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INFORMATION

July 14, 1971

MEMORANDUM FOR:

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DR. KISSINGER

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FROM:

ERNEST JOHNSTON

JUL 27 1971

SUBJECT:

Memorandum from Dick Helms on
Intelligence Research on International
Economic Developments

Dick Helms (Tab A) has sent you a survey of CIA research studies currently underway on international economic matters. The studies are grouped into five areas:

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- Middle East and petroleum - implications of the recent Middle East oil agreements; trends in Free World oil/energy demands.
- East-West trade - prospects for U.S. trade with Eastern Europe; Western participation in East-West joint ventures; limits to Soviet use of Western credits.

The increased stress by the Agency on international economic policy is an excellent idea in view of the increasing numbers of issues related to economic questions which we will have to face in the future. However, I am somewhat concerned at the alarmist approach to the problem and specifically to the reference that "the U.S. has reached a historic watershed", since its economic capabilities are "no longer sufficient to carry out the full range of its international, politico-military policies".

A similar view was contained in Pete Peterson's briefing book on "The United States in the Changing World Economy," which implies that we have been going downhill economically for twenty years. While it is certainly true that our relative position is no longer so far ahead of the rest of the world as it was, this has nevertheless been a very successful two decades in U.S. economic history. While policy considerations should certainly reflect the changed

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economic environment, an alarmist reaction to the problems this country faces will cause increased pressure for action on the Hill and could force us to act before sufficient analysis has been conducted. I am hopeful that the recent Peterson Review Group meeting alerted Peterson to the danger, and the fallacy, of an overly gloomy approach to these issues.

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MEMORANDUM FOR: Dr. Henry A. Kissinger
Assistant to the President for
National Security Affairs

In view of the increasing need for policy support on international economic matters, I have surveyed the research programs underway in this Agency. I believe you will find the attached a useful statement of the projects completed or planned during this year. We will, of course, continue to produce economic intelligence on the USSR, Communist China, and other nations bearing on national security policy.

Rich
Richard Helms

10 JUL 1971

(DATE)

FORM NO. 101 REPLACES FORM 10-101
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14 June 1971

MEMORANDUMIntelligence Research on
International Economic Developments

In addition to its normal responsibilities for current intelligence reporting and in-depth analysis of economic developments in Free World and Communist countries, the Directorate of Intelligence, through its Office of Economic Research (OER), has allocated an increasing share of its resources to the analysis and reporting of international economic affairs. The increased need for intelligence support for US international economic policy reflects two major developments. First, is the fact that the United States had reached an historic watershed since its economic capabilities were no longer sufficient to carry out the full range of its international political/military policies. Second, as part of its response to the first development, the US Government has created institutional arrangements--the NSC Staff structure and the President's Council on International Economic Policy--which have a priority need for straightforward objective intelligence studies of foreign economic affairs which have a significant effect on the United States and its international competitive position.

25X1 On the basis of our own observation, as well as the expressed interests of those US officials most directly concerned with international economic affairs, the Office of Economic Research currently is focusing on five major problem areas. These are our economic interface with the evolving [redacted]

[redacted] with the oil rich Middle Eastern countries, and our trade relationships with Communist countries.

The attached listing of intelligence production already completed or scheduled during this calendar year shows that considerable progress has been made. In addition to its intelligence reporting, the Office of Economic Research has prepared and presented a large number of briefing papers on key economic issues to senior Government officials.

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The evolving European Community (EC) is becoming a matter of extreme concern to US policy makers because of such questions as the effects of preferential trade agreements, the impact of the Common Agricultural Policy (CAP), and the problems of United Kingdom accession. Although current EC restrictions on US exports are not a serious problem, there are areas where US trade--both in agricultural and manufactured products--could be badly hurt within a few years. The following list summarizes the major OER research projects on European Community economic issues:

The European Community's Preferential Trade Agreements (IR 71-4)	March
An Expanded Common Market -- Economic Implications for the U. S.	July
Scandinavia and the EC: Current Economic Issues	July
Harmonization of Indirect Taxation in the EC	August
Italy's Strength in Foreign Markets	September
EC Agricultural Policy at the Crossroads	Fall 1971
The EC's Automobile Economy Shifts Gears	Fall 1971
Problems of Economic Policy Coordination in the EC	Indefinite
Long-Range Trends in Free World Tanker Supply and Demand	Indefinite
Generalized Preference Schemes for the LDCs	Indefinite

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IV. Middle-East and Petroleum

OER has reported extensively over the past 18 months on international oil developments, particularly as they affect the US financial position and energy supply. The recent oil revenue settlements with Middle Eastern oil rich nations raise potentially grave financial implications for the US. By 1975 the Middle Eastern oil nations will almost certainly have hard currency financial reserves of \$25 billion or more. The following studies are intended to give an in-depth analysis of the implications of these developments.

Some International Financial Implications
of the Recent Middle East Oil Agreements

June

Long-Range Trends in Free World Oil/
Energy Demand

August

V. East-West Trade

The growing interest on the part of the US Government in East-West trade problems and the loosening of Government controls on trade with Communist China present a continuing need for analysis of the prospects for East-West trade. In addition to its recent completion of a major study on East-West trade prospects, the following projects were designed to provide intelligence support on more specific aspects of East-West trade:

Probable Effects of Most-Favored-Nation
Tariff Treatment on Romanian Exports
to the United States (IM 71-8)

January

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Short-Term Prospects For US Trade With Eastern Europe (IM 71-17)	February
Limits to Soviet Use of Western Credits (IM 71-12)	February
Western Participation In East-West Cooperative Ventures (IR 71-15)	May
Recent Developments in COCOM and Implications for Multilateral Trade Controls	July
Recent Developments in Soviet Orders for Machinery and Equipment from the Developed West	July

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