has fully kept up with the impressive industrial development projections of the 1974-77 Plan, as a comparison of Tables 1 and 3 show. Compared to a projected $31.6 billion capital investment policy over four years averaging almost $8 billion per year (Table 1), actual 1976 and 1977 estimated expenditures are $6.4 billion and $9.3 billion respectively (Table 2), a 30 percent rise during 1977.

However, the delays in the LNG programs are largely Hudson Institute-inspired financial mismanagement, have reduced revenues and raised costs such that the pace of investment has been kept up only at the expense of a $4 billion budget deficit in 1976 and a $6-7 billion minimum deficit in 1977:

*** The financial *costs* of the oil and gas program have been huge, probably amounting in 1977 to $3 billion or the entire 1977-1976 increase in investment, almost entirely due to the delay and resultant increased costs. For example, the typical LNG plant first planned in 1973 at $400 million ran at over $1.5 billion in 1976 prices.

*** Hudson Institute planners mis-ordering of heavy machinery far beyond utilization possibilities tied up billions of dollars in half-built plant and its financing costs, which bring in no revenue.

*** Hudson Institute designed Maoist agricultural policies have left Algeria with a $1.5 billion food import bill in 1976, aside from budgetary expenses, by stressing village by village communes at the expense of comprehensive mechanization.

As a result, over $12 billion in foreign debt had been run up again at the end of 1976, from financing imports both on the investment budget deficit and on current account such as food, leaving a huge trade deficit (Table 4).

In 1974, the Hudson planners put through a $3 billion long term debt. Since then, new debt has built up during 1975-76 under vastly more unfavorable circumstances. During 1975-76 some $4.5 billion in long and medium term Eurocurrency credits were borrowed (Table 4) at higher interest rates than the original long-term loans. Worse, over $7.5 billion in short-term suppliers credits have been run up, which must be constantly rolled over and thus make themselves increasingly felt in yearly planning revisions. Since mid-1976 Algeria has been openly black-listed off the longer-term Eurocurrency market, after the Boumedienne government rejected conditions by Citibank and others that all medium and long-term finance be tied to specific projects upon which the banks would then have first lien on revenues, as in "Open Door" 19th-century China.

Clearly nothing is wrong with the centralized Algerian economy per se. Even a simple free-trade approach by sane Western industrialists to speeding up LNG contracts, coupled with longer repayment periods and fresh credits for completion of half-finished projects, would immediately work wonders.

Barring this, Algeria plainly has no choice but to continue on towards unilateral debt moratorium and fuller integration into the CMEA.

Iran At The Crossroads

IRAN

The year 1976 marked a critical turning point for the Iranian economy which, despite Iran's petrodollar windfall after 1973-74, posted a trade deficit of $2.4 billion.

The current crisis in Iran bursts the bubble of the Shah's proclamations that Iran was on the way to becoming the world's fifth industrial power by the 1980s. The glorious dreams of Persian Empire lie abandoned on the planning boards in Teheran, and the Shah and his retainers are struggling to keep the country liquid. As the Shah said recently in agreeing reluctantly to cuts in his prized military budget: "Bankruptcy is worse than defeat."

According to reliable sources, the entire Iranian Cabinet is up in arms over the Shah's outlandish schemes for national development and for the military. At recent Cabinet meetings, the Iranian government has risked the wrath of the autocratic Shah to demand that military spending be slashed. As a result of a decline in oil sales in the first half of 1976—owing to falling world demand—the government opted for a policy of large-scale foreign borrowing, amounting to between $1.5 and 2 billion in the Euromarket.

According to London financial circles the new record budget of $49 billion for Iranian fiscal year March 1977 to March 1978—a budget over twice that of fiscal 1976-77—carries with it prospects for the government borrowing up to $6 billion this year, and placing Iran in a net deficit spending position. Ironically, such a large scale development plan will continue to be accompanied by a domestic austerity drive.

A number of crucial factors are involved in explaining why Iran, with a total oil income of $60 billion since the 1974 price rise, should be experiencing such a sudden economic downturn. Following the quadrupling of oil revenues between 1973 and 1974, the Shah indulged in a shortsighted spending spree, for both Iran's development and imports as well as for an unwieldy arsenal, to date having cost Iran $15 billion from the U.S. alone! Within a short period Iran began to suffer the economic side effects of the Shah's having overextended government expenditures. Iran's still largely underdeveloped infrastructure was not equipped to accomodate the spate of poorly planned new development projects, the most flagrant manifestation of which was the clogged Iranian port situation, where merchant ships last year were experiencing turnaround times of from 5 months to a year, and which cost the Iranian government $1 million a day in wasted cargo and waiting fees to the suppliers. The government has in part successfully alleviated this notorious port congestion. But even more serious are the effects the Shah's chaotic development schemes have

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had in terms of triggering a 20 to 30 percent inflationary spiral which is still not under control.

Last year the Iranian Central Bank (CBI) attempted to delimit the growth rate of liquidity — at that time at about 40 percent—by imposing tighter restrictions on foreign borrowing to private and public sector banks, calling for a 30 percent deposit with the CBI of the total amount of any sought after loan. Similarly the CBI raised the prime rate. Such moves have caused intense political repercussions for Iran's development-hungry industrial and private sector, which has repeatedly questioned Iran's chaotic and inadequate banking system. Resistance to the Shah's economic policies, particularly his military spending, has been voiced by various circles from the pro-development National Iranian Oil Co. through to the Iranian Cabinet.

Going Into the Red

Increased foreign borrowing has in part funded Iran's growing food import costs. As early as 1975 Iran began to import more foreign-supplied goods, including food on credit rather than on the usual cash terms. Imported goods for that year were down 10.7 percent on cash terms and up 41.5 percent on credit, with 1976 seeing a further increase in credit-financed imports by an additional 18 percent. Aside from financing Iranian imports, the upward trend in borrowing during 1976 was devoted to maintaining the level of Iran's foreign exchange.

Iran's worsening cash flow problem was a major factor in Commerce Minister Taslimi's announcement in December that Iran wished to conduct the major part of its commodity imports and financing of future development deals on a petroleum barter arrangement. Since then several large barter deals have been signed, involving British, German and Italian firms.

Iran's Foreign Imports
By Major Trading Partners
(IN THOUSANDS OF DOLLARS)

	1974	1975	1976
JAPAN	$1,013,556.	$1,854,296.	$1,233,812*
U.S.	1,733,600.	3,241,700.	2,763,231
GERMANY	1,139,123.	2,193,340.	2,419,200
U.K.	446,720	791,720.	755,680**
FRANCE	246,580	540,664.	448,698***

THRU; * SEPT '76, ** NOV '77, *** SEPT '77

Regardless of the means of financing Iranian-foreign commercial relations, in order for successful foreign investment to flourish in Iran the Shah will have to reconsider his corporatist "White Revolution" scheme. This was recently forthrightly addressed in the *London Times*, which correctly complained of the instability of investment under the government plan, where Iranian workers are getting 49 percent paper ownership of industry, and of sporadic anti-corruption clampdowns which deleteriously affect foreign business. The *Times* urged the Shah to enhance Iran's foreign investment climate by building up Iran's private sector through the dispersal of funds through Iran's commercial banking system. This corporatist policy, companion to the Shah's White Revolution, its prime political vehicle, the recently formed Rastikhiz Party, and the massive military build-up, has been directly fed to the Shah through numerous Rockefeller-controlled institutions, one of which is David Lilienthal's International Bank for Economic Cooperation.

Pro-development factions in Great Britain, Germany, France, and Italy, as well as the Soviet Union, have been applying pressure on the Shah to break with his long-standing alliance with monetarist policy and use Iran's oil wealth for reasonable development. The priorities of the new budget—steel-iron, energy generation, and petrochemicals — have already been supported by numerous deals with the above mentioned countries. Aside from a major policy shift on the part of the Shah in order for the plan to succeed, new international monetary arrangements will be necessary to provide the large amounts of needed credits.

Iran's Food Problems

With food consumption on the rise, Iranian agricultural self-sufficiency is on the decline and the latest U.S. State Department reports indicate that recently the government has begun to draw down its own food stockpiles to meet the demand. Food production in 1976 rose by 7 percent against an anticipated 12 percent rise. Iran's food bill for the last fiscal year rose to over $1.5 billion. Not surprisingly, the government is considering reducing the number of subsidized food commodities as part of the next budget, thus reducing the $1.1 billion in yearly food subsidies.

According to the U.S. Department of Agriculture, Iran presently only cultivates about 3.8 million hectares but envisages an additional 500,000 hectares under cultivation by 1980 with 1,000 wells and four dams constructed to aid in solving Iran's serious water problems. An impressive amount of Iran's rapidly growing trade and economic cooperation with the Comecon involves the development of Iranian agriculture. At the end of 1976, the Soviet Union agreed to construct two new dams in Iran and has been involved in ongoing negotiations with Teheran aimed at joint cultivation of the potential agricultural wealth of the Caspian Sea area.

Energy

In the past year, Iranian cities, most frequently Teheran, have been subjected to numerous blackouts as a result of an inadequate power generating capacity. Iran has concluded agreements to fill the gap in its national power grid. Aside from the four nuclear reactors to be supplied from France and Germany, though not to come on-stream until the early 1980s, France, Germany, and the Soviet Union will provide Iran with thermal power stations, the largest of which will be in operation next year and is slated to be the Mideast's

largest. The Soviets have agreed to build an 800,000 kilowatt power station at Isfahan. The Iranian intention to become a nuclear power economy has caused strains in U.S.-Iran relations. The U.S. has opposed the construction of the plants, most notably the units being constructed by Kraftwerke Union at Busheir.

Steel

In Iran's efforts to build up a new non-oil industrial base, iron and steel production is the number one priority. The Soviet-built Aryamehr steel plant is still the cornerstone of Iran's small steel output. The Isfahan plant is presently going through enlargement with Soviet assistance and will soon produce 1.9 million tons a year, up from its present capacity of 600,000 tons. Otherwise, additional steel producing capacity will be provided by West Germany, France, Italy and the Soviet Union. British Steel Corporation is slated to complete another plant at Isfahan in 1980 worth $1 billion, while Italy's Italsider will build a new complex on the Persian Gulf at Bandar Abbas. The pace of construction of the Bandar Abbas plant is in question, partially because of problems with finance (a barter arrangement has been hinted at) and also because Iran has had problems coping with the expansion of the Aryameh plant as well as the construction of two direct reduction plants at Ahwaz and at Isfahan.

Other plants are still in the drawing board phase. As for the ore, Iran has already signed an agreement with India for the development of India's Kudremukh mines which will supply 7 million tons annually to Iran which will as well develop domestic ore and coal reserves.

Shifting Trade Patterns

Trade figures for 1976 with Iran and its major trading partners show some definable shifts (see chart). The most dramatic was a nearly $500 million decline in non-military imports to Iran. State Department reports indicate that the U.S. number one trading position with Iran may soon be overtaken by West Germany, with French trade also on the rise. One of the reasons for the sudden drop in U.S. trade is the rising cost of U.S.-made goods which Iranian officials have repeatedly complained about; the other is a reorientation towards Europe for cooperation in Iran's development.

1976 saw an improvement in relations between Iran and the Comecon countries, especially the Soviet Union. The new five year trade protocol signed between Moscow and Teheran signed at the end of 1976 was for a record $3 billion, and all other renewed protocols with the Comecon countries were significantly on the rise. While quantitatively Iranian-Comecon trade is still relatively small, the pacts are designed to enhance development particularly in those areas which are weakest in the Iranian economy, food production for example. Most trade is based on barter agreements using both gas and oil. During 1976, Czechoslovakia signed its largest foreign deal ever with Iran, for natural gas valued at $2.5 billion, for which Iran will get goods from the Czechs. This is part of a larger agreement signed last year in which Iran will pump liquified natural gas (LNG) to the Soviet Union, which will in turn pump a portion of the gas to France, Austria, West Germany and now Czechoslovakia.

Funds Flood Sudan, The New Arab Granary

SUDAN

Saudi Arabia along with other oil-producing Arab states are massively investing in Sudan to turn the country into the "granary of the Arab world." In tandem with Arab efforts, European—largely Brithish—financiers and businessmen are flocking to Sudan with investment credits in what is quickly emerging as a model of European-Arab cooperation for Third World development.

Last year, the International Monetary Fund categorized Sudan as the only country with negative foreign exchange assets. Sudan's "uncreditworthiness," however, has not deterred businessmen who recognize that as much as one-third of Sudan's land surface is potentially arable. According to the Middle East Economic Digest, international businessmen see "the country's grave financial position as a short-term problem, and believe that in the long term investments will pay well." Said one investor from Great Britain: "The potential is enormous in the Sudan. There is land, water, good soil and customers who want to buy the produce from it."

Most of the credits for Sudan are coming from the Arab oil-producing countries with Saudi Arabia and Kuwait in the forefront. The Arab Fund for Economic and Social Development (AFESD) and its financing affiliate, the Arab Authority for Development and Agricultural Investment (AADAI), have worked out a 25-year (1976-2000) development plan for Sudan that will channel $6,535 million in funds to Khartoum by 1985. In November, Arab finance ministers met in Khartoum to deliver the first $300 million of the $500 million they had pledged to the AADAI.

The decision to focus on Sudan was taken in June 1974, when the Council of Arab Economic Unity met and agreed to draw up a joint Arab organization on —AFESD — to develop Sudanese agriculture. Growing concern over a possible "food crisis" and "famine" predicted by the United Nations and affiliates were the chief motivations. In particular, the Arabs were alarmed that the U.S. would start a food war against the OPEC states. AFESD accordingly set out on a program to develop "a well planned and fully integrated" agricultural plan to tap the food-producing potential of designated Arab countries, with Sudan targeted as " the first step."

According to the program, AADAI shareholders will sponsor capital intensive infrastructural development projects, operning the way for commercial investors to put together profitable business packages in fields such