

~~ADMINISTRATIVE INTERNAL USE ONLY~~

5 September 1975

MEMORANDUM FOR: Deputy Director of Economic Research


SUBJECT : Events and OER's Prediction Record, Some Suggestions

<u>Date</u>	<u>Event</u>	<u>Remarks</u>
1965-75	Survival of Smith regime in Rhodesia despite economic sanctions imposed in 1965.	Predicted by OER on basis of analysis of Rhodesia's economic strengths and weakness and impact of the embargo.
1969-71	Growing trade problems between US and Japan.	Extensive alertive reporting.
1970	Allende elected in Chile.	Predicted early (2 years in advance) by OER on basis of deteriorating economic conditions. See next note.
1971	Chile's expropriation of Anaconda and Kennecott copper mines.	Forecast well in advance of event
1971	World monetary crisis and readjustments.	Extensive forewarning in OER reports.
1972	Rise in world sugar prices.	Accurately predicted, through analysis of Soviet requirements and worldwide supply conditions.
1973	Soybean price rise and shortages.	Predicted by OER on basis of anchovy shortage off coast of Peru, which was first highlighted by OER.

25X
25X

~~ADMINISTRATIVE INTERNAL USE ONLY~~

ADMINISTRATIVE-INTERNAL USE ONLY

<u>Date</u>	<u>Event</u>	<u>Remarks</u>
1973	Oil embargo and quadrupling of oil prices.	Did not predict.
late 1973-present	Recession in developed countries.	OER, in contrast to OECD, more accurately predicted depth and duration of recession.
1974	Large oil discoveries in Mexico.	Accurate alertive reporting, 
1974-75	Financial crisis in UK and Italy and turmoil in international financial markets stemming from higher oil prices.	OER, in opposition to other government agencies, gave premonitory warning well in advance.

25X1



25X1

Chief
Industrial Nations Division

ADMINISTRATIVE-INTERNAL USE ONLY

Approved For Release 2005/04/18 : CIA-RDP91M00696R001000100003-2
DEVELOPING NATIONS DIVISION'S PROJECTIONS, 1960 to 1975

INDONESIA:

1973 -- Predicted Indonesia would have sufficient domestic food supplies in 1974 despite bad harvest and requests for PL-480 aid.

INDIA:

1970 -- Projected agricultural output through 1980 which have been the most accurate of those made in the early 1970s.

PHILIPPINES:

1971 -- Indicated demise of Laurel-Langley Agreement would have little impact on Philippine economy.

NORTH VIETNAM:

1965-68 -- Forecasted the effect of bombing of North Vietnam and how long recovery would take.

1967-73 -- Predicted that the NVA had a sufficient manpower pool to draw upon without seriously constraining military operations.

1971 -- Predicted a 40% shortfall in rice needs because of Red River floods.

1972 -- Predicted the impact of the mining of Haiphong Harbor on North Vietnamese internal distribution patterns.

1966-1973 -- Predicted that the flow of material, equipment, and manpower to South Vietnam from North Vietnam would continue despite bombing.

1965-1970 -- Underestimated flow of goods coming into Cambodia from North Vietnam.

SOUTH VIETNAM:

1969-1971 -- Predicted that rice availabilities in South Vietnam were unlikely to be affected by VC/NVA operations.

EGYPT:

1971 -- Predicted that Egypt's immediate post-war boomlet would turn into interwar stagnation.

1970-1973 -- Predicted that economic difficulties and the fragility of Egypt's relations with other Arabs would inspire Sadat to seek settlement with Israel in exchange for Western aid.

ISRAEL:

1970 -- Indicated that the drain on manpower during the 1969-70 war of attrition from casualties and reallocation from civilian pursuits had little if any effect on Israeli determination to resist or on military capabilities.

1970 -- Predicted that the economic impact of large defense efforts in Egypt would hurt economic growth while Israel's military spending would not affect their development prospects.

IRAN:

1973 (Feb.) -- Pointed out the prospect of oil price hikes by Iran; however, we did not anticipate the magnitude of the price rise in January 1974.

RHODESIA:

1964 -- Predicted that UN sanctions against Rhodesia would not force the Smith Regime to give up its newly declared independence.

NORTH VIETNAM: (Continued)

1972 -- Predicted mining of Haiphong Harbor would lead to overland shipments from China of significant magnitude to support the North Vietnamese army in the field.

SOUTH VIETNAM:

1975 (March) -- Indicated South Vietnam's Air Force will not be able to supply the South Vietnamese ground forces without massive US intervention.

SECRET

USSR:

1967 -- Predicted Moscow will continue to provide substantial amounts of military assistance to Egypt.

CHILE:

1969 -- Predicted that if Allende was elected, he would immediately nationalize the foreign-owned copper companies. Also predicted that compensation payments would be unlikely because of the expected foreign exchange crunch.

1970 -- Predicted that the Allende government would move first against foreign-owned copper companies and banks.

1972 -- Predicted that the mounting foreign exchange crunch would lead to drastically increased domestic political turmoil.

VENEZUELA:

1975 (March) -- Predicted that oil revenues would be insufficient to support large foreign-aid schemes.

CUBA:

1963 -- Predicted that the US embargo would have only a marginal impact on the Cuban economy.

GUYANA

1973 -- Predicted that Guyana would nationalize the properties of the Reynolds Metals Company subsidiary.

JAMAICA:

1974 -- Predicted that Jamaica had sufficient leverage to greatly increase bauxite revenues from US aluminum company subsidiaries and that its action would provoke similar actions by other Caribbean bauxite producers.

SECRET

SECRET

25X

Approved For Release 2005/01/18 : CIA-RDP91M00696R001000100003-2

ZAMBIA:

1966 -- Projected that a cutoff of trade with the Smith regime would inflict an unacceptable level of damage on the Zambian economy without assuring the collapse of Rhodesia's government.

ALGERIA:

1970 -- Predicted the nationalization of French oil companies by Algeria if the French failed to negotiate improved terms for Algeria in their bilateral oil relationship. Later predicted that neither Algeria nor France would suffer from the rupture of their economic ties.

1972 -- Predicted Algeria's borrowing of large sums abroad but understated the extent of such borrowing.

LIBYA:

1972 -- Inaccurately predicted that the new leadership in Libya would prefer to continue raising taxes and royalty payments rather than nationalize foreign oil companies.

PAKISTAN:

1969 -- Incorrectly predicted agricultural self-sufficiency.

1971 -- Predicted that a break-up of Pakistan would lead to an economically viable west wing and an economic disaster in the East.

Approved For Release 2005/01/18 : CIA-RDP91M00696R001000100003-2

SECRET

25X1

25X1

Approved For Release 2005/01/18 : CIA-RDP91M00696R001000100003-2

Next 1 Page(s) In Document Exempt

Approved For Release 2005/01/18 : CIA-RDP91M00696R001000100003-2

USSR/EE Division
9/8/75

Alert/Prediction Record

Fall 1963 - Soviet Grain Crop Failure

Did not predict crop failure and extent of grain purchases.

Fall 1965 - Soviet Grain Crop Failure

Did not predict crop failure (Soviets did not buy much grain).

Fall 1972 - Soviet Crop Failure

Alerted policymakers to crop difficulties but underestimated Soviet grain import requirements.

Fall 1973 - Hard Currency Trade

Predicted hard currency surplus in 1974, but Soviets still had deficit in spite of substantial improvement in hard currency payments position.

Spring/Summer 1975 - Soviet Crop Failure

Predicted poor crop and increased Soviet imports.

8 September 1975

China: Effect of the Cultural Revolution on the Economy (1967-1968)

Starting in late 1966, we analyzed the current and possible future effects of the Cultural Revolution on the economy, mostly in qualitative terms. We distinguished between the relatively minor effects on agricultural production and the relatively serious troubles for industry and transportation.

China: Agricultural Imports

An unprecedented tightening of international commodity markets in the summer of 1972 coincided with a poor Chinese harvest. Since then we have predicted -- within a reasonable degree of accuracy -- the timing and quantity of Chinese purchases of grain and cotton and the likely suppliers of these commodities.

China: Whole Plant Imports

More than one year before China entered the World market in 1973 for complete industrial plants, we wrote several IM's predicting that such would be the case. The prediction was based on analyzing early negotiations between Chinese trading corporations and firms in Western Europe and Japan. At that time, we pointed out that a plant import program much larger than \$400 million would require China to accept medium-term credits. During the past several years, the PRC has purchased more than \$2 billion worth of complete plants, mainly on medium-term credit.

China: Purchase of Large Modern Fertilizer Plants

In November 1971 our analysis of the Chinese fertilizer industry indicated that Peking would have to import modern

fertilizer plants to be able to adequately expand output of chemical fertilizer -- particularly nitrogenous fertilizers. Between November 1972 and May 1974 China concluded deals for 13 of the world's largest ammonia-urea complexes from US, Dutch, French, and Japanese suppliers, the first of which should become operational in 1977.

China: Oil Exports

Rapid increases in oil production in 1970 and 1971 led OER to conclude that major Chinese oil exports were imminent. We predicted in September 1971 that China would have "as much as 10 million tons" available for annual export by 1975 -- a figure roughly equal to Peking's total sales this year.

8 September 1975

North Korea: Balance of Payments

We predicted that the North Koreans were running into severe balance of payments problems and would default on payments to Western creditors. This has proved to be the case with the result that (1) North Korea's credit rating has dropped sharply in international financial circles, and (2) industrial development plans have been set back.

Next 5 Page(s) In Document Exempt

TOP SECRET

25X1



Successful OSI Predictions
1960 - 1965

Predicted Soviet S&T Manpower Increase - Begun in the 1950s and continuing well into the 1960s these predictions resulted in legislative changes designed to strengthen US S&T education.

Predicted in 1962 that the Soviets were planning to introduce nuclear warheads into Cuba.



25X1

1965 - 1970

Alerted US policymakers in 1968 to a desert locust infestation in Africa and the Middle East which was threatening to develop into a plague potentially affecting about 45 countries. The threat was successfully aborted because of control measures instituted after this warning.

5X1



5X1

TOP SECRET

25X1

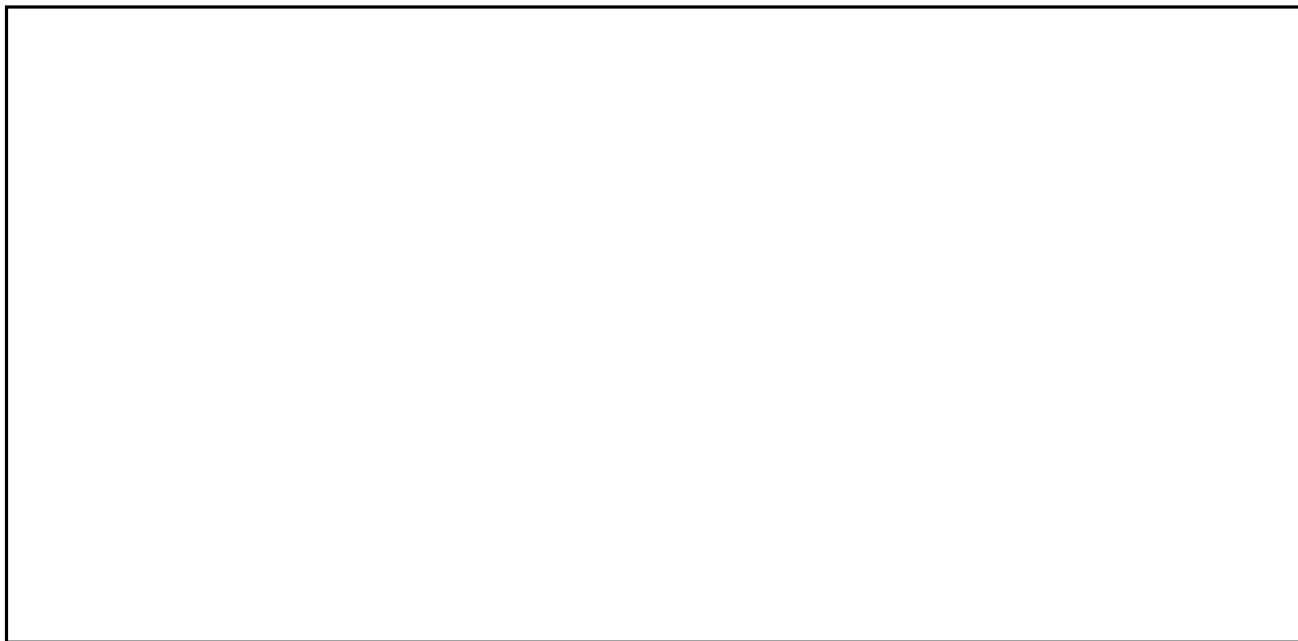


TOP SECRET

25X1

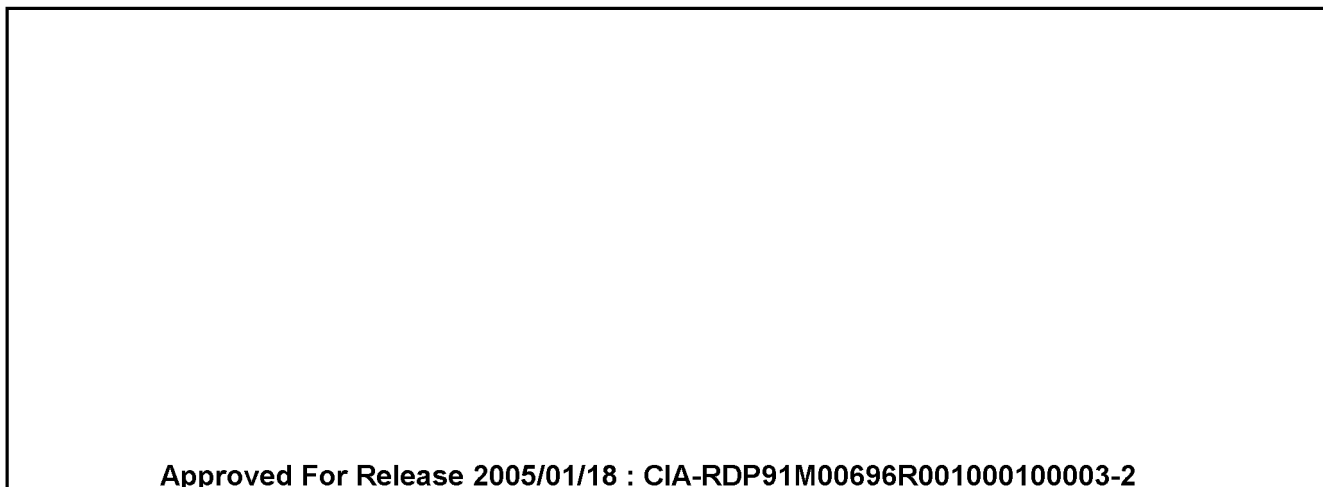
Predicted in 1966 the deleterious effects of the Cultural Revolution on S&T training and the S&T organization in China.

Predicted in 1968 the advent of a manned Soviet space station and described its characteristics. 25X1



Predicted the spread of schistosomiasis throughout Egypt following the construction of the Aswan Dam. This has occurred and Mr. Kissinger has proposed a program of schistosomiasis eradication throughout the world before the UN.

25X1



TOP SECRET

1971 - 1975

Predicted in 1974 that the Soviets would not abrogate the Limited Test Ban Treaty and conduct their silo vulnerability test in the atmosphere.

Predicted in 1972 that the USSR would experience installation support and maintenance problems with the RYAD computer series development, problems which would have the effect of drastically slowing down the utilization of their 3rd generation computer series.

Predicted the kinds of problems the Soviets would encounter in holding up their end of the Apollo-Soyuz Test Project two years before the scheduled flight date, enabling NASA to press the Soviets vigorously for corrective measures.

TOP SECRET

DCI's Opening Statement for Pike Committee
11 September 1975

As I understand the purpose of this hearing, it is to review the performance of intelligence in predicting various events abroad. I welcome this opportunity to address the substantive aspects of intelligence and to discuss with you what I consider the primary purpose of intelligence. This purpose is much broader than the prediction of events abroad. It is to provide those officials in our Government who are responsible for developing and implementing national security policy with authoritative information and assessments of what is going on abroad so that they can do their jobs.

Who are these officials? In the first instance they are the President and the other members of the National Security Council-- the Vice President, the Secretary of State, and the Secretary of Defense. They include the members of the Staff of the National Security Council and the appropriate staffs of the various members of the Council itself. Members of certain committees of the Congress are now being informed of foreign developments on a regular basis. These committees include Subcommittees of the Armed Services and Appropriations Committees of the Senate and the House and the

Foreign Relations Committee of the Senate and the International Affairs Committee of the House. Other Committees and Members of the Congress are provided with intelligence on foreign developments in response to their specific requests.

The subject matter of intelligence has expanded from its older focus on foreign military capabilities to include foreign political dynamics, economic trends, scientific capabilities, and sociological pressures. Today's intelligence deals with foreign policy problems, ranging from the law of the seas to the oil boycott, from defense policy to arms control.

Along with this expansion of the scope and role of intelligence has come an increase in reliance on information acquired by sophisticated technical devices and open literature and a decrease in what the uninformed consider synonymous with the word intelligence--clandestine collection and covert action. Clandestine collection or espionage is now reserved for the most important information which cannot be acquired by other means. It is focused largely on the major closed societies, that could threaten our security, that do not have a free press, and that screen their military capabilities and much of their government process even from their own citizens.

Few would argue that there have been no fundamental changes in the world over the past three decades. So much has been written about these changes that many of the descriptive phrases have become cliches--the fragmentation of Stalin's monolithic communism, nuclear parity, an era of negotiation replacing an era of confrontation, shift from a bipolar to a multi-polar world, increased consciousness of the third world, the growth of the nuclear club, international economic competition replacing the threat of nuclear war, the food-population problem, the growing power of the oil-rich nations, and international terrorism. Hackneyed as these expressions may be, they evoke the images of change that have occurred in the last quarter century.

Against this backdrop of a changing world, this nation needs the best information and judgments about what is going on abroad so that it can survive and prosper--and its intelligence structure should be in a position to satisfy this need. This nation needs a basic understanding of the factors and trends that affect developments in the world abroad. This must be based on research and analysis of information from all sources, not just from secret and official sources of information, but also from the cornucopia of open literature and

academic research available on much of the developed world. Much of this information is highly fragmentary and much of the academic research is highly specialized. The task for intelligence is to analyze and integrate this material into assessments and judgments relevant to our nation's concerns abroad. From these assessments of the past and present must flow projections as far into the future as may be needed to permit policy formulation and planning for negotiations and action. And, a continuous flow of timely information and analyses is needed to update these assessments and projections and to alert our policy makers to new opportunities or potential crises so that they can plan accordingly.

In meeting these needs the Intelligence Community must measure up to a number of demanding standards. If intelligence is to provide meaningful and timely support, its reporting and analysis must cover and integrate all facets of foreign developments--military, political, economic, scientific, and sociological.

Intelligence must also be responsible--clear-cut; sharp; neither alarmist nor complacent--if it is to serve as a reliable basis for decision.

Effective intelligence must also avoid the bureaucratic penchant for ambiguities or delphic generalities which by anticipating all possible eventualities frustrate meaningful retrospective examination.

Finally, intelligence must be responsible by being independent of partisan preference or loyalty to preconceived judgments or purposely supportive of budgetary desires.

The forms intelligence may take in giving the policy maker the information he needs to do his job will vary. They range from the dissemination of single raw intelligence reports to complex analytical memoranda or national intelligence reports. They may include oral briefings or daily publications on world-wide developments. In fast-moving situations the intelligence community may issue special memoranda alerting the policy maker to an imminent crisis. In actual crisis situations special situation reports will be issued as frequently as developments warrant.

The critical test of intelligence, however, is not the reporting of observed events, but rather its early identification of future events.

If it is doing its job intelligence should be able to identify and describe the forces at work which are shaping the future. And it should be able to do this far enough in advance so that appropriate US policy or actions can be planned.

In looking at the future the problem of predicting specific events is only one aspect of the intelligence process. The Intelligence Community should not be judged by the exactitude with which it predicted a coup or the outbreak of a war. The occurrence of an unfavorable event without some form of prior alert is much more an indication of an intelligence failure than is the failure to predict the precise date of a specific event.

Equally the Intelligence Community should not be a Cassandra who by overwarning about events dulls the sensitivities of consumers.

The overriding need in intelligence is to strike that careful balance between alerting policy officials to pending developments that will impact on our national interests and forecasting the precise timing of such events.

Since the members of the Intelligence Community are as fallible as all mortals, we lay no claim to being soothsayers. Our judgments on the future are of necessity probabilistic. We have and

we will make errors, but as I review the performance of the intelligence community I feel strongly that its overall record is good and that it is serving its country well.

To give you some insight as to why I feel this way I would like to report to you on a representative number of problems examined by the community over the past few years.

05X1

Approved For Release 2005/01/18 : CIA-RDP91M00696R001000100003-2

Next 45 Page(s) In Document Exempt

Approved For Release 2005/01/18 : CIA-RDP91M00696R001000100003-2