Korea would have trouble meeting scheduled external payments even assuming a moderate rise in oil prices. Without liberal rescheduling arrangements from private and official creditors, the odds would greatly increase that they would be forced to declare a debt moratorium. Closure of the Strait of Hormuz—unless resolved quickly—would make such an event almost a certainty.

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Higher oil prices would also create payments problems for many smaller Central American, African, and Middle Eastern oil dependent economies with limited financial reserves. Potential debt troubled and even financially sound LDCs would have to

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Persian Gulf Oil Exporters: Foreign Exchange Impact of a Closure of the Hormuz Strait

	Projected Oil Exports 1983 (*thousand b/d*)	Projected Oil Revenue at Current Prices (*billion US $*)	Projected Current Account Balance 1983 (*billion US $*)	Estimated 1983 Imports (*billion US $*)	Official Foreign Assets Yearend 1982 (*billion US $*)	Estimated Export Capability if Hormuz Strait Closed [a] (*thousand b/d*)	Loss/Gain if Oil Price Rises to $70/b (*billion US $*)	Loss/Gain if Oil Price Rises to $100/b (*billion US $*)
Saudi Arabia	4,415	44.8	−14.2	39.0	153	1,900	3.7	24.5
Kuwait	730	7.4	4.5	7.0	73	0	−7.4	−7.4
United Arab Emirates	1,120	12.3	1.7	8.0	35	0	−12.3	−12.3
Iran	1,945	20.2	4.5	12.0	13	0	−20.2	−20.2
Iraq	600	6.8	−14.8	16.0	8	0	−6.8	−6.8
Qatar	290	3.2	2.0	1.5	15	0	−3.2	−3.2

[a] Also assumes closure of Iraq-Turkey pipeline.

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Major LDC Debtors and Net Oil Exporters: Foreign Exchange Impact of a Major Oil Price Increase

Net Oil Exporters	Projected Net Oil Exports, 1983 (*thousand b/d*)	Projected Net Oil Revenues at $29/b (*billion US $*)	Projected Current Account Balance, 1983 (*billion US $*)	Estimated Debt Due in 1983 [a] (*billion US $*)	Estimated Surplus Productive Capacity (*thousand b/d*)	Additional Oil Revenues at Full Capacity if Prices Rise to $37/b (*billion US $*)	$70/b (*billion US $*)	$100/b (*billion US $*)
Mexico	1,500	15.5	2.5	23.0	400	9.1	30.6	50.2
Argentina	10	0.1	−1.1	3.8	NEGL	NEGL	0.1	0.2
Venezuela [b]	1,570	15.2	−1.1	22.5	430	9.4	31.3	51.2
Indonesia [b]	930	9.9	−4.8	7.5	200	5.5	19.3	31.8
Egypt	200	2.1	−3.0	5.9	NEGL	1.0	3.5	6.0
Algeria [b]	855	9.0	−2.4	6.7	140	4.3	16.2	27.0
Nigeria [b]	1,090	11.7	−1.9	5.7	880	15.2	39.1	60.9
Peru	60	0.6	−0.6	5.4	NEGL	0.2	0.8	1.5
Malaysia	120	1.5	−3.2	3.4	NEGL	0.4	2.1	3.7
Ecuador [b]	100	1.0	−1.6	2.6	0	0.3	1.4	2.4

[a] Includes short-term debt maturities, principal payments on medium- and long-term debt, and interest due on all debt maturities but does not include interbank debt. For Mexico, Argentina, Nigeria, Peru, and Ecuador any debt rescheduled through 14 September 1983 is not included in the total debt service figures.
[b] OPEC member.

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Major LDC Debtors and Net Oil Importers: Foreign Exchange Impact of a Major Oil Price Increase

Net Oil Importers	Projected Net Oil Imports, 1983 (*thousand b/d*)	Projected Net Oil Import Bill, 1983 at Current Prices (*billion US $*)	Projected Current Account Balance, 1983 (*billion US $*)	Estimated Debt Due in 1983 [a] (*billion US $*)	Additional Foreign Exchange Requirement if Oil Price Rises to		
					$37/b (*billion US $*)	$70/b (*billion US $*)	$100/b (*billion US $*)
Brazil	700	7.6	−7.5	31.0	2.0	10.5	18.1
South Korea	530	6.1	−2.3	19.1	1.5	7.9	13.7
India	335	4.1	−3.4	2.7	1.0	5.0	8.7
Chile	58	0.8	−1.6	6.7	0.2	0.9	1.5
Philippines	200	2.2	−3.0	7.6	0.6	3.0	5.2
Morocco	95	1.0	−1.8	4.9	0.3	1.3	2.2
Taiwan	340	4.1	4.0	6.1	1.0	5.1	8.8
Thailand	230	2.6	−2.0	4.1	0.7	3.4	6.0
Pakistan	105	1.1	−1.3	2.0	0.3	1.6	2.7
Sudan	45	0.5	−0.7	0.4	0.1	0.5	0.8
Ivory Coast	20	0.2	−1.1	1.5	0.1	0.3	0.5

[a] Includes short-term debt maturities, principal payments on medium- and long-term debt, and interest due on all debt maturities but does not include interbank debt. For Brazil, Chile, and Sudan any debt rescheduled through 14 September 1983 is not included in the total debt service figures.

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either dramatically cut back oil use, crippling their economies, or greatly increase their borrowing, which could quickly move them into the ranks of the debt-troubled LDCs.

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As things now stand, we believe that many of these LDCs would have difficulty obtaining loans to finance their much higher oil bills. Because of this, we expect that many would turn to Washington for funding and leadership in handling an oil price crisis. Lacking adequate financing, they would face severe recessions and growing unemployment, which for many governments have the potential for stimulating serious political and social unrest.

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Iraq: Economy Under Siege

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Iraq's war of attrition with Iran is strangling its economy. With major oil export facilities inoperable and Damascus refusing to allow oil deliveries through the Iraq-Syria pipeline, Iraq's oil revenues have plummeted to less than one-third of prewar levels. The Iraqis already have virtually shelved their development program, and Baghdad has been forced to slash imports this year for the first time since the war began in 1980.

The next year will be critical for Iraq. We do not believe it will be able to obtain the amount of financial assistance in 1984 that it received this year, and the private sector, particularly consumers, will bear the brunt of new austerity measures. Some slowdown in military spending might also be required. Under these circumstances, the Iraqis will feel increasingly compelled to carry the war to Iran. An attack on Iran's oil facilities could easily lead to an escalation of the war throughout the region, putting Gulf oil exports at risk.

Tightening Financial Squeeze

We estimate that Iraqi oil revenue will plunge to about $7 billion in 1983 compared to more than $9 billion last year and a peak of $26 billion in 1980. The loss of its Persian Gulf oil export terminals at the outset of the war and the closure of the oil pipeline across Syria in April 1982 leaves Baghdad with the 700,000 b/d pipeline across Turkey as its sole route for oil exports. Moreover, a $5 per barrel price cut to meet OPEC guidelines last March is costing Iraq $100 million a month in lost oil revenue.

Iraq is taking steps to increase oil sales. Expansion of the Turkish pipeline—by about 200,000 b/d—could be completed by yearend.

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Meanwhile, Iraq now is using flow-enhancing chemicals to squeeze an additional 100,000 b/d of oil through the pipeline. Iraq also is arranging for the transport of small amounts of oil by truck.

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More importantly, Baghdad is arranging oil barter deals involving Saudi Arabia and Kuwait who in turn are selling their oil on Iraqi account. These oil sales to Iraq's customers probably will average up to 400,000 b/d for the year, worth about $3-4 billion.

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We believe that declining revenues will force Iraq to reduce import spending this year to $14-16 billion, compared with $19 billion last year. Early 1983 trade data for some of Iraq's most important trading partners indicate that imports of heavy industrial machinery, electrical equipment, and construction materials are well off last year's pace. Imports of most consumer goods and raw materials for the light industrial sector are also being reduced. Consumer goods imports from Japan, Iraq's second-largest trading partner, were down 85 percent during first-half 1983 from the same period last year. The regime has constrained private-sector imports by delaying import licenses and cutting total value to 30 percent of 1982 levels.

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We estimate Iraqi imports from the West in 1983 will reach only some $10-11 billion compared with $14 billion in 1982. OECD trade data indicate that Iraq's imports from the West fell by over one-half—to $3.5 billion—in the first six months of 1983 from the same period last year. The big losers were Japan, West Germany, and France, which accounted for 60 percent of the drop.

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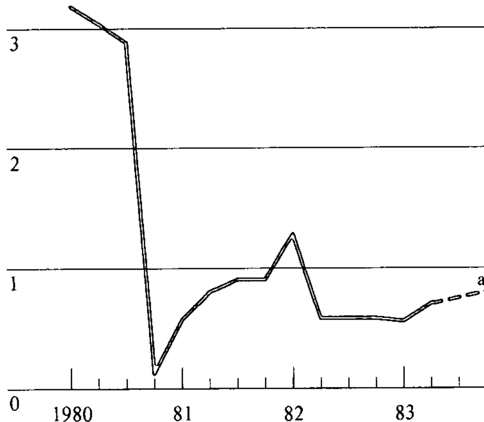
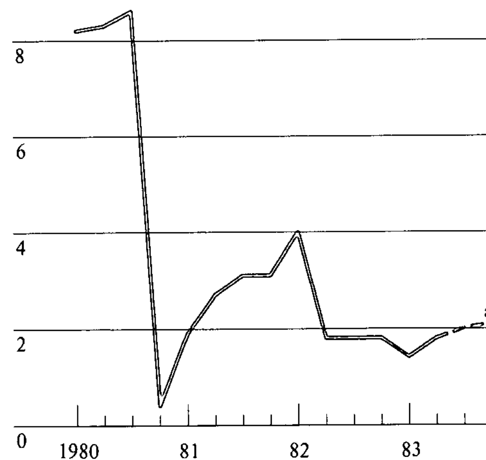
Iraq: Oil Exports and Revenues





[a] Estimated.

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Oil barter deals, however, probably will allow an increase in imports in second-half 1983. France and the USSR—Iraq's two largest arms suppliers—have agreed to take oil to help pay for about $1 billion owed each country for military hardware this year. Saudi Arabia is providing oil to the Soviets on Iraqi account. Iraq also is striking oil barter arrangements with civilian trading partners, including Japanese trading companies.

Imports from the USSR this year probably will approach last year's $1.4 billion despite a slow start. Soviet deliveries to Iraq plummeted to $75 million in first-quarter 1983 compared with about $580 million for first-quarter 1982, according to Soviet trade data. The drop probably resulted from a temporary difference between Moscow and Baghdad over a payments scheme for Soviet military deliveries. The USSR is Iraq's most important arms supplier; last year, Baghdad signed arms deals with Moscow valued at about $3 billion.

We believe Iraq will have a roughly $14 billion deficit on its current account this year, down only slightly from the levels of the last two years. The trade deficit will reach $7-9 billion and other foreign exchange outflows will total about $6 billion—most of it in remittances by Iraq's still sizable foreign labor force. With the labor market already tight because of draft callups—approximately 600,000 men are in the regular armed forces and tens of thousands more in militia and security units—Iraq has not been able to significantly reduce its foreign labor force.

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Covering the Current Account Shortfall

Iraq is closing the current account gap with deferred payments, Gulf aid, and reserve drawdowns. We project it will negotiate deferred payments—or

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Iraq: Current Account Balance and Financing Arrangements

Billion US $

	1981	1982 [a]	1983 [b]		1984 [b]	
			Scenario A	Scenario B	Scenario A	Scenario B
Trade balance	−9.1	−9.7	−7.0	−9.0	−3.7	−3.7
Exports (f.o.b.)	11.0	9.7	7.0	7.0	7.3	9.3
Oil	10.8	9.5	6.7	6.7	7.0	9.0 [c]
Nonoil	0.2	0.2	0.3	0.3	0.3	0.3
Imports (c.i.f.)	20.1	19.4	14.0	16.0	11.0	13.0
Net services and private transfers	−6.0	−7.1	−6.0	−6.0	−4.3	−5.3
Freight and insurance	−4.0	−3.5	−2.6	−2.7	−1.5	−2.1
Investment income [d]	3.2	1.6	0.6	0.7	0.3	0.3
Other	−5.2	−5.2	−4.0	−4.0	−3.1	−3.5
Grants	−2.0	−1.0	0	0	0	0
Current account balance	−17.1	−17.8	−13.0	−15.0	−8.0	−9.0
Financing the current account	18.0	18.5	13.0	15.0	8.0	9.0
Gulf state aid	8.0	5.2	1.2	1.2	1.0	1.0
Saudi and Kuwaiti oil sales	0	NEGL	3.0	3.5	2.0	3.0
Commercial loans	0	0	0.5	0.5	0.5	0.5
Arrearages	0	0	4.8	5.8	2.0	3.0
Reserves	10.0	13.0	3.5	4.0	2.5	1.5

[a] Estimated.
[b] Alternative scenarios for import spending and current account balances depend on our assumed levels of foreign assistance and reserve drawdowns.
[c] Assumes Turkish pipeline expansion completed in early 1984.
[d] Represents earnings on official foreign assets only.

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simply be late in paying—some $5-6 billion owed foreign companies for project-related and other imports in 1983. Iraq generally is demanding that payments begin in 1985 with interest rates below commercial levels. Many firms are under tremendous pressure to come to terms with Iraq to protect their investments. Prospects for participation in postwar development also motivate the companies to accede to Iraq's demands. To avoid piling up its own debt, Baghdad is requiring foreign firms to find their own financing for the deferred payments.

So far, Iraq has obtained a $1 billion credit to cover the deferral of payments due French civilian contractors this year, according to press reports, and is negotiating with other foreign firms, including Japanese, West German, Italian, and British companies. We estimate the Iraqi 1983 obligation to firms from these five countries alone is at least $3 billion. We believe other OECD countries will follow suit, and several Third World countries, including Jordan and Turkey, also are deferring payments due this year.

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We estimate Gulf state aid—including oil sales on Iraq's behalf—will contribute approximately $4-5 billion to Baghdad's foreign exchange needs, compared with $5.5 billion in direct financial assistance

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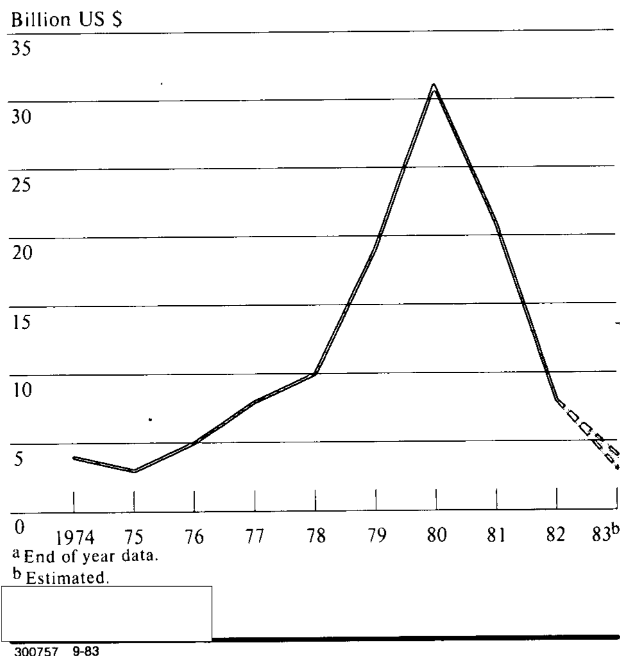
last year. As they cope with their own revenue problems because of the soft oil market, the Gulf states are unlikely to increase direct aid much above the $1.2 billion they already have provided this year.

Commercial loans from the international banking community in 1983 probably will not substantially exceed the present level of about $500 million. In out judgment, many Western banks, already concerned about their overexposure in other LDCs, will be reluctant to lend to Iraq until the war is over. Arab financial institutions—which may be more willing—probably have fewer funds available than in the past because other OPEC countries are withdrawing deposits to cover their own financial needs.

We estimate Iraqi foreign exchange reserve drawdowns could reach $4-5 billion in 1983 assuming no other assistance is forthcoming. Although Iraq drew down its assets by $3-5 billion during the first quarter suggests that Saudi oil sales and deferred payments have enabled Iraq to temporarily reverse this trend. In any event, the reserve position has deteriorated markedly in the last few years; foreign exchange assets amounted to about $35 billion before the war; they were only $8 billion at yearend 1982. Underscoring the severity of Iraq's financial condition, the government is conducting a "voluntary" drive to collect gold from the citizenry.

Iraq: Official Foreign Exchange Assets[a]



[a] End of year data.
[b] Estimated.

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Domestic Impact

The war has been responsible for a sharp slowdown in the economy. Agricultural and industrial production are stagnating or falling because of the shortages of equipment and raw materials, and the government has virtually abandoned its economic development program. Baghdad has canceled almost all new contracts not related to the military effort or the petroleum sector and postponed work on several nonessential projects already under way. These developments represent a sharp reversal from the guns and butter approach the government maintained during the first two years of the war.

The Iraqi consumer is increasingly feeling the effects of the import cuts. Imported staples, especially fresh food, and luxury goods are either in short supply or available only at exorbitant prices. The shortage of imported goods has fueled an inflation rate that we estimate is as high as 50 percent and has encouraged black-market activity.

Outlook

We believe the remainder of this year and 1984 will be a critical period for the Iraqi economy. The oil export outlook remains gloomy. The 1.2-million b/d Syrian pipeline is likely to remain closed as long as Iran provides Damascus with oil, and the Iraqis are unlikely to be able to resume exports from the Gulf as long as the war continues. Increased exports through the expanded Turkish

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pipeline could add as much as $2 billion to revenues in 1984, but Saudi Arabia and Kuwait may reduce their oil sales accordingly to keep Iraq within its OPEC production guideline. Moreover, foreign exchange reserves will, at best, allow a drawdown at the 1983 rate

As a result, Baghdad faces the prospect of obtaining foreign financing for another large current account deficit in 1984—on the order of $9 billion—even if it makes additional sharp import cuts. The Gulf states' oil sales are not likely to recover enough in 1984 to prompt them to increase their aid to Iraq; they may even cut back. Commercial banks probably will refrain from giving major loans to Iraq while the war continues.

Iraq thus will have to defer again a sizable share of 1984 payments—probably including some 1982-83 payments—or slash imports. Should Baghdad renege on deferred payments due in 1984, bank financing for essential commodity purchases also is likely to be adversely affected. Moreover, Baghdad probably will encounter greater resistance from foreign contractors and suppliers who are less able or willing to finance delayed Iraqi payments. Several West German firms, for example, have stated they anticipate serious obstacles to financing in 1984, according to the press.

The Iraqi populace will tolerate the stoppage of the development program—few Iraqis directly feel the effect—but a substantial reduction in imports of food and other basic commodities probably will heighten discontent. Iraq depends on imports for about one-half of its grain consumption alone, according to agricultural trade statistics. To ease the burden on the population, the government may attempt to reduce defense-related spending. Military contracts signed last year for nearly $5 billion, however, ensure continued high levels of arms spending.

Implications of the Conflict With Iran

The tightening economic vise is forcing Baghdad to seriously consider desperate measures to bring an end to the war with Iran. Iraq's efforts to acquire French Super Etendard aircraft armed with Exocet antiship missiles and public threats to use them against oil tankers in the Gulf servicing Iran represent a major attempt to break the economic stranglehold. The Iraqis could well make good their threat in the hope that it would cut off Iranian oil exports and force Iran into negotiations to end the war. More realistically, however, the Iraqis probably would count on major Western powers to intervene and enable Iraq to resume exporting oil out of the Gulf.

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Meanwhile, Baghdad's threats also serve as a form of blackmail to force the Gulf states to increase substantially their subsidies to Iraq. If this coercion works, the Iraqis might hold off escalation.

Iranian retaliation for an Iraqi attack on Tehran's oil export facilities could have a profound impact on world oil supplies and the world economy. A successful Iranian attack on Gulf state oil facilities or the mining of the Straits of Hormuz, for example, would sharply reduce Free World oil supplies.

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OPEC Persian Gulf States: Reduced Foreign Aid

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Aid disbursements by four OPEC Persian Gulf states—Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar—declined by over 20 percent in 1982 to $11.4 billion. Iraq was by far the biggest loser; its aid receipts fell by $2.5 billion. First-half 1983 aid transactions indicate OPEC states have begun to limit new aid pledges and are slowing transfers on previous pledges.

Aid to LDCs in 1982 [1]

Aid commitments by the four OPEC Persian Gulf states—Saudia Arabia, Kuwait, the UAE, and Qatar—reached a record $20 billion in 1982. Of the new commitments, military aid to non-OPEC LDCs totaled $7.6 billion, economic assistance to non-OPEC LDCs was $5.1 billion, and $7.4 billion was committed to Iraq for balance-of- payments support.

A major element of OPEC security-related aid in 1982 continued to be the Baghdad Pact Subventions (BPS). Instituted in 1978 to help defray military and development expenditures of the confrontation states and the PLO, the BPS remained the single largest channel for aid to Jordan and Syria. As much as 60 percent of BPS funds have been defense related; the rest helped to underwrite development projects and other economic programs. In 1982 reliable sources confirmed that all of the Gulf states met their Baghdad Pact obligations, although several payments were delayed for up to six months for political or economic reasons.

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Lagging Disbursements. Overall aid disbursements of $11.4 billion lagged far behind commitments. While military aid transfers rose slightly in 1982, they were more than offset by a $2.5 billion decrease in flows to Iraq and a $600 million decline in economic disbursements. We estimate that the combined military and economic assistance disbursed to Syria reached a one-year high of $2.0 billion, while total financial assistance to Jordan of $1.0 billion remained close to the 1981 level. These two countries accounted for one-half of the total non-Iraqi aid disbursed.

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Military Aid Jumps in 1982

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The four Persian Gulf states pledged about $7.6 billion to non-OPEC LDCs for direct military assistance in 1982, more than twice the 1981 level. More than three-fourths of the 1982 commitments were directed to cover current or planned arms purchases. The preponderance of OPEC military aid commitments in 1982 was directed toward friendly Arab and non-Arab Islamic regimes:

- Long-term GCC commitments totaling $3.7 billion were provided to strengthen the armed forces of Bahrain and Oman, according to senior officials of both governments.
- Western military attaches in Cairo reported a $1 billion pledge by the four states to underwrite the modernization of Egypt's fighter aircraft inventories with French Mirage 2000s.

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[1] Gulf states' aid channeled to LDCs via multilateral institutions—a flow that recently has averaged about $1 billion—is not addressed. We have made no attempt to categorize Gulf states' aid to Iraq either economic or military assistance. Therefore, references to economic or military aid do not include aid to Iraq except where specifically mentioned.

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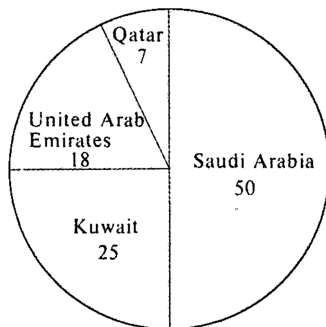
OPEC Persian Gulf States: Donor Shares of Aid Commitments and Disbursements, 1982

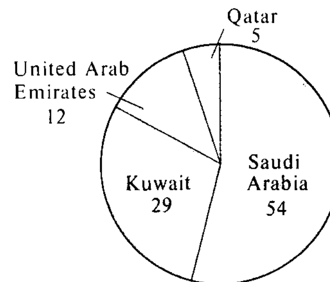
Percent

Commitments



US $ 20.0 billion

Disbursements



US $11.4 billion

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- About $1.1 billion in new commitments went to Syria, almost half of it as war aid in the aftermath of Syrian losses at the hands of Israel and the rest as continuing aid under the BPS.
-
- over $250 million was spent by Saudi Arabia and the UAE to pay the expenses of foreign Islamic forces stationed on their soil.
- Saudi Arabia has sent several million dollars worth of military hardware and munitions to Chad.

Almost as noteworthy as the new pledges in 1982 were appeals for aid that the Gulf states either refused outright or only partly fulfilled:

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- Although Riyadh and Kuwait transferred $600 million to Syria during the Lebanese crisis, Damascus failed to convince the Gulf countries of the need to underwrite a new multibillion-dollar Soviet arms agreement.

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- A $2 billion Jordanian request made to the Saudis to finance arms modernization was turned down because of oil revenue shortfalls, according to senior Jordanian officials. Several transfers observed in 1983 indicate, however, that Riyadh may have since agreed to a modest new commitment.

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OPEC Persian Gulf States: Bilateral Official Development Assistance Disbursements to Non-OPEC LDCs

Million US $

	1981					1982				
	Total	Saudi Arabia	Kuwait	UAE	Qatar	Total	Saudi Arabia	Kuwait	UAE	Qatar
Total	**3,175**	**2,280**	**440**	**345**	**110**	**2,615**	**1,730**	**565**	**210**	**110**
Arab countries	2,645	1,870	360	305	110	1,975	1,295	385	185	110
Jordan	380	195	90	60	35	405	230	85	55	35
Lebanon	390	255	65	45	25	140	5	65	45	25
Morocco	565	560	5	0	0	450	335	115	0	0
Syria	705	395	115	145	50	575	325	115	85	50
Others	605	465	85	55	0	405	400	5	0	0
Non-Arab Islamic countries	410	345	45	20	0	480	355	110	15	0
Bangladesh	135	110	25	NEGL	0	55	55	0	NEGL	0
Pakistan	35	25	10	0	0	215	105	110	NEGL	0
Turkey	150	150	0	0	0	15	15	0	0	0
Others	90	60	10	20	0	195	180	0	15	0
Other countries	120	65	35	20	0	160	80	70	10	0

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- Saudi Arabia refused to fund North Yemen's arms bills due to the USSR, according to the US Embassy.

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Economic Aid Falters

In 1982 our estimates indicate that economic aid transfers fell by $600 million, to $2.6 billion, the lowest level since 1979. This drop is consistent with the pattern that prevailed during 1978-79, when the Gulf states, facing a decline in oil revenues, chose to maintain highly political military aid programs but cut economic aid programs. In 1982, about 95 percent of the Persian Gulf economic aid disbursements went to Islamic states compared with the 1979-80 average of 70 percent. Jordan, Lebanon, Morocco, North Yemen, and Syria continued to absorb the bulk of the assistance—$1.7 billion of the total $2.6 billion disbursed in 1982. 25X1 Gulf state bilateral economic assistance:

- Covered at least 25 percent of the current account deficits (before official transfers) of Morocco, Jordan, and North Yemen.

- Covered 15 percent or more of the current account deficits (before official transfers) of Pakistan, Syria, Turkey, Somalia, Sudan, South Yemen, and Sri Lanka. 25X1

Saudi Arabia discounted substantial quantities of crude oil to selected LDCs in 1982 as a form of economic assistance. Somalia received financial assistance equivalent to more than $100 million in the form of discounted

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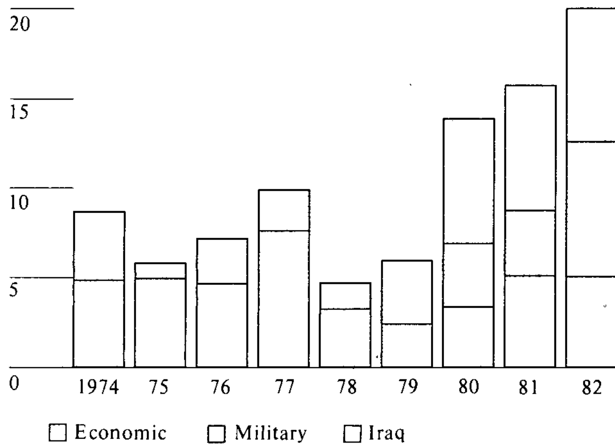
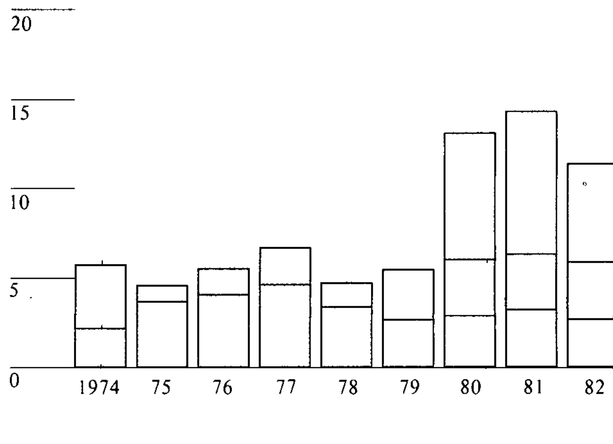
OPEC Persian Gulf States: Economic and Military Aid to LDCs





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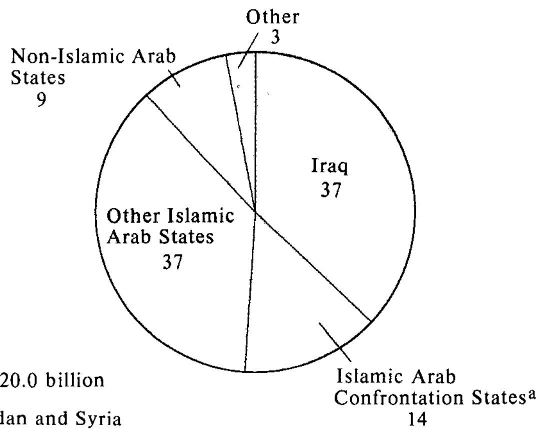
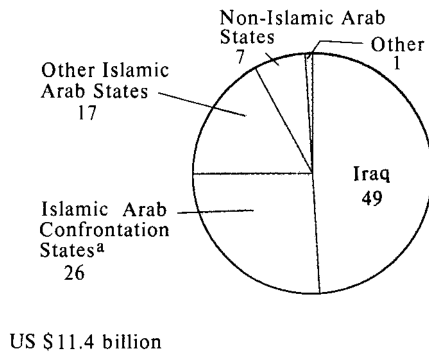
OPEC Persian Gulf States: Recipient Shares of Aid Commitments and Disbursements, 1982

Percent



US $20.0 billion



US $11.4 billion

[a]Jordan and Syria

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OPEC Persian Gulf States: Military Aid Commitments to Non-OPEC LDCs

Million US $

	1981					1982				
	Total	Saudi Arabia	Kuwait	UAE	Qatar	Total	Saudi Arabia	Kuwait	UAE	Qatar
Total	**3,645**	**2,795**	**315**	**390**	**145**	**7,565**	**3,270**	**1,830**	**1,690**	**775**
Arab countries	3,645	2,795	315	390	145	6,885	2,880	1,830	1,400	775
Bahrain	0	0	0	0	0	1,760	615	440	440	265
Egypt	125	125	0	0	0	1,000	500	200	200	100
Jordan	545	290	120	85	50	555	300	120	85	50
Morocco	320	320	0	0	0	325	300	0	25	0
Oman	70	70	0	0	0	1,935	680	485	485	285
Syria	1,785	1,325	175	190	95	1,080	325	555	125	75
Others	800	665	20	115	0	230	160	30	40	0
Non-Arab Islamic countries	NEGL	NEGL	0	0	0	680	390	0	290	0
Bangledesh	0	0	0	0	0	200	200	0	0	0
Pakistan	0	0	0	0	0	380	130	0	250	0
Somalia	0	0	0	0	0	100	60	0	40	0
Others	NEGL	NEGL	0	0	0	0	0	0	0	0
Other countries	NEGL	0	0	NEGL	0	NEGL	NEGL	0	0	0

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Saudi crude oil. In addition, Embassy reporting indicates that in late 1982 a similar agreement may have been signed between Saudi Arabia and the Sudan. On an annual basis, the discount may be worth $10 million to $20 million.

Iraq: The Special Case

Although $7.4 billion was committed to Iraq in 1982, OPEC financial assistance actually disbursed fell to $5.5 billion from the $8 billion recorded the previous year. Saudi Arabia had prepaid $1 billion of its $3 billion commitment in 1981 and together with the other three countries transferred an additional $5 billion to Iraq in the first four months of 1982. We believe that Qatar and the UAE, collectively, failed to pay some $500 million of their 1982 commitments. After April the only new commitment of financial assistance to Iraq was a fourth-quarter $400 million loan from Saudi Arabia.

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Outlook for 1983

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Based on reduced and delayed payments observed so far this year, OPEC financial assistance transfers of all types are likely to be down at least $1.5-2.5 billion from the 1982 level. This year much of Saudi and Kuwaiti aid to Iraq is taking the form of crude oil sales to Iraqi customers. At current levels of 300,000 to 500,000 b/d, these sales would amount to $2 to $4 billion if maintained throughout the year. In addition, another $1 billion in direct financial assistance has been disbursed to Iraq. As a result, Gulf state aid to Iraq in 1983 probably will amount to at most $5 billion, down from last year's

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OPEC Persian Gulf States:
Military Aid Disbursement to Non-OPEC LDCs

Million US $

	1981					1982				
	Total	Saudi Arabia	Kuwait	UAE	Qatar	Total	Saudi Arabia	Kuwait	UAE	Qatar
Total	**3,110**	**2,105**	**295**	**515**	**195**	**3,225**	**1,905**	**750**	**385**	**185**
Arab countries	2,715	1,785	295	465	170	2,910	1,665	750	335	160
Jordan	795	440	120	185	50	625	370	120	85	50
Morocco	225	225	0	0	0	185	160	0	25	0
Sudan	250	210	0	40	0	175	125	0	50	0
Syria	1,085	625	175	190	95	1,380	625	555	125	75
Others	360	285	0	50	25	545	385	75	50	35
Non-Arab Islamic countries	395	320	0	50	25	315	240	0	50	25
Pakistan	325	250	0	50	25	215	140	0	50	25
Others	70	70	0	0	0	100	100	0	0	0
Other countries	NEGL	0	NEGL	0	0	NEGL	NEGL	0	0	0

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OPEC Persian Gulf States:
Bilateral Official Development Assistance
Commitments to Non-OPEC LDCs

Million US $

	1981					1982				
	Total	Saudi Arabia	Kuwait	UAE	Qatar	Total	Saudi Arabia	Kuwait	UAE	Qatar
Total	**5,095**	**3,520**	**1,060**	**390**	**125**	**5,055**	**3,315**	**1,110**	**520**	**110**
Arab countries	3,510	2,485	550	350	125	3,295	2,110	695	380	110
Jordan	575	240	160	140	35	670	270	220	145	35
Lebanon	390	255	65	45	25	250	115	65	45	25
Morocco	600	500	10	80	10	610	500	80	30	0
North Yemen	535	535	0	0	0	585	535	50	0	0
Syria	610	360	115	85	50	560	310	115	85	50
Others	800	595	200	0	5	620	380	165	75	0
Non-Arab Islamic countries	920	670	230	20	0	1,160	845	185	130	0
Bangladesh	240	180	60	0	0	130	105	0	25	0
Pakistan	225	105	120	0	0	170	150	15	5	0
Senegal	5	5	0	0	0	230	130	65	35	0
Turkey	210	210	0	0	0	165	125	40	0	0
Others	240	170	50	20	0	465	335	65	65	0
Other countries	665	365	280	20	0	600	360	230	10	0

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Iraq: Aid From Persian Gulf States

Million US $

	1980		1981		1982		1983 [a]		Total [a]	
	Commit-ments	Disburse-ments	Commit-ments	Disburse-ments	Commit-ments	Disburse-ments	Commit-ments	Disburse-ments	Commit-ments	Disburse-ments
Total	**7,000**	**7,000**	**7,000**	**8,000**	**7,400**	**5,520**	**500**	**950** [b]	**21,900**	**21,570**
Saudi Arabia	3,000	3,000	3,000	4,000	3,400	2,400	200	200	9,600	9,600
Kuwait	2,000	2,000	2,000	2,000	2,000	2,000	300	300	6,300	6,300
United Arab Emirates	1,400	1,400	1,400	1,400	1,400	800	0	450	4,200	4,050
Qatar	600	600	600	600	600	320	0	0	1,800	1,520

[a] As of 15 September 1983.
[b] In addition, Kuwait and Saudi Arabia have agreed to fulfill $2-4 billion worth of Iraqi oil sales contracts in 1983, an unknown portion of which has already been shipped.

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$5.5 billion. Jordan and Syria are also having difficulty maintaining aid receipt levels; only Saudi Arabia has made its Baghdad Pact payments on schedule in 1983. As of September, Kuwait has made only one of its three payments to Jordan and none to Syria, and the UAE and Qatar have not made payments to either country.

New military aid commitments of $1.8 billion in the first six months of 1983, while below the record annual rate in 1982, are close to the average pace in 1979-81 ($3.6 billion). Military aid disbursements of $1.3 billion in first-half 1983, however, are lagging behind last year's rate of $3.2 billion. Syria continues to be the largest recipient, receiving $650 million in the first half of this year compared with the $1.4 billion received during all of 1982.

Economic assistance also has declined in 1983. According to press reports, the Abu Dhabi Fund will reduce aid disbursements this year as a result of oil revenue constraints, while published information shows the Kuwait Fund authorized only one new project loan in first-quarter 1983, compared with nine in the previous quarter and 14 during first-quarter 1982. We estimate that in the first six months of 1983, new commitments by the Saudi and the Kuwaiti Funds totaled $350 million compared with $695 million committed in the first half of 1982. In first-half 1983, commitments of total economic aid by the Gulf states amounted to $1.4 billion, less than half the pace set in 1982. Economic aid disbursements total about $600 million.

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For the other large OPEC aid recipients such as Morocco, Pakistan, and Bangladesh, it would take only a 20- to 40-percent decline in OPEC funds from last year's level to offset benefits from lower oil import bills. In our judgment, it is likely that these countries will call upon Washington to help make up any financing shortfalls.

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