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MEMORANDUM FOR: [redacted]

Attached is the briefing material you requested on 22 January 1974. If we can be of further service, please contact [redacted]

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[redacted]

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Chief,  
Latin America Branch, OER

23 JANUARY 1974  
(DATE)

FORM NO. 101 REPLACES FORM 10-101 (47)  
1 AUG 54 WHICH MAY BE USED.

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OER/D/LA: [redacted] (23 Jan 74)

(DATE)

FORM NO. 101 REPLACES FORM 10-101 (47)  
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The Chilean Economy in 1974

- I. Chile will register a modest economic recovery in 1974 with a growth in GDP of 2 to 5 percent.
- A. If the level of copper production in the last quarter of 1973 is maintained in 1974, production of major mines could exceed 800,000 tons and total output could be around 1 million tons. In this case GDP growth of around 5 percent is possible.
  - B. If, however, copper smelter furnaces must be rebuilt, as has been reported, output could be nearer 750,000 to 800,000 tons. In this case growth of around 3 percent is indicated.
- II. Higher world prices for petroleum and growing shortages of petrochemical products could seriously dampen Chile's 1974 economic prospects.
- A. Chile's import bill for petroleum products is expected to jump from \$120 million in 1973 to around \$340 million in 1974. An increase of this magnitude would add to Chile's trade deficit and further erode its balance of payments.
  - B. By the same token, interruption in the supply of intermediate goods derived from petroleum could escalate domestic inflationary pressures and seriously undermine government efforts to reduce budget

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deficits and contain inflation to under 100 percent in the coming year.

- C. The petroleum problem and possible lower world copper prices could limit Chile's 1974 economic growth to less than 3 percent.

III. Agricultural production is showing signs of recovery, but food imports will continue to be a major drain on foreign exchange earnings.

- A. The freeing of most prices of agricultural products has stimulated investment and expansion in agricultural production.
- B. Most major crops, however, were well along in the growing season at the time of the coup and significant changes in output are not foreseen before the 1974/75 crop year.
- C. As a result, Chile's imports of agricultural products will probably amount to some \$500 million in 1974.
- D. Thus far, Chile has received \$24 million in CCC credits for purchase of 120,000 tons of wheat and an additional \$28 million in CCC credit for 270,000 tons of corn. Chile has also requested PL-480 assistance for an additional 400,000 tons of wheat and an additional 200,000 tons of corn as well as vegetable oil, cotton, and tobacco. Such

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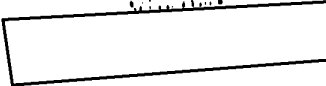
PL-480 assistance would amount to some \$150 million.

- IV. Investor and creditor confidence in Chile appears to be strong as the result of junta policy initiatives.
- A. Successful settlement of a bilateral agreement with the US on 1971/72 debts has received a favorable reaction from Chile's major creditors and bodes well for successful renegotiation of Chile's 1973/74 debts at the Paris Club meetings in February.
  - B. The junta's decision to return most intervened and expropriated property to investors and compensate the remaining has engendered an impressive increase in investor confidence. Large amounts of new investment should occur during 1974 as companies revert to original owners and copper compensation talks progress.
- V. Chile appears to have lined up sufficient foreign credits for the first half of the year and more should be forthcoming from both private and governmental sources.
- A. Recently extended \$50 million in Brazilian credits and renewed Argentine credits may be followed by even larger amounts later in the year.
  - B. Private sources of credit in the US, Canada, and

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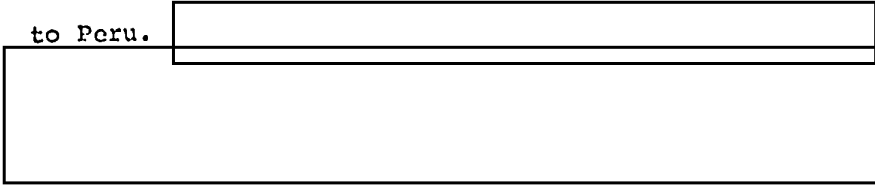
Europe appear to be reopening lines of credit at levels comparable to pre-Allende days.

VI. Foreign military assistance appears to be an area of continuing concern on the part of the junta, and may pose problems in hemispheric relations.

A. In addition to the arms sought from the US, the junta has negotiated large purchases of small arms and ammunition from France and Belgium. They have also shown interest in Spanish 106 mm recoilless rifles. Deliveries of arms from Belgium and France were interrupted for a while due to dockworkers boycotts. Also, West Germany has suspended all arms shipments to Chile since October. The Swiss also appear unwilling to provide further armaments.

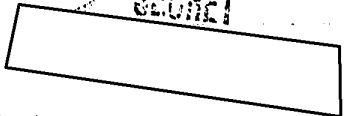
B. Chile's concern over military deliveries is tied closely to recent deliveries of Soviet T-55 tanks to Peru.

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