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THE DIRECTOR OF
CENTRAL INTELLIGENCE

2

National Intelligence Officers

13 May 1977

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MEMORANDUM FOR: Mr. Robert Pastor, NSC

[redacted]

2. The material in this notebook was compiled and written by the Office of Regional and Political Research of CIA.

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Acting National Intelligence Officer
for Latin America

Attachment: (1) Briefing Book for Mrs. Carter

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CHRONOLOGY OF EVENTS, POLITICAL, AND ECONOMIC NOTES ON LATIN AMERICAN COUNTRIES

TO BE VISITED BY

MRS. ROSALYNN CARTER

MAY - JUNE, 1977

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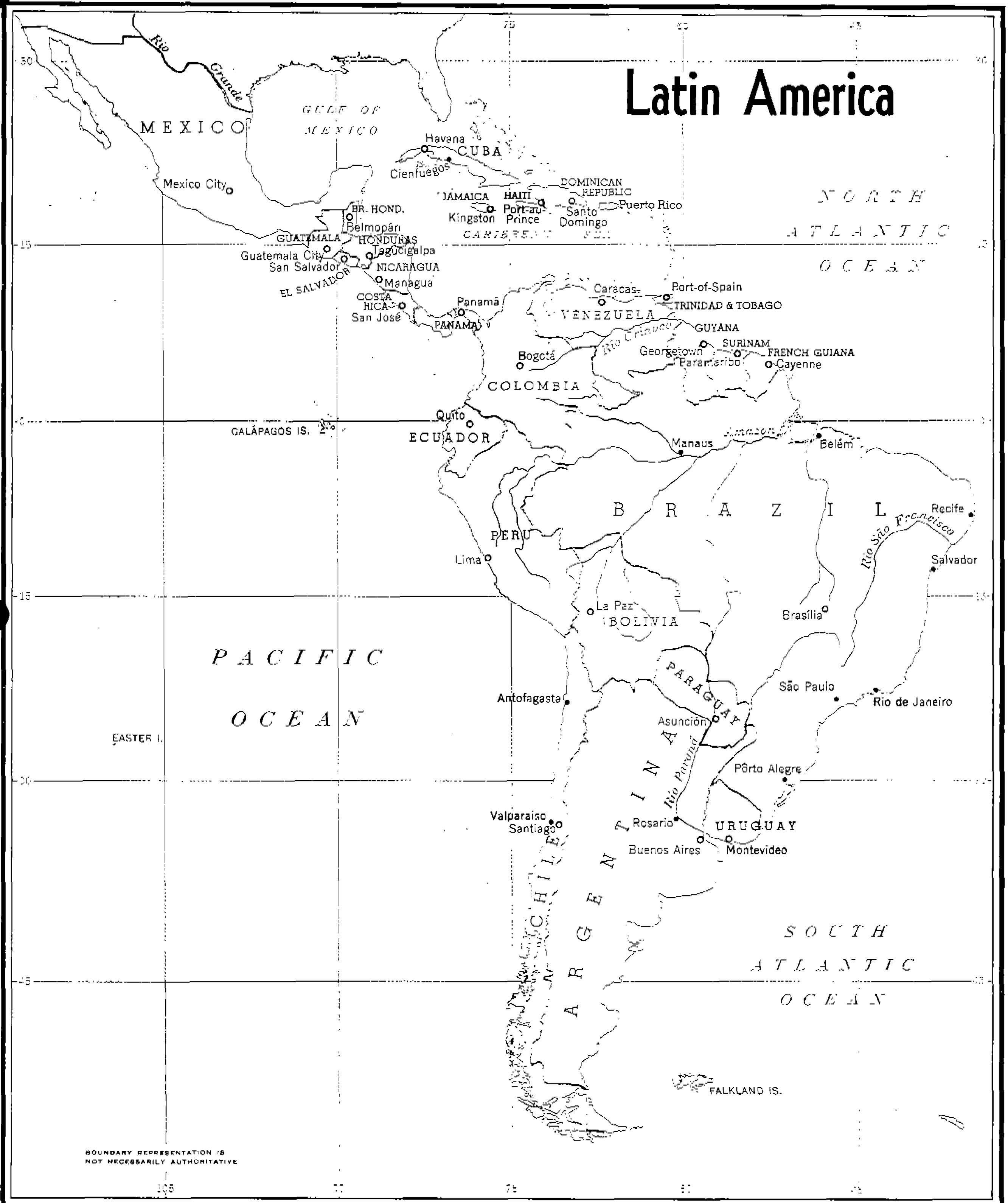

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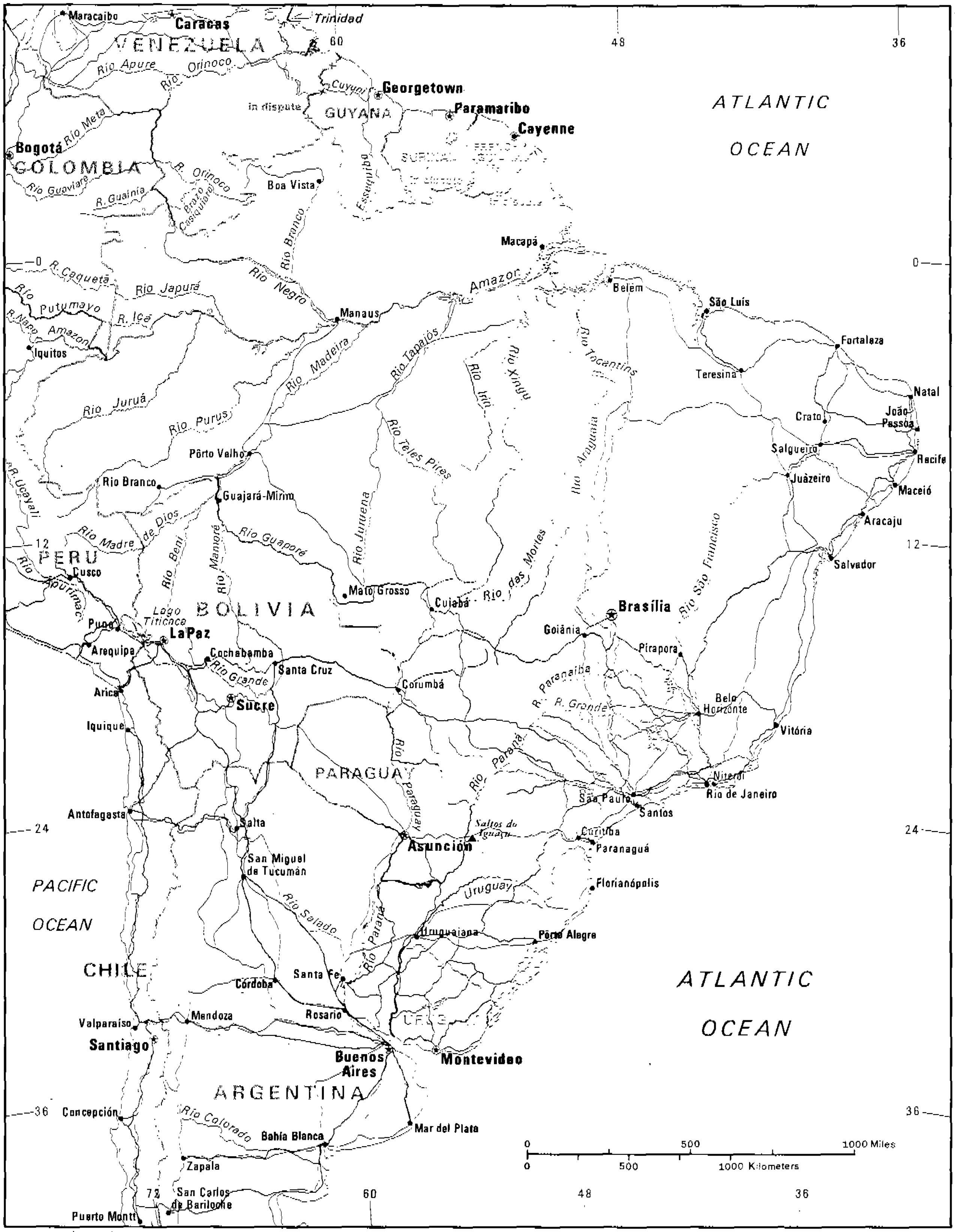

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BRAZIL - CHRONOLOGY

1964	March-April	Military ousts leftist President Goulart, who they fear is leading Brazil to economic and political chaos.
1965	October	The regime abolished all existing political parties, lays the basis for reorganizing political system around a pro-government ARENA party and nominal opposition MDB, both closely controlled.
1966	October	Retired general Costa e Silva succeeds general Castello Branco as President.
1967	March	Costa e Silva decrees a sweeping national security law authorizing trial by military courts for accused subversives.
1968	March-July	Large-scale student demonstrations in major cities underscore popular discontent with regime.
	May	Regime makes election of municipal officials in major cities indirect.
	October	Renewed student demonstrations, urban terrorism increase pressure on government from military conservatives for corrective action.
	December	Congressional refusal to permit trial of opposition deputy provokes authoritarian reaction; President suspends congress, issues Institutional Act 5 giving him dictatorial powers; arrests many opponents of the regime. _Habeus corpus_ and other rights suspended.
1969	January-August	More institutional acts restrict role of judiciary, suspend elections, increase punitive power of state. Urban terrorism grows.
	August	Costa e Silva incapacitated by stroke; heads of military service take over in his name.

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	September	US ambassador kidnaped by guerrillas, released unharmed.
	October	Military chooses General Emilio Medici new President.
	November	Security offensive against terrorists accelerated; key subversive leader killed.
1970		Despite further dramatic abductions of foreign diplomats, security forces make strong gains against terrorists. Foreign and domestic criticism of repression by security forces.
1971	December	Medici makes official visit to Washington.
1972		Government makes upcoming gubernatorial elections indirect. Brazil enjoys unprecedented period of economic growth and industrial expansion.
1973	June	Medici announces General Ernesto Geisel is his choice to succeed him as President.
1974	March	Geisel inaugurated President.
	November	Opposition party makes surprisingly strong gains in congressional elections; some hard-line officers call for nullifying results.
1975	May	Brazil and West Germany conclude negotiations for provision of fuel cycle technology.
	October	Brazil reverses long-standing practice and allows foreign firms to prospect for oil in its territory.
1976	January	Geisel removes a leading hard-line military officer in an effort to stem opposition to his liberalization plan.
	August	Geisel invokes Institutional Act 5 to cancel the political rights of several officials involved in corruption. Spate of bombings attributed to rightwing extremists opposed to liberalization.

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	November	Municipal elections held; results generally favor the progovernment party.
1977	April	Geisel suspends congress temporarily after it balks at a series of authoritarian measures he wants passed. Government decrees changes making elections of state governors and one-third of senators indirect, thus assuring government control of states and congress.
	May	Students in several parts of the country protest against authoritarian government in largest such demonstrations since the late 1960s.

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BRAZIL - POLITICAL

Brazil is a country of continental proportions, well over 100 million strong. Brazilians pride themselves on the dimensions of their country and on their distinctive Portuguese language and culture. Most take it on faith that their country is destined eventually to become as prominent on the world scene as they believe is commensurate with its vast size and population. For most of their history, however, this goal of "greatness" has been merely a distant, vague vision. In recent years, though, unprecedented, rapid economic growth and increased contact with the rest of the world produced the conviction on the part of many Brazilians that the dreamed-of goal was nearly at hand. In the wake of an economic slowdown and the reemergence of familiar problems, disappointment and frustration have now set in.

Brazil's military, perhaps even more keenly than civilians, feel the desire and the need to press Brazil's development and modernization as quickly as possible, to make "greatness" a reality. The officers took power in 1964 because of their belief that President Joao Goulart's erratic, leftist policies had brought Brazil to the brink of ruin. They have retained power for 13 years, however, convinced that only they can supply the organization, discipline, and continuity essential to the task of development.

The officers' efforts bore fruit dramatically during the late 1960s and early 1970s, the years of the so-called "economic miracle," characterized by soaring annual growth rates, rising production, and greatly expanding exports. The "miracle" has now faded; inflation has resurged, balance of payments problems have increased, and the growth rate has about halved. The skyrocketing price of foreign oil has hit Brazil particularly hard; Brazil must import nearly 80 percent of its growing needs.

The economic comedown does not appear to have lessened the resolve of the military, who remain committed to ambitious development goals to be achieved under their tutelage. Indeed, the officers' hold on power is firm. They have completely restructured the political system they inherited in 1964, virtually eliminating civilian politics and stifling dissent.

A year after taking power, the officers disbanded the traditional political parties and established their own carefully controlled two party system, to give the illusion of representative government. One new grouping, known by its Portuguese initials ARENA (National Renewal Movement), is nominally progovernment while the other, called the MDB (Brazilian Democratic Movement) is the "opposition."

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The regime has a variety of means at its disposal to limit the role of politicians. Some officials, such as mayors of key cities, are simply not selected by popular vote, but rather by indirect, easily controlled means. Candidates for congressional and local or state posts who are popularly elected are carefully screened and monitored by the federal government. 25X6 [redacted] Officials who provoke the regime can readily be removed and stripped of their political rights under sweeping authority of the executive; President Geisel as well as his predecessors have made frequent use of these powers. From time to time the rules governing elections are changed to guarantee government party majority in congress, or to ensure government control elsewhere.

Brazil's military presidents have not consistently used their sweeping powers to the limit. Some electoral contests have been freely waged and in some instances returned candidates opposed to the regime, although not so much so that they could easily be labelled "subversive" and summarily removed. The best example of this was in 1974, when the government permitted scheduled congressional elections to be more openly contested than ever before since 1964. The result was an outpouring of political enthusiasm--and striking victories by candidates campaigning on frankly anti-regime themes.

These relatively unfettered elections were the result of President Geisel's efforts to loosen somewhat the strictures on national political life. He and his chief adviser, General Colbery do Couto e Silva, seemed intent on achieving a modest liberalization, in hopes of beginning the process of building a base of genuine support among the populace. From the outset the effort, which also included lifting of press restrictions and other measures, was opposed by conservative officers, who felt--and still feel--that to ease constraints would lead to trouble by emboldening irresponsible politicians. These officers view the elections results as proof that they were right and have subsequently stepped up pressure on Geisel to hew a tougher line.

Geisel is by no means the "captive" of the conservatives, but he cannot afford to ignore them. Pressure from them along with Geisel's own desire to stem rising discontent over austere economic policies have led the President to adopt an increasingly tougher line. Just this spring the regime enacted a series of authoritarian measures. Gubernatorial elections have again been made indirect, one-third of the national senators are now to be

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selected by indirect means and the powers of the supreme court--more or less controlled by the executive branch--have been strengthened. Geisel overcame congressional objections to some of the measures by simply suspending the legislature temporarily and issuing decrees.

The large-scale student protests that have occurred in several cities in May appear to be a direct response to the newly imposed measures. Students had been protesting since March over such academic concerns as increased tuition. Now, however, their demands have become openly political. In the largest demonstrations Brazil has seen in nearly a decade, thousands of students in major cities have railed against government repression and demanded the release of eight students and workers previously arrested on charges of subversion.

Thus far the security forces have acted with restraint and there have been no serious clashes. But the authorities are seriously concerned that the students will set an example for others. In recent years, for example, there has been growing restiveness among lower paid workers hard hit by inflation and restraints on wages. Even some businessmen have been heard to grumble at times in recent years. Dissent so far is not widespread or massive, but it is more discernible now than before.

For many officers the current situation is a painful reminder of the late 1960s when dissent reached serious proportions. At least some are bound to renew the call for far more stringent security measures.

Whatever the future holds for Brazil, the fact remains that in the years since the military takeover, the country has grown impressively and made its presence felt in more places and in more ways than ever before in its history. Critics argue that this could have happened even if the military had not intervened. The officers, of course, contend that they saved Brazil from chaos at the hands of demagogic, unprincipled civilian politicians who, knowingly or not, served the interests of the left.

However one views the military intervention, it is hard to escape the conclusion that the officers have neither institutionalize their own rule nor begun to pave the way for eventual return to civilian rule. No two presidential successions have occurred in precisely the same way. The regime has, with embarrassing frequency, blatantly manipulated its own rules each time it perceived a threat to its authority. Virtually all its authoritarian measures are justified on grounds of "national security," a concept the officers stretch to encompass far more matters than would be the case in the US or other Western nations.

Because they have carefully controlled and manipulated even the relatively innocuous party system they themselves created, the two groupings have not developed any life of their own and have remained clearly artificial. Politicians have not become more "responsible," they have merely become more indifferent or more cynical. The electorate has learned no more than the military thought it knew 13 years ago about how to elect "responsible" leaders, because the opportunity to choose has been drastically limited. In short, there is no way for the military to judge whether the civilian sector is yet ready for the return to democratic rule that the officers have often said was their eventual goal, and no mechanism by which to achieve it given the decision to do so.

More than any of his predecessors, Geisel appeared to appreciate this problem and seemed disposed both to give civilians a chance to "prove" themselves and perhaps a gradual process of return to civilian authority, or at least less heavy-handed military rule. His program now has been indefinitely derailed.

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BRAZIL - ECONOMIC

Brazil's economy is the largest among the less developed countries. Its gross national product now exceeds $100 billion annually, somewhat larger than that of India's or Mexico's. Brazil also ranks as one of the most dynamic economies in the world, although, in common with most other countries, it has faced serious problems since the energy crisis of 1973.

Brazil's natural resources match the scale of its huge territory. While it has exploited only a small fraction of its agricultural potential, Brazil nevertheless is the world's largest coffee producer, the second largest producer of soybeans and sugar, and a ranking producer of corn, cotton, cocoa, rice, and beans. Other resources also are extensive, and it may have the world's largest reserves of iron ore and bauxite. Its hydroelectric potential is exceeded by few other countries. It lacks fossil fuels, however, and must import about 80 percent of its petroleum supply. Some nonferrous metal reserves also are inadequate.

Because of its broad resource base, Brazil is a leading exporter of raw materials and foodstuffs; this role will become more important in the years ahead. It is also a growing market for world exports. It ranks among the 10 largest markets for US exports, importing more US goods than France or Italy in recent years.

Despite its natural wealth, gross national product per capita is only about $1,000, approximately one-eighth the US level. Moreover, most Brazilians receive considerably less than the average because income is so unequally distributed. The upper 10 percent of the population receives about 50 percent of total income, while the poorest half gets less than 15 percent. Poverty is concentrated in rural areas, particularly in the drought-prone northeast, but it is evident in urban areas as well.

The Economic Miracle

Per capita income remains low despite the country's rapid economic development throughout most of the period since World War II. During the past decade, growth has been particularly strong, with annual increases in GNP consistently among the world's highest. Industrial production has more than doubled since 1967 and now accounts for about one-third of total output. Agriculture, although less dynamic, has grown well. Poverty persists primarily because a long time is required to raise very low per capita incomes even with rapid economic growth.

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The economy's dynamic performance over the past 10 years results from domestic and foreign optimism concerning Brazil's economic future and political stability, as well as from favorable government policies. Since 1967, the military regime has encouraged high rates of investment and rapid export growth through tax credits and exemptions and by providing special lines of subsidized credit. The regime also welcomed foreign investment and promoted efficiency by allowing a relatively free inflow of imports. A combination of careful monetary policy, direct price controls, and rapidly rising labor productivity kept Brazil's chronic inflation under reasonable control until the last few years.

Brazil: Economic Indicators

	1973	1974	1975	1976
Inflation rate (%)	13.1	34.3	31.2	44.8
Real GNP growth (%)	11.4	9.6	4.0	8.7
Industrial output growth (%)	15.0	8.2	4.2	10.9
Agricultural output growth (%)	3.5	8.5	3.4	4.2

Economic Problems Since the Energy Crisis

High oil prices following the 1973 energy crisis and slower export growth during the subsequent world recession have created huge trade deficits that Brazil has financed by borrowing abroad. Rapidly rising foreign debt has led to sharply increased interest payments abroad, forcing still more borrowing. While Brazil's credit standing remains strong, its foreign debt is beginning to weaken creditor confidence. In order to slow foreign debt accumulation and thus maintain its vital credit standing, Brazil has held imports in check for the past two years by means of direct controls.

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Brazil's foreign trade position is now improving rapidly because of import restrictions and because higher prices for coffee and other commodities are sharply increasing export earnings. The severe 1975 frost heavily damaged over half of Brazil's coffee trees and production probably will remain low until the 1979 crop. Coffee production has been reduced in other countries as well for various reasons, and world coffee reserves, held mostly by Brazil, are dwindling rapidly. Soaring prices have more than offset the decline in coffee export volume, yielding a huge bonanza to Brazil.

Brazil's trade balance problems may not be over, however. World coffee prices have weakened somewhat in recent weeks with the apparent build-up of consumer resistance to high prices. Lower prices for coffee and possibly some other commodities could slow the growth of exports next year. Meanwhile, foreign borrowing continues, although at a much lower level, and interest rates appear to be on the rise, a development that could add substantially to the payments burden. Confronted with these uncertainties, Brazil's policy makers feel they can not relax import restrictions until next year at the earliest.

While import restrictions have helped improve the trade balance, they also have contributed heavily to the revival of inflation. The cost of living rose 45 percent last year, compared with 31 percent in 1975 and 13 percent a few years ago. Restricted imports have limited the supply of goods available for consumers and investors, thereby pushing up prices. Meanwhile, further economic growth has continued to increase incomes and demand. Inflationary pressure has been reinforced by poor food crops in the last two years. Many costs are also being pushed up as Brazilian industry begins to produce substitute goods for cheaper imports no longer available.

To contain import demand further and to bring inflation under control, the government gradually introduced severe austerity measures during 1976 and made large cuts in its capital spending plans for 1977. These measures are now taking hold and the economy probably will achieve little or no growth this year.

Long-Term Outlook

Despite the current difficulties, long-term growth prospects are good. Investor confidence remains strong. Heavy world demand for Brazil's raw materials and foodstuffs should maintain rapid export growth. Brazil's planners are now trying to insure energy self-sufficiency, so that long-term growth will not again be frustrated

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by import constraints. While the government hopes to find important new oil and coal deposits, it is turning to nuclear energy as the most likely road to energy independence.

Brazil: Balance of Payments

	1973	1974	1975	1976
Exports f.o.b.	6,199	7,951	8,670	10,126
Import f.o.b.	6,192	12,641	12,169	12,277
Trade Balance	7	-4,690	-3,499	-2,151
Net Service Balance	-1,722	-2,433	-3,213	-3,860
Current Account	-1,715	-7,123	-6,712	-6,011
Capital Account	3,593	6,044	5,882	8,298
Direct Investment	940	887	895	900
Foreign Loans	2,653	5,157	4,987	7,398
Errors and Omission	355	-68	-399	150
Changes in Official Reserves	2,233	-1,147	-1,229	2,437

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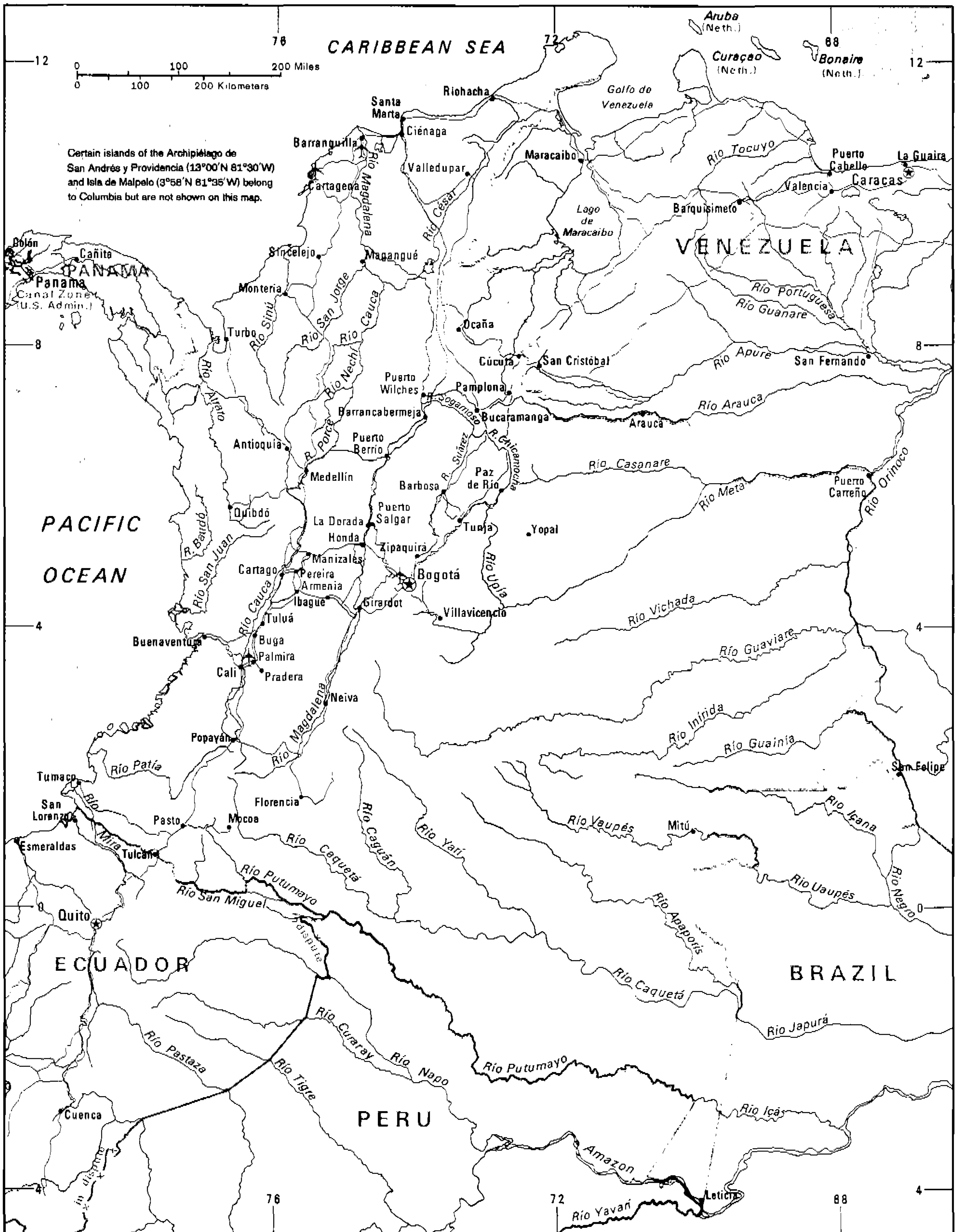
Colombia



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Lambert Conformal Projection
Standard parallels 9°15' and 0°45'
Scale 1:9,000,000
Boundary representation is
not necessarily authoritative

Railroad
Road
Airport

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COLOMBIA - CHRONOLOGY

1948	April	Assassination of popular Liberal leader Jorge Eliecer Gaitan triggers widespread rioting in Bogota and begins 10-year period of violence known as Bogotazo.
1953	June	President Gomez overthrown by the military; Commander of the Armed Forces, General Gustavo Rojas Pinilla, assumes power.
1957	May	Rojas Pinilla, confronted by strong civilian opposition and pressure from leaders of the armed forces, is ousted and forced into exile as a five man military junta assumes power.
1958	May	National Front system is installed with candidate Alberto Lleras Camargo elected President.
1965-1967		Under Communist direction, bandit groups from the turbulent 1950s evolve into organized guerrilla units. The three largest are the pro-Soviet Revolutionary Armed Forces of Colombia (FARC), the pro-Castro Army of National Liberation (ELN), and the pro-Chinese People's Liberation Army (EPL).
1970	April	Conservative Misael Pastrana Borrero is elected last President under National Front system, defeating his closest opponent, former dictator Rojas Pinilla, by slimmest margin in Colombia's history.
1971	January	Relations between Colombia and Venezuela severely strained as a result of each country's claim to oil-rich territory in the disputed Gulf of Venezuela.
1972	September	Quito Sueno dispute unfolds as Colombia moves to solidify its claim to three uninhabitated Caribbean islands over which Nicaragua also claims ownership.

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	December	Military becomes more of a factor in politics as the National Front begins to phase out. Forced military retirements and the abridgment of armed forces' constitutional powers under the state of siege raise military hackles.
1973	February	Pace of the decades-long war between insurgent and government forces increases.
	October	Maria Eugenia Rojas de Moreno, daughter of the former dictator, named by National Popular Alliance party as the first woman ever chosen by a major political party to run for the presidency in Latin America.
1974	April	Alfonso Lopez Michelsen, a slightly left-of-center Liberal, defeats Conservative Party candidate Alvaro Gomez Hurtado in a landslide victory.
	September	Lopez declares state of economic emergency to combat Colombia's 24 percent annual cost-of-living increase.
1975	June	Continuing civil unrest, a serious crime wave, and persistent guerrilla activity force Lopez to impose a state of siege.
	September	Inspector general of the armed forces assassinated by the National Liberation Army, a pro-Havana guerrilla group.
	September	Lopez makes state visits to US to discuss, among other topics, Colombia's emerging role as a major source of drugs in the US.
1976	April	In the midst of continued economic and social turmoil, the ruling Liberal Party reaffirms its preeminence in Colombian politics by winning more than 50 percent of the midterm municipal elections.
	June	State of siege lifted.

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	October	Wave of labor unrest and kidnapings forces reimposition of state of siege.
	November	Student and guerrilla disorders, high inflation, and growing political scandals add to Lopez' growing unpopularity.
1977	April	

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COLOMBIA - POLITICAL

Colombia, one of the two remaining democracies in South America, has a unique political history. It is perhaps the only country to have instituted first a military dictatorship to save its system of democracy, then to have designed a coalition government--the National Front--to allow the rival political parties to iron out differences which had kept them at each other's throat for decades.

The mountainous nature of the country and the seriousness with which Colombians historically have taken their politics have emphasized regional political rivalries. Bitter animosity between the Liberal and Conservative parties since the mid-19th century fostered a heritage of violence in which physical assault and assassination became established political tactics. The perpetual state of violence, referred to as la violencia, became particularly acute following the assassination of popular Liberal leader Jorge Gaitan in 1948. Over the next 10 years, an estimated 150,000 people were killed as partisans of the two major parties waged a virtual war on one another.

The political instability resulting from the assassination of Gaitan and the widening split between the two political parties prompted the Armed Forces Commander, General Gustavo Rojas Pinilla, to depose President Gomez in 1953. Rojas was supported in his bloodless coup by the armed forces, national police, representatives of both parties, and the general populace.

Instead of instituting reform through authoritarian methods, the Rojas regime soon became mired in graft and corruption, and did little to solve Colombia's complex problems. Rojas' populist approach quickly lost him the backing of the traditional elite. A series of nationwide strikes, demonstrations, and shutdowns paralyzed the country and caused even the military to withdraw its support. Rojas finally stepped down in 1957.

What followed was the unprecedented National Front system worked out by two parties to prevent a recurrence of political warfare, to preclude a return to the radical populism of Rojas, and to ensure an alternating presidency between both parties for four terms. Also included was parity for both parties in all public elective bodies, executive departments, and administrative posts. Both parties agreed that the Front would end in 1974.

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Perhaps more than any other factor, the Front has shaped the nature of contemporary Colombian politics--both positively and negatively. On the one hand, the restoration of political moderation in national life has been largely achieved through this unique approach. The four Front governments* developed one of the strongest counterinsurgency forces in South America and successfully overcame the short-run threat to stability posed by rural violence. They also made a start toward agrarian and other reform in an effort to eradicate the underlying causes of social unrest.

The development of new political institutions and ideologies, however, has been undermined by the Front's reduction, if not elimination, of political competition. The rigidities of the coalition agreement, enduring political animosities, and serious economic difficulties have slowed progress and created widespread impatience. This has been manifested in sporadic strikes and demonstrations, in continuing divisiveness within both major parties, and in the efforts of subversive groups and demagogic opposition leaders to exploit popular dissatisfactions.

Many of these dissatisfactions were highlighted during the 1970 elections, when Front candidate Misael Pastrana won by the slimmest margin in Colombian history. Moreover, for the first time there was a polarization of the lower classes against the Colombian "establishment" as represented by the Front. The candidate of the poor and oppressed, the old populist Rojas Pinilla, captured most of the urban centers and came close to victory with his newly inscribed National Popular Alliance (ANAPO) party.

Rojas' daughter, Maria Eugenia, was the ANAPO candidate in the 1974 elections and the first woman ever chosen by a major political party to run for the presidency in Latin America. ANAPO and the Conservative Party's Alvaro Gomez Hurtado were defeated, however, in a landslide victory for the Liberal candidate Alfonso Lopez Michelsen. ANAPO has lost most of its appeal as a third party alternative, although it still figures in midterm congressional elections.

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* *Presidents Under the National Front:*

1958-1962	*Alberto Lleras Camargo (Liberal)*
1962-1966	*Guillermo Leon Valencia (Conservative)*
1966-1970	*Carlos Lleras Restrepo (Liberal)*
1970-1974	*Misael Pastrana Borrero (Conservative)*

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In an effort to ease the transition from coalition rule, the Front agreement called for continued Liberal-Conservative parity in appointive positions during the first post-Front government of Lopez Michelsen. The Liberal Party's majority in congress, however, coupled with Lopez' strong endorsement from the electorate, placed him in a position to strengthen and expand the post-Front political machinery as well as to initiate antiinflation and other fiscal policies needed to solve the country's severe economic problems.

Lopez, a self-proclaimed champion of social and economic reforms, has not been able to improve the lot of the average Colombian. The country's leftist-influenced labor unions, reacting to the failure of the President's antiinflation program, have encouraged strikes in both the public and private sectors over the past two years. As a result, Lopez has been forced to call out the army to quell disturbances, to curtail some civil liberties, and on two occasions, to impose a state of siege.

Many former Lopez supporters believe he has failed to accomplish the goals he had assigned high priority--the maintenance of public order and economic stability--and this has disillusioned some military leaders. The political arena has been further agitated recently by Conservative Party accusations of corruption and malfeasance involving the President and his family, charges which prompted Lopez to threaten to resign.

With just over a year until the next presidential elections, muckraking politics between Liberals and Conservatives is likely to increase. At the moment there is considerable political uncertainty, largely because the Liberal Party is divided over selection of a presidential candidate. Julio Cesar Turbay Ayala, a long-time Liberal leader who has served as Foreign Minister, Ambassador to the US, and Vice President, is the candidate of one faction. Another faction supports former President Carlos Lleras Restrepo. Meanwhile, the Conservatives, who are also split between the factions of former President Pastrana and Alvaro Gomez Hurtado, are attempting to unite under the banner of Belisario Betancur, a compromise candidate apparently palatable to both sides.

Regardless of who comes to power, next year's new administration is not likely to bring major shifts in either US-Colombian relations or domestic policies. What is at stake, however, is the political continuity and institutional stability that the National Front was designed to ensure. The deteriorating economy, increasing social unrest, persistent insurgency, rampant

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crime, and the widespread corruption which pervades the government will add pressure to a democracy already under heavy stress.

Although there is a deep-seated respect for the country's democratic institutions and a generally apolitical tradition among the military, and the military is not likely again to assume control, circumstances similar to those of the 1950s could again force such a takeover. The extent to which the National Front will have truly influenced Colombian politics remains to be seen in successive passings of the presidential mantle and the continuation of bipartisian spirit and competition--regardless of which party is in power.

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COLOMBIA - ECONOMIC

Colombia, with the fifth largest economy in Latin America, is the world's second largest coffee producer and exporter. Natural and human resources are plentiful. Abundant mineral resources include coal, nickel, copper, natural gas, and possibly enough petroleum to make the country self-sufficient once again. Local human talent is available to tap these resources and manage the country's increasingly complex industrial and commercial sectors.

Until recently, Colombia's traditional dependence on coffee exports for much of its foreign exchange, combined with a weak coffee market, limited its ability to import the capital goods needed for economic growth. At the same time, domination of rural landholdings by a few owners and the fragmentation of smallholdings by population growth have sent thousands of rural people to the city in search of work. Agricultural production consequently has not kept pace with population growth, and scarce foreign exchange must be used to import food and raw materials.

The quadrupling of world coffee prices since June 1975 has had a profound impact on the economy. Buoyed by coffee income, the economy grew about 7 percent last year, up from 4 percent in 1975. The rapid expansion of demand rekindled inflation, however, making it Bogota's major current economic problem. Also affected by a drought that is cutting food production, prices are presently rising a rate of 35-40 percent a year.

Colombia: Economic Indicators

	1973	1974	1975	1976
Inflation rate (%)	25.1	26.9	17.9	25.9
Real GNP growth (%)	7.2	6.1	4.0	7.0
Industrial output growth (%)	9.3	7.0	0	12.0
Coffee export earnings (Million US $)	536	543	635	918

To curb inflation, Colombian authorities have tightened the money supply by cutting central bank lending, increasing commercial bank reserve requirements, and diverting part of the coffee sector's greatly increased earnings into dollar-denominated bonds. Excess purchasing power also is being absorbed by a substantial government budgetary surplus, largely the result of

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heavy taxes on the earnings of coffee exporters. In December 1976, President Lopez changed finance ministers to intensify the attack on inflation and to rebuild flagging support in the business community. The tighter monetary and fiscal policies should reduce inflation over the coming months and avert a potentially explosive domestic political confrontation.

On the brighter side, earnings from coffee are allowing Colombia to accumulate the foreign exchange needed to increase imports and carry out social reform programs. The current account deficit was eliminated in 1975, and there was a $680 million surplus last year. In 1976, foreign exchange reserves rose by $619 million, compared with an increase on only $118 million in 1975.

The favorable balance-of-payments and reserve position is helping Bogota to carry out a trade liberalization policy, which it hopes will increase domestic efficiency and reduce inflationary pressures through greater import competition. In 1976, some 350 items were removed from the list of goods requiring import licenses. In addition, duties were reduced on food and capital goods imports.

Over the longer term, economic growth may be slowed by renewed balance-of-payments constraints. World coffee prices have already slipped a little in recent weeks and could well drop further this year. Colombia also faces an energy problem. With energy demand rising 8 percent a year and oil production falling rapidly, the government fears large oil import bills. The higher domestic oil prices that the government allowed a year ago should rejuvenate the declining oil industry, but only slowly. Although some additional production from existing wells is possible, new discoveries are not expected to add substantially to domestic supplies until the mid-1980s.

The decline in oil production has stimulated development of Colombian coal reserves--the largest in Latin America. Currently, East European countries, as well as companies from several Western countries, are contending for a foothold in Colombian coal. Inadequate railroad and port development, however, will probably not permit coal exports to rise significantly until the early 1980s.

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Colombia: Balance of Payments

	Million US $			
	1973	1974	1975	1976
Exports (f.o.b.)	1,009	1,214	1,414	1,652
Imports (f.o.b.)	796	1,118	1,383	1,311
Trade balance	213	96	31	341
Net services balance*	-141	-209	-1	341
Current account	72	-113	30	682
Capital account	102	26	88	- 63
Direct investment	10	15	16	- 15
Foreign loans (net)	92	11	72	- 48
Changes in official reserves	174	- 87	118	619

* *Includes contraband coffee exports.*

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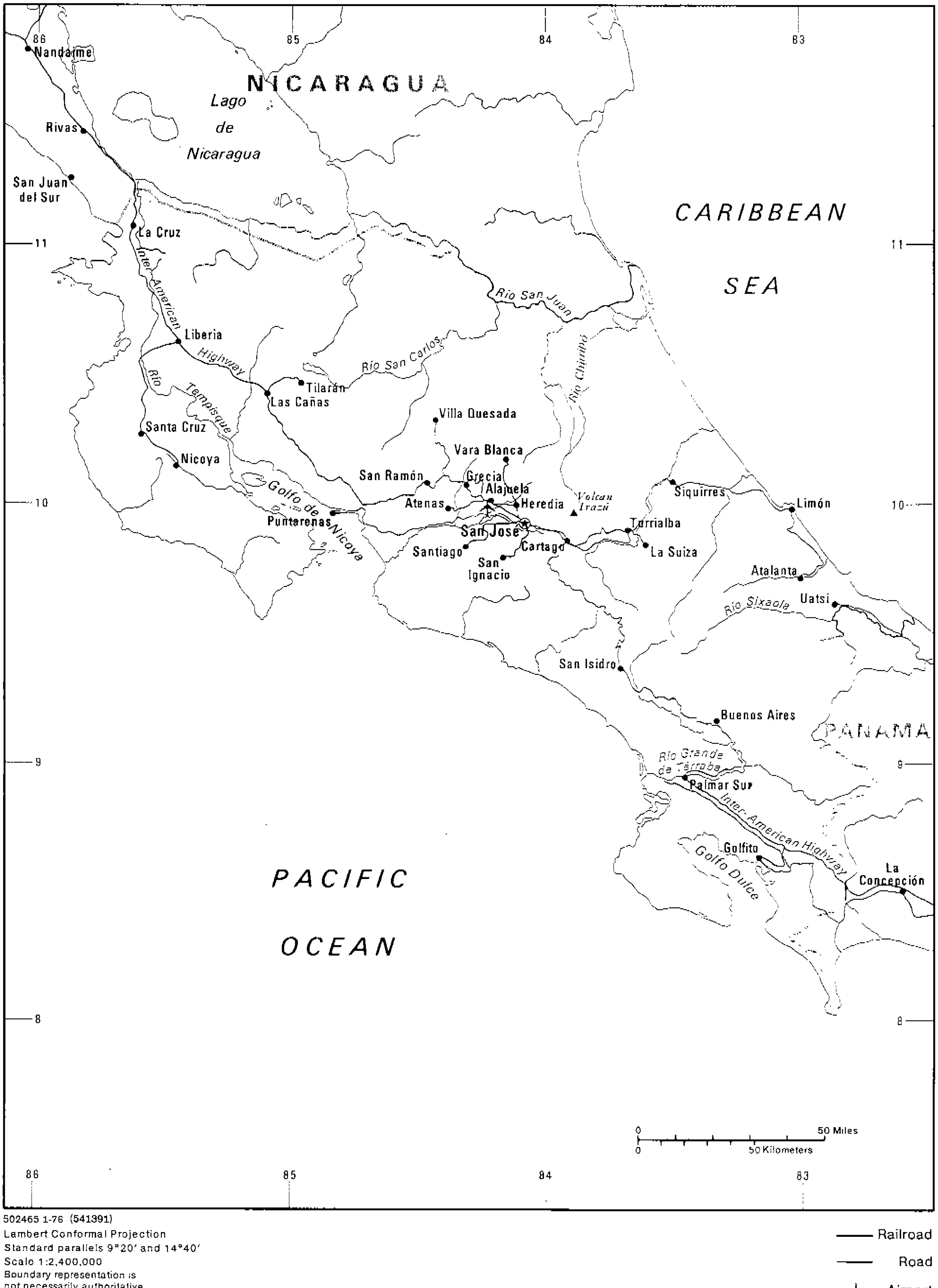
Costa Rica



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COSTA RICA - CHRONOLOGY

1948	1 March	National Assembly nullifies elections when victory of opposition National Union Party candidate Otilio Ulate becomes evident. Twelve days later civil war erupts with revolutionary army led by Jose Figueres. Government forces are defeated after six weeks of strike, and Figueres heads "Founding Junta of the Second Republic" (in control until Ulate's inauguration in 1949).
1949	November	Ulate inaugurated president; new constitution goes into effect.
1953	July	Figueres, candidate of the National Liberation Party (PLN), elected president.
1958	February	Opposition (PUN) candidate, Mario Echandi, wins presidential election but legislative majority is controlled by PLN.
1962	February	PLN candidate Franciso Orlich elected president; PLN wins 28 of 57 legislative seats.
1966	February	Jose Joaquin Trejos, candidate of coalition formed to defeat PLN candidate Daniel Oduber, wins narrow election victory. PLN retains legislative majority.
1970	February	PLN candidate Figueres elected president.
	August	Diplomatic relations resumed with the USSR.
1972	January	Soviet embassy established in San Jose.
1973	February	US fugitive financier Robert Vesco arrives in Costa Rica.
1974	February	PLN candidate Daniel Oduber elected president; PLN loses majority in Legislative Assembly.
1976	July	Legislative Assembly votes down a proposed constitutional amendment that would have allowed Figueres to seek presidential reelection.

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1976	September	Figueres resigns as PLN chairman.
1977	February	Costa Rica announces the reestablishment of consular and economic relations with Cuba.
	March	Primary presidential elections held. Luis Alberto Monge wins the PLN nomination and Rodrigo Carazo wins the Opposition Unity nomination. Campaign begins for the February 1978 election.
	May	Figueres rocks PLN by stating, in a magazine interview, that President Oduber received campaign funds from Vesco in 1974.

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COSTA RICA - POLITICAL

Costa Rica is well known as one of the few Latin American nations that chooses its government in free and relatively honest elections. The country has no armed forces and thus has no tradition of military intervention in the political process. Costa Rica has a robust private enterprise system, universal suffrage, a comprehensive high-quality public education system, a high literacy rate, and a free press. It is a remarkably open society with an advanced social welfare system, a large middle class, and a relatively even distribution of wealth.

The National Liberation Party (PLN), Costa Rica's dominant party and winner of the last two presidential elections, has been a major force since it began participating in elections in 1953. The party was founded in 1945 as the Social Democratic Party (PSD) by Jose Figueres.

In 1948, violence had reached an all-time high because of the incumbent administration's disregard for the sanctity of the ballot box. When election returns began to indicate victory for opposition candidate Otilio Ulate, President Picado had the legislature declare the elections void, an act which touched off a five-week civil war. The opposition forces under the command of Figueres emerged victorious, established the Founding Junta of the Second Republic, and immediately recognized Ulate as President-elect. After a new constitution was drafted, 18 months later (November 1949) Ulate was duly inaugurated.

With an eye on the 1953 elections, Figueres began to reorganize his PSD and build up its following. The party name was changed in 1952 to the National Liberation Party (PLN) in order to publicize its declared objectives of "liberating the Costa Rican people from proverty and the country from foreign domination." Figueres won by a wide margin and his party gained a majority of the seats in the Legislative Assembly. His first presidency brought forth far-reaching programs for housing, public welfare, public health, public education, and a strengthening of democratic processes.

In 1958, when the PLN presidential candidate was the late Francisco Orlich Balmarcich, a split in the party enabled the opposition to win the election with less than 50 percent of the vote. The PLN, however, retained a majority in the Legislative Assembly. In 1962, Orlich ran again and won.

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The PLN nominated Daniel Oduber Quiros as its presidential candidate for the 1966 elections. Oduber, a shrewd, practical politician and leader of the PLN's sizable liberal wing, lost by less than one percent of the popular vote to Jose Joaquin Trejos of the opposition coalition, the National Unification Party. Probably the most decisive factor in Oduber's defeat was the success of the opposition in exploiting its charge that he was "soft on Communism."

Figueres' landslide victory in 1970--55 percent of the vote--was accompanied by a legislative majority for the PLN. Although the party appeared stronger than before, dissatisfaction among the youthful liberal wing, led by Rodrigo Carazo Odio, who had challenged Figueres for the presidential nomination, resulted in a split and the formation of a new party, the Christian Democratic Renovation Party.

During Figueres' second term, charges of corruption began to plague Costa Rica and the PLN. US fugitive financier Robert Vesco arrived in Costa Rica in 1973. Since then, the two men have been jointly involved in many businesses. In 1974, stating that Vesco had done nothing improper in Costa Rica, Figueres arranged for the passage of a law that made Vesco's extradition to the US difficult. Last year, however, the law was repealed. The financial ties between Figueres and Vesco have long been an open secret and the opposition has frequently made the Figueres-Vesco connection a target for its attack against the PLN.

Also during his second term, Figueres moved rapidly to establish diplomatic and commercial relations with the Soviet Union and other East European nations. The principal motive was the attractiveness of trade deals that enabled Costa Rica to sell its surplus coffee at a handsome profit. Costa Rica and the Soviet Union resumed diplomatic relations in 1970 and since then Costa Rica established relations with Czechoslovakia, Bulgaria, Yugoslavia, Hungary, Poland, and Romania. Only the Soviet Union and Romania have resident ambassadors.

The present Oduber administration came into power in May 1974 amid widespread expectations of a marked improvement over the style, morality, and efficiency that characterized the outgoing Figueres administration. Disillusionment set in early, however. The new administration's failure to establish its independence of Figures early on began to undercut popular and bureaucratic confidence in the capacity of the new government to carry out its promises. Oduber's greatest difficulty emerged in the Legislative Assembly where, lacking a majority, he failed to forge a smooth working relationship with opposition deputies. Partisan acrimony in the Assembly, initially fueled by a major campaign funding scandal involving Vesco, made opposition cooperation difficult.

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Oduber, now in the last year of his administration, is charged with lackluster leadership and is criticized for his penchant for foreign travel. The government still finds itself in an uphill battle to improve an image badly tarnished by charges of corruption left over from Figueres' term. The President himself is tainted by corruption charges and has recently been implicated by Figueres for accepting funds from Vesco to help pay for his presidential campaign.

Oduber's social democratic political philosophy has caused some problems with the business sector. This group, like much of the political opposition, perceives a gradual slide to the left. Periodically the Oduber government takes steps to counter its negative image with the business community, however, and tries to strike a more balanced posture. Oduber, for his part, has made progress in dealing with inflation and balance-of-payment problems; he negotiated successfully with the banana companies to acquire unused land for resettlement and is taking other actions to help the rural sector.

Foreign Minister Gonzalo Facio Sagreda has been responsible for giving Costa Rica a role in hemispheric affairs that is out of proportion to the country's small size and economic importance. Facio has been the driving force behind Costa Rica's UN Human Rights Commission proposal and he has been instrumental in Costa Rica's gradual resumption of ties with Cuba. In January, Costa Rica established consular and commercial relations with Cuba. Full diplomatic relations are in the making and could come as early as this fall.

The PLN is currently facing a new political crisis that could cost it the 1978 elections. The crisis has developed over Figueres' recent statement that Vesco helped finance Oduber's 1974 campaign. Figueres probably wished to put Oduber and the PLN on notice that he is still a political force to be reckoned with. Last September, Figureres had resigned as PLN chairman and kept a low political profile after the defeat of a constitutional amendment that would have permitted him to run for President in 1978.

Figueres' statement could not have come at a worse time for the PLN, since pre-election politicking is already underway. Oduber and the PLN presidential candidate Luis Alberto Monge, who has not been implicated in the charges, are in a quandary, as they must restore party credibility without risking a showdown with Figueres that could rip apart the PLN and the country. The outcome of the elections will depend on how well the PLN and Monge are able to extricate themselves.

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COSTA RICA - ECONOMIC

With a gross national product per capita of slightly over $1,000, Costa Rica has the highest standard of living of the five Central American countries. The 98-percent white, Spanish-speaking population is predominantly middle class; the middle 60 percent of the population receives 45 percent of total income. Rural income, however, is less than half of urban on a per capita basis, and one-fourth of the rural population falls below the poverty level. Unemployment is not high--about 5-7 percent--but underemployment runs about twice the unemployment level. Inflation, which was a serious problem in 1974 and 1975, slowed considerably in 1976 as the government restricted credit, controlled prices of basic necessities, and tried to restrain wage increases.

Economic growth has been rapid over most of the past decade. Growth slowed in 1974 and 1975 in the wake of the world recession but recovered to a considerable extent in 1976. Services account for more than half of total output, agriculture and manufacturing for about 20 percent each, and construction, mining, and utilities for the remainder. Agriculture, however, employs over one-third of the labor force and produces nearly three-fourths of all export earnings. Costa Rica has the largest output of electric power in Central America, three-fourths of it hydroelectric. It depends on imported oil for the rest of its energy needs.

Foreign Economic Relations

Costa Rica chronically incurs a foreign trade deficit. The deficit exceeded $200 million in 1974 but has since been well below that level, partly because high coffee prices have boosted export earnings. In addition to coffee, the principal export products are bananas, sugar, and beef cattle. Exports of manufactured goods, principally to other Central American countries, are growing. Imports include footstuffs, industrial materials, consumer goods, and capital equipment.

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Costa Rica: Economic Indicators

	1973	1974	1975	1976	1977 Proj.
Real GDP growth (%)	7.7	5.4	3.4	5.5	6.0
Inflation rate (%)	26	38	14	7	6
Unemployment rate (%)	5	7	7.4	6.2	6.0
Principal exports (million US $)					
coffee	94	125	97	160	300
bananas	91	98	135	145	150

Although the other members of the Central American Common Market are becoming increasingly important as trade partners, the US is by far Costa Rica's largest market and chief source of imports. It supplies one-third of Costa Rican purchases--mainly paper, fertilizer, and wheat--and buys 35 percent of Costa Rica's exports.

The balance of payments has presented problems in recent years, despite rising agricultural export earnings; in 1974, foreign reserves had to be drawn down. In 1975 foreign borrowing covered the current account deficit and restored foreign reserves. It also raised the public foreign debt by one-third. The debt increased further in 1976, as the reserve level doubled. Public foreign indebtedness reached some $620 million, equal to 28 percent of GDP, by the year's end.

Current Prospects

The economic outlook for 1977 is good. Exports, bolstered by high coffee prices, are expected to rise by one-fourth while imports will likely grow considerably less. With an improved trade balance and the high level of reserves, there should be no need for further foreign borrowing for account balancing purposes. Increased liquidity from the higher coffee receipts may make inflation harder to control, however.

Costa Rica: Balance of Payments

			Million US $		
	1973	1974	1975	1976	1977 Proj.
Current Account	-112	-266	-213	-206	NA
Trade Balance	- 67	-209	-139	-104	- 85
Exports (f.o.b.)	344	440	488	591	735
Imports (f.o.b.)	-412	-649	-627	-700	-820
Services and net transfer payments	- 45	- 57	- 74	-102	NA
Capital Account	130	243	234	263	NA
Change in Reserves	18	- 23	21	57	73

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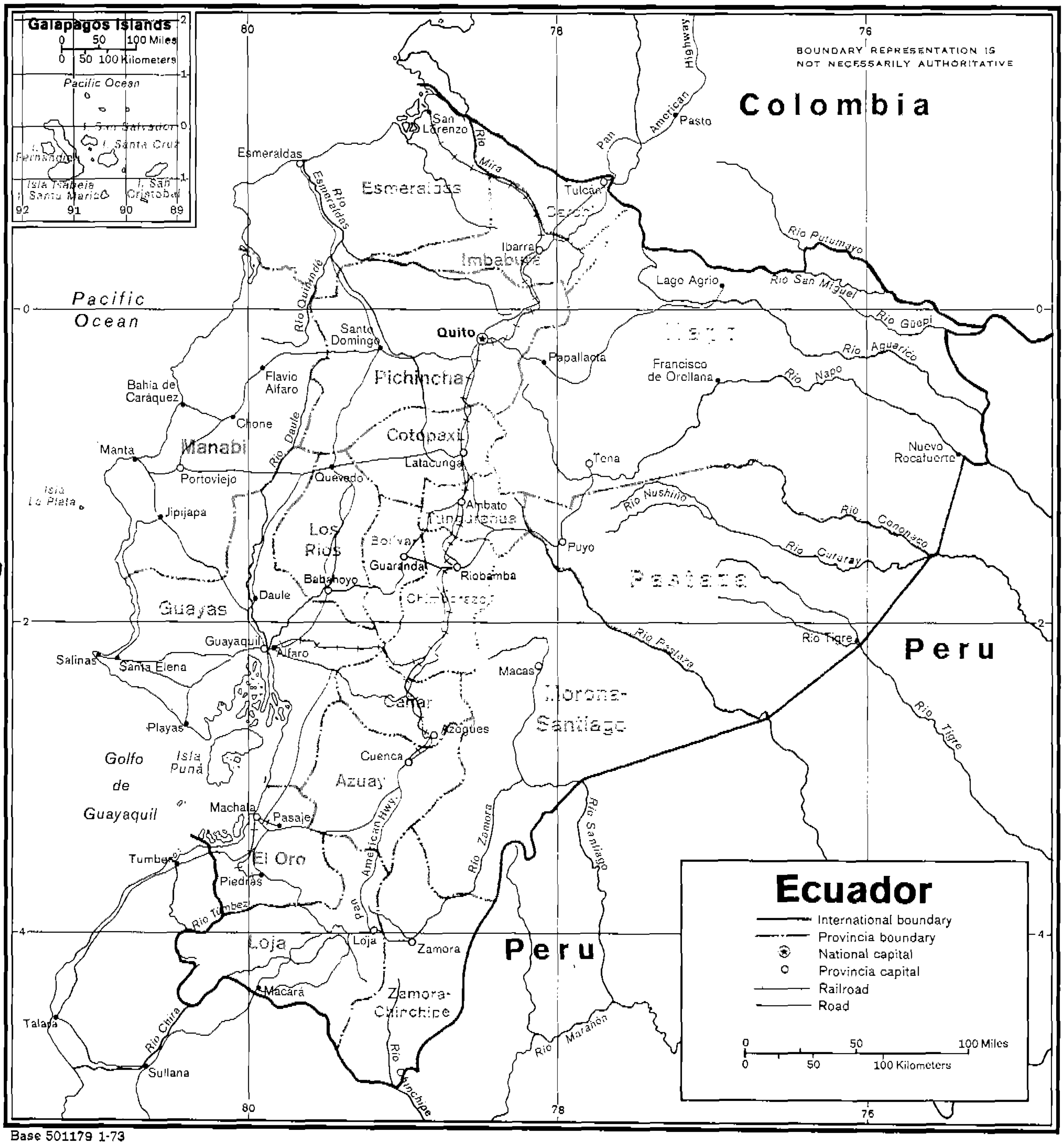

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ECUADOR - CHRONOLOGY

1968	June	Jose Maria Velasco Ibarra elected president in three-way race. Bicameral legislature also elected.
	September	Velasco becomes President for fifth time in full return to constitutional government.
1970	June	President Velasco assumes extraconstitutional powers in face of continuing financial crisis and student disorders. Congress is suspended.
1972	February	Velasco ousted by military coup; Army Commander General Guillermo Rodriguez Lara becomes president; presidential elections scheduled for June cancelled.
1973		"Tuna War" ends.
1974	February	Gross financial reserve, $250 million, up from $12 million when Velasco removed. Military government is most effective one in Ecuador in a decade.
1975	August	Attempted coup against President Rodriguez substantially weakens government. Military dissatisfaction with regime grows. Unpopular economic and petroleum policies partly responsible for unrest. New cabinet members appointed.
	October	Agreements between Rodriguez and military commanders; Vice Admiral Alfredo Poveda Burbano to become new President.
1976	January	President Rodriguez ousted in bloodless palace coup by three military service chiefs, who form ruling triumvirate. Admiral Poveda named President of Supreme Council of Government.

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ECUADOR - POLITICAL

The Ecuadorean military establishment has a long history of intervention in the country's politics. Its most recent incursion began in 1972, when it deposed five-times-elected President Velasco Ibarra to prevent populist leader Assad Bucaram from winning that year's presidential election. The army commander, General Guillermo Rodriguez Lara, succeeded Velasco as president, but gradually lost favor with business leaders over the government's poor handling of newly exploited oil resources.

Backed by the country's economic and political elites, the three military service chiefs ousted Rodriguez in a palace coup in January 1976. The military leaders formed a ruling triumvirate, and navy commander Poveda Burbano emerged as President of the Supreme Council of Government. The new leaders vowed to hand over power to civilians in two years.

The government has proven unstable. Its power is limited and traditional interservice rivalries have hindered effective action. Moreover, personal squabbles between triumvirate members are a constant problem. As a naval officer, President Poveda remains in office only because the army is deeply divided. He has survived several attempts to unseat him by General Duran, a fellow Council member. The most significant effort occurred last December, but a war scare on the Peruvian border intervened and the military rallied around the President.

Despite these shortcomings, some progress has been made toward a return to civilian rule. Two constitutional commissions are presently at work on alternate drafts which will be presented to the electorate in the form of a referendum. This is to be followed by presidential and parliamentary elections.

In a surprising move, the commissions recently decided despite severe pressure to permit the presidential candidacy of Assad Bucaram, whose strong antimilitary views and opposition to the oligarchy prompted the military coup in 1972. The commissions' decision may move some military officers to reconsider their pledge to return the government to civilian rule in view of their well-known antipathy for Bucaram. Political observers concede that Bucaram might win a first-ballot plurality, and his adversaries are already devising schemes to deny him the necessary majority on subsequent ballots.

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Relations between the United States and Ecuador have been strained in the past by a number of issues. These include:

--Ecuador's claim to 200-mile maritime sovereignty, which was the cause of the "Tuna War" of 1971-73. During that period more than 200 US boats were captured and fined more than $4 million for illegal fishing. Although this problem has not resurfaced for several years, it has not yet been resolved.

--The exclusion of Ecuador from the Generalized System of Preferences (GSP) of the US Trade Act of 1974. Venezuela and Ecuador, both members of OPEC, were excluded because of the OPEC oil boycott. Ecuador has complained bitterly because of the discriminatory nature of the exclusion since Ecuador continued to supply oil to the US during the boycott but was unable to benefit from the preferential tariffs designed to help developing countries' imports to the American market. Nevertheless, estimates by the US Department of Commerce show that Ecuador would have benefitted by only some $150,000 had it been granted the preference.

--The refusal of the US to allow Israel to sell 24 Kfir jet fighters to Ecuador. These planes are equipped with General Electric engines and permission must be granted by the US before the aircraft can be transferred to a third country. In addition, the sale of the Kfir would have been counter to US policy that discourages the sale of sophisticated fighter aircraft to Latin America.

Ecuador was particularly disappointed by this US move. It came at a time--last January--when fears of a war between its neighbors Peru and Chile was strong. Ecuador's fears of involvement in an Andean war have been generated by several factors:

-In 1941 Ecuador lost almost one-third of its territory or about 260,000 square kilometers to Peru.

-Petroleum exploration in Peru has been disappointing, leading Ecuador to fear that its confirmed petroleum lands in the northeast are vulnerable to Peruvian attack.

-Peru's purchase of large amounts of weapons from the Soviet Union.

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The US denial of the Israeli sale has led Ecuador to look for other aircraft. It is now attempting to purchase French Mirage aircraft from Israel or France and Jaguar aircraft from Britain. (To counter this disappointment the US has increased the Foreign Military Sales allocation to Ecuador by $5 million--to $15 million. This has been the only increase in Latin America.)

--The Gulf Oil negotiations. Negotiations for Ecuador's purchase of Gulf's share in the petroleum industry have dragged on for months. The terms are reasonable for both parties. Gulf will receive $82 million when the agreement is signed and another $36 million when an audit is completed.

--Drug production and trafficking. The bulk of Peruvian and Bolivian coca paste flows through Ecuador en route to the final processing sites in Colombia. In recent years, however, more Ecuadorean traffickers have begun to process and transport refined cocaine directly to the US. One of the most serious problems associated with attempts to curb narcotics trafficking in Ecuador concerns the widespread involvement of security and police officials in the illicit drug trade. With assistance from US-sponsored training programs, the police and other enforcement components have begun to show some improvement in operating against the narcotics target; it will probably be some time, however, before they become truly effective against the traffickers. Poor planning, inadequate use of personnel, and a lack of effective controls at the borders severely hinder their efforts.

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ECUADOR - ECONOMIC

Until oil exports were initiated in 1972, Ecuador was dependent for foreign exchange earnings on a few agricultural exports--mainly bananas, coffee, and cocoa. Although real economic growth averaged 5.5 percent annually during the 1960s and early 1970s, per capita economic gains were small because of rapid population growth. Per capita income averaged less than $300 in the early 1970s--extremely low by Latin American standards.

Petroleum became the major export in 1973, the year Ecuador joined OPEC as one of the organization's smallest producers. Initiation of oil production and the subsequent quadrupling of oil prices was a boon to the economy. Burgeoning oil revenues boosted real economic growth to 16 percent annually during 1973-74.

Petroleum now contributes roughly 60 percent of the country's export earnings. Oil revenues have enabled the government to sharply increase investment spending, particularly in industry, transportation, and electric power. Some progress also has been made in improving education and public health.

Ecuador suffered an economic slowdown beginning in 1975. Oil production dropped because of breaks in the trans-Andean pipeline and government-imposed production ceilings. In addition, the Texaco-Gulf consortium, which produces practically all Ecuadorean oil, cut back production to protest the government's higher taxes and restraints on its output.

Ecuador: Economic Indicators

	1973	1974	1975	1976*
Real GNP growth (%)	16.3	15.9	7.3	7.0
Inflation rate (%)	6.0	17.6	22.3	10.8
Crude oil production (1,000 barrels per day)	210	175	160	190

* *Estimated.*

At the same time, stepped-up government spending sharply increased imports and contributed to mounting inflation. Consequently, the trade balance deteriorated sharply. Although the government increased foreign borrowing, Ecuador incurred a

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small payments deficit. In 1976, private credit controls and recovering oil exports reduced inflation and improved the balance of payments.

Agriculture remains the economy's largest sector and the major employer. Because of the limited supply of arable land, the small size and primitive technology of most farms, and inadequate transportation and marketing facilities, agricultural production lags behind population growth, and Ecuador must steadily increase its food imports.

Ecuadorean-US Economic Relations

Quito's efforts in early 1976 to force Texaco-Gulf to increase production and expand exploration further strained government relations with the companies. Gulf offered to sell to the government its 37.5-percent share in the consortium, valued at roughly $150 million, and Quito agreed to the purchase. Despite concerns that the US government might become involved in a dispute over just compensation, the negotiations have progressed relatively amicably, although slowly. Quito now hopes the negotiations will be completed in the next few months.

Quito has been upset by the US Trade Act of 1974, which excludes Ecuador as an OPEC member from receiving US generalized tariff preferences. Quito resents the fact that the Act does not make exceptions for Ecuador and Venezuela, which continued to supply the United States during the Arab oil embargo.

Improving Economic Outlook

The government's takeover of Gulf's operations should not disrupt oil production and record oil export earnings expected this year should allow for further economic recovery. Rising oil revenues already have enabled Quito to accelerate some development programs. Over the longer term, the economy's prospects depend heavily on the government's willingness to offer attractive incentives for the oil exploration needed to replenish Ecuador's declining reserves and thus sustain future oil production and exports.

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Ecuador: Balance of Payments

	Million US $			
	1973	1974	1975	1976*
Exports, f.o.b.	585	1,187	1,013	1,295
Imports, f.o.b.	398	814	986	1,060
Trade balance	187	373	27	235
Net service and transfers	-180	-346	-195	-237
Current Account	7	27	-168	-2
Capital Account	78	60	122	130
Direct investment	52	77	41	NA
Medium and long-term loans (net)	25	-11	68	NA
Short-term capital (net)	1	- 6	13	NA
Errors and omissions	6	25	-12	53
Change in reserves	91	112	-58	181

**Estimated.*

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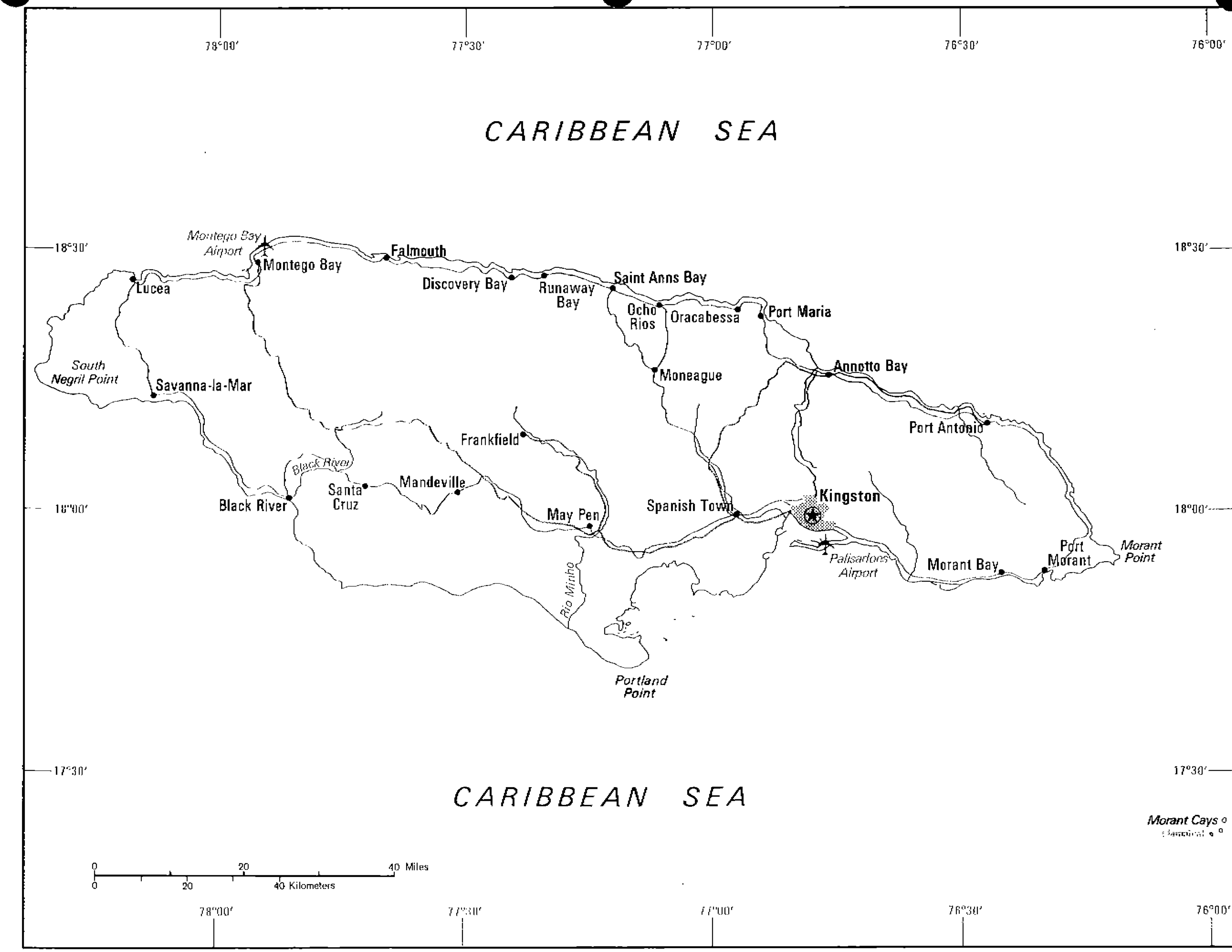
Jamaica



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Lambert Conformal Projection
Standard parallels 17°20' and 22°40'
Scale 1:1,200,000

Railroad
Road
Airport

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JAMAICA -- CHRONOLOGY

1938		Alexander Bustamante forms the Bustamante Industrial Trade Union. Norman W. Manley launches the People's National Party.
1944		Bustamante establishes the Jamaica Labor Party.
1962	August	Jamaica is granted independence; Bustamante becomes first prime minister.
1972	29 February	People's National Party under Michael Manley defeats incumbent Jamaica Labor Party and wins 37 of 53 seats in the House of Representatives.
1972	8 December	Jamaica establishes diplomatic relations with Cuba.
1973	July	US ambassador Vincent de Roulet is declared persona non grata after telling a US Congressional committee he had proposed to Manley not to interfere in the Jamaican elections in return for a commitment not to expropriate US aluminum companies.
1973	September	Manley flies to the Nonaligned Conference in Algiers with Fidel Castro and calls this, "one of the great experiences of my life."
1974	May	Manley submits legislation that results in a 600-percent increase in the tax on the bauxite exports of the US aluminum companies.
	October	The Manley government begins acquiring majority ownership in the Canadian and US aluminum companies. The following month provisional agreements are reached with Reynolds and Kaiser.
	November	Manley for the first time declares his government to be "democratic socialist."

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1975	March	Diplomatic relations are established with the Soviet Union, but no Soviet mission is set up until April 1977.
	11-17 November	The Joint Cuba/Jamaica Commission of Economic, Scientific, and Technical Cooperation meets for the first time in Kingston.
1976	January	While IMF meeting elsewhere in Kingston, violence in the slums results in the death of some 19 civilians and injures over 100. International press coverage greatly damages the Jamaican tourist industry.
1976	spring	Government opens a campaign insinuating that the US is involved in trying to "destabilize" it.
	June	The Manley government imposes a state of emergency following spiraling political violence in West Kingston. Manley has promised to lift it before it expires in late June 1977.
	September	Former CIA employee Philip Agee visits Jamaica, accuses the US of trying to "destabilize" the Manley government.
	October	Jamaica reaches the first of its final settlements with US aluminum companies by coming to terms with Alcoa, the US company with the largest investment there.
	December	Manley wins landslide victory and gains 47 of 60 seats in the House of Representatives.
1977	January	In highwater mark for the influence of the radical wing of the People's National Party, Manley announces economic austerity program.
	February	Kaiser agrees to sell Jamaica 51 percent of its bauxite operation--worth about $6 million--and all of its land holdings. In April Reynolds follows suit.

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22 April	Manley's emergency production plan speech represents a major shift in direction away from his radical advisers toward an effort to reach an accommodation with the US and the IMF.
16 May	Jamaican economic delegation travels to Moscow to discuss economic and technical collaboration and trade.

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JAMAICA -- POLITICAL

Prime Minister Michael Manley's five-year rule represents a watershed in the island's history. He has been instrumental in shaping the course of events as Jamaica has begun to define its post-colonial destiny. In foreign affairs, he has moved Jamaica decisively toward a Third World orientation. At home, he has initiated actions aimed at bringing about fundamental changes in the country's social structure. This process has generated considerable domestic turmoil.

Manley came to power as a moderate reformer. Faced with rampant and chronic unemployment, particulary among young Jamaicans, and a resulting serious urban crime problem, however, he has moved gradually leftward to convince the disinherited black masses of the government's concern.

Manley announced in 1974 that he would lead the country to "democratic socialism." His ideas are influenced by his studies at the London School of Economics and more directly by his 20-year experience as a trade union organizer. Manley's brad of "democratic socialism" aims to improve upon parliamentary democracy by developing grass roots organizations such as workers' councils in the factories, workers' cooperatives on the sugar estates, and community councils at the neighborhood level.

Another element of his "democratic socialism" is an attempt to develop a mixed economy. Manley's distate for capitalism as it evolved in Jamica and his desire to have a greater voice in the development of Jamaica's natural resources have led him to expand public ownership. The country's most important public utilities have been nationalized, purchases of controlling interest in several foreign banks have been initated, and the government is acquiring majority ownership in the foreign-dominated bauxite industry, the backbone of the economy.

Following Manley's reelection last December, concern mounted that the radical wing of the ruling People's National Party was gaining the upper hand and that Jamaica was headed toward a one party, authoritarian state. Indebted to the radicals for their contribution to his victory, Manley appointed party secretary general D. K. Duncan to the post of Minister of National Mobilization and Hugh Small as Minister of Youth and Sports. These two men, along with Minister of Housing Anthony Spaulding [redacted]
25X1 [redacted] began to stump the countryside to drum up support for the transition to socialism.

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The strength of the radicals crested in late January when Manley unveiled his economic austerity program. He announced that taxes on the affluent were to be increased, blasted the IMF, and--stressing the need for self-reliance--held out the promise of financial assistance from the Soviet dominated-CEMA and the Communist bloc. Manley revealed that an emergency production plan was being drafted and subsequently turned responsibility for the plan over to a team of radical political economists closely linked to Duncan.

Developments during the three months following the economic austerity speech have led to a major reversal in Manley's course. The emergency production plan he surfaced on April 22 represented a clear attempt to accommodate the IMF and a telling defeat for the radicals. Several factors help explain this about face:

--The economy has reached such desperate straits that Jamaica was on the verge of defaulting on foreign debts.

--The stature of party radicals was diminished by their inability to devise a plausible economic program or to coax economic assistance from CEMA or the Communist countries.

--Manley's genuine democratic sensibilities were jolted by Spaulding's apparent sponsorship of the brutal eviction of some 1,000 supporters of the opposition Jamaica Labor Party from a public housing project in Kingston.

As Manley tries to secure financial assistance from the IMF and other Western donors and to restore a modicum of confidence in the business community, he has once again turned to the moderate wing of his party and to his orthodox economic advisers. Governor of the Bank of Jamaica Arthur Brown enjoys widespread respect for his competence in financial matters. Minister of Finance David Coore, though not of the same intellectual caliber as Brown, is a solid economist. However, the man whose star is on the rise as a economic policymaker is Richard Fletcher, Minister of State in the Ministry of Finance and coordinator of the production program. His establishment family background and graduate education at Oxford have stood him in good stead with the moderate wing, and his socialist instincts have made him at home with the radicals.

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Jamaica-US Relations

After several years of increasingly acrimonious relations between the US and the Manley government, a significant reversal has occurred. The door is now open for Washington to lay the foundation for amicable ties with Jamaica.

At the heart of the breach between the US and Jamaica was the dispute between the four US aluminum companies--Alcoa, Kaiser, Reynolds, and Revere--and the Manley government. As the full effects of the massive hike in oil prices bludgeoned the Jamaican economy in the winter of 1973-74, Manley unilaterally raised the bauxite levy by 600 percent and set minimum bauxite and alumina output levels. This sparked a classic confrontation as the US companies resolved to face down what they saw as a mushrooming threat of Third World commodity cartels, and the Jamaicans braced to defend their right to exercise sovereignty over their natural resources.

In the summer of 1975 a new dimension was added to this dispute as the US disclosed that it intended no further lending to Jamaica without a satisfactory solution of the bauxite problem. Manley was already becoming persuaded that his attempt to bring about fundamental social reforms in Jamaica and to lead the country toward a more independent foreign policy had put him increasingly out of step with the US. Manley's perception that the US was throwing its weight behind the aluminum companies reinforced his feelings of alienation from Washington. Manley also resented what he considered excessive US pressure aimed at deterring him from pursuing close ties with Cuba.

Manley's relations with Washington reached a nadir last year when he and other members of the government insinuated that the US was engaged in "destabilization" attempts against Jamaica. Whatever his political motives, Manley probably was genuinely concerned that US might be trying to undermine his government. Citing similarities to the pattern of events that led to the ouster of Salvador Allende in Chile, Manley spoke specifically of unexplained violence, industrial unrest, anti-Jamaican items in the foreign press, and an economic squeeze. Animosity toward the US peaked last September when--with ruling party connivance--CIA defector Philip Agee visited Jamaica, and released a list of people he claimed were CIA personnel assigned to the US embassy.

The change in administration in Washington led Manley to attempt a fresh start. Tensions had already begun to ease following a final settlement with Alcoa in October 1976 and agreements with

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Kaiser and Reynolds that followed soon thereafter. To signal his desire to improve relations, Manley replaced Foreign Minister Dudley Thompson--who was in the forefront of those charging the US with "destabilization"--with P. J. Patterson. While a search for economic assistance is obviously a major factor behind the overtures to the US, Manley also seems genuinely attracted to aspects of the Carter administration's foreign policy, especially the concern with human rights, the initiatives in southern Africa, and the US willingness to reconsider its positions on Cuba and Vietnam.

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JAMAICA -- ECONOMIC

Despite a narrow resource base, Jamaica's economic progress has been fairly impressive until recently. Paced by vigorous expansion of the bauxite/alumina industry and tourism, mostly by US investors, sizable trade deficits were amply covered by foreign direct investment inflows during the 1960s and early 1970s. Economic growth averaged nearly 6 percent annually. The economy, nevertheless, has been unable to absorb the rapidly growing labor force. Heavy net emigration to the UK and, more recently, to the US and Canada was insufficient to stem steadily rising unemployment, which grew from 13 percent of the labor force in 1962 to 21 percent a decade later.

As a result of foreign exploitation of the country's rich bauxite deposits, Jamaica ranks among the world's leading bauxite producers. Jamaican bauxite/alumina accounts for nearly two-fifths of US supplies. US private investments in the island total nearly $1 billion. Bauxite/alumina facilities alone account for $660 million, or about two-thirds of the total. In addition, there are US investments in banking, insurance, communications, tourism, and manufacturing valued at an estimated $300 million.

Jamaica's economic situation worsened following the 1972 election of the left-leaning government of Prime Minister Michael Manley. Despite stepped-up public investment financed by foreign borrowing, economic growth slowed with completion of major bauxite/alumina investment projects and a downturn in tourism investments in response to labor strikes, a crime war, and Manley's leftward drift. Calling vaguely for the establishment of a "democratic socialist" society, Manley has taken limited steps toward extending government participation in the economy. Although, aside from moves against the bauxite industry, Manley's economic program has been more rhetoric than action, it still has caused a sharp deterioration in the climate for private investment.

Moves Against the Aluminum Companies and Impact

In June 1974, influenced by higher prices for oil and other imports as well as the desire to finance increased public investment, Manley increased taxes and royalties on bauxite and alumina production by 600 percent and tied tax rates to posted US aluminum prices. He also demanded that the companies permit Kingston to purchase up to 51 percent equity in their Jamaican bauxite--but not alumina--operations, and to allow reversion to Jamaica of unexploited company bauxite reserves. Only Revere, a marginal aluminum producer, closed its Jamaican properties.

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In the past six months Jamaica appears to have reached relatively amicable long-term settlements with three of the four US aluminum companies. Under these accords, Jamaica will purchase: (a) a 6 percent share in Alcoa's Jamaican bauxite and alumina properties, equivalent in value to a 51 percent share of the company's bauxite operation; (b) a 51 percent share of Kaiser's and Reynolds' bauxite operations; and (c) all of the three companies' land holdings. In return, Kingston has agreed to reduce the bauxite tax rate slightly and to guarantee mining leases to cover the companies' bauxite needs for the next 40 years. Revere has filed a $64 million claim with the Overseas Private Investment Corporation, claiming de facto expropriation.

Although the settlements will bring US bauxite/alumina operations under closer Jamaican control, the Jamaican purchases still amount to only 10 percent of the value of the aluminum companies' total holdings on the island. Manley's willingness to reduce the bauxite tax reflects the fear that Jamaica's competitive position has been weakened by the tax hike, as well as anticipation that tax proceeds will increase with rising world aluminum demand. It also stems from his desire to encourage the companies to increase their Jamaican investments--a hope that is likely to be in vain. Although the companies are disturbed by Jamaica's past tax boost, which has helped to double US delivered costs of imported bauxite and alumina since 1973, they are most concerned by Manley's leftward drift.

Deteriorating Economic Situation

Initially, the bauxite tax hike contributed to a near doubling of Jamaica's export earnings, helped to finance a large public works program, and facilitated continued economic growth. During the past two years, however, Jamaica's economic situation has deteriorated steadily. Earnings from bauxite and sugar plummeted with the world recession. Earnings from tourism were hurt by mounting violent crime. Uncertainty in the business community led to a dearth of private investment and a wave of capital flight. Moreover, Jamaica's poor credit rating virtually dried up commercial sources of funds. Harsh import restrictions to cope with mounting foreign payments problems caused a 7 percent drop in real GNP between 1974 and 1976 and boosted the unemployment rate to about 32 percent of the labor force.

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Jamaica: Economic Indicators

	1973	1974	1975	1976[1]	1977[2]
Real GNP growth (%)	5.9	5.6	-2.3	-5.0	-5.0
Inflation rate (% increase)	19.0	27.0	17.0	11.0	20.0
Unemployment rate (%)	22.0	21.0	21.0	32.0	35.0
Bauxite production (million tons)	13.6	15.3	11.6	10.6	15.5
Tax revenues on bauxite production (million US $)	30.0	190.0	165.0	155.0	280.0

1. Estimated.
2. Projected.

Although export earnings are rising sharply this year, Jamaica faces a greatly tightened foreign exchange bind because of reduced flow of capital into the country, increased debt servicing obligations, and continuing capital flight. Despite the extended depression in world sugar prices and an expected further decline in tourism, earnings from exports of goods and services will likely increase about $110 million because of the pickup in bauxite and alumina shipments with recovery of the world aluminum industry. Jamaica will still need about $240 million in additional capital receipts to avoid a further sharp cut in imports this year.

Manley is counting heavily on $40 million in IMF funds. To satisfy IMF requirements, including devaluing the Jamaican dollar and slashing government spending, he announced an emergency economic plan in April. The plan stipulates a 38-percent devaluation for tourism and some commercial transactions and a ceiling on the budget deficit. The IMF is apparently dissatisfied with the plan, however, and will likely insist on further belt-tightening.

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Even if the government obtains the IMF loan, acquiring substantial new financing will be difficult. Consequently, Jamaica faces the prospect of having to slash imports this year by some $200 million, or 20 percent from last year's depressed level. Such a cut could lower real GNP by another 5 percent and further increase the unemployment rate.

In these circumstances, Manley may be tempted to terminate the recent settlements with the aluminum companies by again boosting taxes on bauxite. For example, a 50-percent increase would avert much of the need for further import cuts. Although the companies seem confident that Manley will honor the settlements, a new tax hike cannot be ruled out. The companies have relatively little short-term leverage to resist a tax increase. They could replace part of Jamaican bauxite from other sources this year, but rising world demand would make it difficult to replace as much as half in less than two years.

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Jamaica: Balance of Payments

	1973	1974	1975	1976[1]	1977[2]
Exports, f.o.b.	393	754	808	672	798
Alumina	163	347	324	262	354
Bauxite	87	147	98	136	200
Sugar	39	87	154	56	54
Other	104	173	232	218	190
Imports, c.i.f.	665	936	1,123	935	735
Petroleum	72	199	198	200	250
Other	593	737	917	735	485
Trade balance	-272	-182	-315	-263	-63
Net services and transfers	24	90	60	-35	...
Tourism	130	136	129	106	90
Other	-106	-46	-67	-144	-90
Current account	-248	-92	-253	-302	63
Capital account	213	177	173	105	-63
Direct investment	75	23	...	...	...
Medium and long-term loans (net)	131	203	174	185	47
Short-term capital (net)	7	-49	-1	-80	-110
Errors and omissions	5	-15	...	52	...
Change in reserves	-30	70	-80	-145	...

1. Estimated.
2. Projected on the basis of capital receipts that include $40 million in IMF credits.

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Peru

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Lambert Conformal Projection
Standard parallels 3°00′ and 15°20′
Scale 1:10,000,000
Boundary representation is not necessarily authoritative

Railroad
Road
Airport

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PERU - CHRONOLOGY

1968	October	President Fernando Belaunde Terry ousted in military coup. Leftist General Juan Velasco Alvarado assumes presidency of military government.
1969	February	Peruvian Navy fires on one US tuna boat, seizes another.
	May	Reacting to suspension of US military sales to Peru, Velasco calls for withdrawal of US military mission and declares Governor Rockefeller's scheduled visit would be "inappropriate."
1970	June	Mrs. Nixon visits Peru to present personally US aid to area devastated by May earthquake.
1973	February	President Velasco suffers near fatal aneuryism; right leg amputated.
1975	February	Violence erupts in Lima as result of army attacks against striking police. Burnings, lootings, and riots are antimilitary. Velasco's power weakened by events.
	March	Velasco suffers brain hemorrhage; gradually recovers. Incipient power struggle begins.
	August	President Velasco removed in coup, replaced by former Economy Minister General Francisco Morales Bermudez Cerruti.
1976	February	Morales Bermudez removes two radical leftist generals who were close associates of Velasco.
	July	Leftist Prime Minister Fernandez Maldonado resigns under pressure. Resignations of most other key leftist supporters of Velasco follow.

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PERU - POLITICAL

The presidency of leftist General Juan Velasco--which lasted from the overthrow of elected president Fernando Belaunde Terry in 1968 until August 1975--was characterized by radical economic policies, xenophobic nationalism, a deterioration of ties with Washington and a rapprochement with the Soviet Union and Cuba. During this period, Lima was seeking a leadership role in the Third World and the political and social principles of the Peruvian revolution set it on a course away from the US. Tensions increased markedly in 1969 when Peruvian naval vessels fired on and seized US tuna boats. When the US retaliated by suspending military sales to Peru, Velasco ordered our military mission out of the country and canceled a scheduled visit by then Governor Nelson Rockefeller. Velasco and his leftist aides were convinced that the US meant harm to Peru; this paranoia persisted throughout his administration.

Velasco's eight-year experiment in guided economic and social change ended when he was deposed by a bloodless coup in August 1975 and replaced by the more moderate former economy minister, General Francisco Morales Bermudez Cerruti. Morales Bermudez inherited serious economic problems, brought about by world recession and by the poor fiscal management of the Velasco regime. While remaining committed to a more just political, social and economic order, Morales Bermudez has discarded his predecessor's revolutionary rhetoric in favor of a more pragmatic approach to governing. Lima's courtship of the more radical Third World states has lessened and most of the radical leftist military officers with whom Velasco was surrounded have been forced out of the government.

Recognizing the need for severe austerity measures to stabilize the economy and to satisfy the requirements for badly needed foreign loans, Morales Bermudez is also confronted with demands from the military for enormously expensive arms purchases--principally from the Soviets--to meet a perceived military threat from Chile. These conflicting demands recently led to the resignation of the economy minister. It remains to be seen whether his replacement will have any greater success in persuading the military that economic stability should take precedence over inflated military budgets and wholesale weapons procurement.

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Andean Arms Race

The Andean countries are presently engaged in an arms race which threatens their political and economic stability and which could eventually precipitate armed hostilities between two or more countries in the area.

Peru initiated the race. It is still smarting from the loss of a large part of its southern territory to Chile during the War of the Pacific (1879-83). This territorial question is complicated by Bolivia's desire for a corridor to the sea which would pass through the disputed area. An unsuccessful exchange of corridor proposals between Peru and Chile has fueled mutual suspicions. Peru's weapons buildup has prompted Chile to beef up its own capabilities through arms purchases in Brazil and Western Europe. Ecuador, which also fears Peruvian designs on its territory, and Bolivia are under increasing pressure to bolster their own military forces in light of possible hostilities between Peru and Chile. At the present time Peru has overwhelming superiority in war materiel, including some 300 Soviet T-55 tanks and sophisticated surface-to-air missiles already on hand and 36 Soviet SU-22 fighter aircraft on order.

Nevertheless, the chances of an armed conflict before the end of this year appear slight. Beyond that period, continuing arms purchases as well as emotional issues involving national pride in both Peru and Chile and the approaching centennial of the War of the Pacific will heighten tensions even further.

Should agreement be reached in the interim on the Bolivian corridor, this strip could act as an effective buffer and discourage aggressive action. A major implication for US policy--beyond the introduction of advanced weapons systems into Peru--is the possible involvement of the US as an arbiter in the corridor issue. The 1929 treaty establishing the border between Chile and Peru provides for the good offices of the US President to settle any dispute. Although the US has never formally accepted this role, one or more parties to the dispute could appeal for US mediation.

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PERU - ECONOMIC

Peru has Latin America's sixth largest economy, with an estimated GNP of $12.5 billion and per capita income of $800 in 1976. The economy has a diversified export base and is an important source of world minerals--especially copper, silver, zinc, and lead. Peruvian fishmeal, an important component in livestock feed, normally accounts for almost two-fifths of world output.

Peru's economy has failed to realize its full potential during the years of leftist military dictatorship. Expropriations of foreign-owned business properties and ill-conceived social reform programs have greatly reduced private foreign and domestic investment and have hampered the growth of industrial and agricultural output. Through 1976, Lima offset much of the drop in private investment by heavy borrowing from international financial institutions to finance large copper and petroleum development projects.

Following the ouster of General Velasco in August 1975, the new president, General Francisco Morales Bermudez, has acted to improve the climate for foreign investment. Last September he settled a longstanding dispute over nationalization of the US-owned Marcona Mining Company. More recently, he has issued assurances against capricious treatment of foreign investors and has liberalized the regulations governing the concessions of international petroleum companies operating in Peru. Morales Bermudez has also attempted to deemphasize social reform schemes, such as labor participation in management, to ease their adverse impact on production.

Foreign Payments Problems

While large-scale government investment projects enhanced future export capacity, they also contributed to increasing foreign payments problems. Increased capital goods imports and foreign debt service payments, coupled with recession-induced declines in export earnings, greatly increased the current account deficit. At the same time, Peru's worsened international credit rating substantially increased the difficulty of placing new loans. As a result, the government has been forced to reduce imports for nondevelopment purposes and to impose other austerity measures, thereby slowing economic growth and boosting inflation.

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Peru: Economic Indicators

	1973	1974	1975	1976	1977*
Real GNP growth rate (%)	4.7	6.6	3.5	2.8	0
Inflation rate (%)	9.5	16.9	23.6	33.5	25.0
Copper export earnings (Million US $)	325	301	156	269	510
Fishmeal export earnings (Million US $)	157	261	208	195	150

* *Projected.*

Outlook for 1977

The government faces serious difficulties this year in financing its debt service obligations. Although continuation of austerity measures and the coming into operation of large copper and petroleum development projects will greatly reduce the trade deficit, Lima still needs a total of about $400 million in balance-of-payments support loans. While commercial banks are willing to provide funds, they will not commit them until Peru obtains a substantial standby loan from the IMF.

Conditions currently demanded by the IMF in return for the needed financial support require further unpopular austerity measures. These include an immediate 17 percent currency devaluation and 40 percent slash in the public budget deficit through increased taxes and lower current and investment expenditures. The IMF conditions have encountered stiff opposition from the junta, which believes the social and political costs are too high. Much less austere measures last June, for example, resulted in violence in the major cities and caused the government to declare a state of emergency. Unless the government can negotiate much easier conditions with the IMF, the economy faces a very difficult year. Measures required to substantially cut the budget dificit would stop most public investment projects, sharply curtail industrial output, and increase unemployment.

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Peru: Balance of Payments

	Million US $				
	1973	1974	1975	1976[1]	1977[2]
Balance of trade	79	-403	-1,104	-687	-250
Exports (f.o.b.)	1,112	1,506	1,379	1,393	1,750
Imports (f.o.b.)	1,033	1,909	2,482	2,080	2,000
Net services:	-253	-323	-452	-434	-460
Of which: interest	- 99	-133	-189	-302	-367
Current account	-174	-726	-1,556	-1,121	-710
Capital account	230	1,110	1,087	988	560
Amortization	-339	-395	-339	-451	-540
Direct investment	65	246	334	189	100
Project loans	625	980	1,182	670	600
Support loans[3]	0	0	0	580	400
Short term (including errors and omissions)	-121	279	- 90	0	0
Change in reserves	56	384	-469	-133	-150

1 *Estimated.*
2 *Projected.*
3 *Includes IMF and commercial bank balance-of-payments support loans.*

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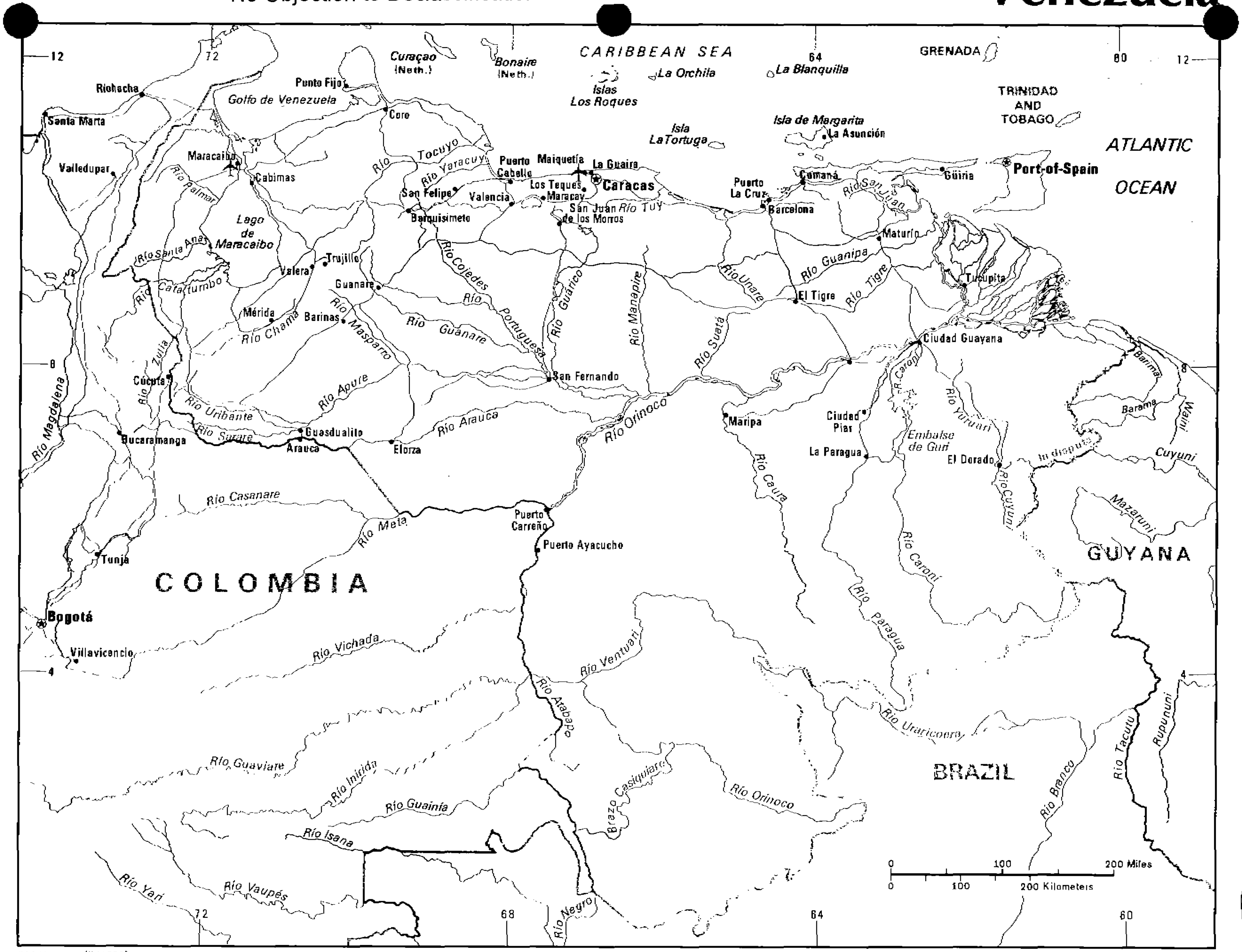
Venezuela



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VENEZUELA -- CHRONOLOGY

1936 December		Juan Vincente Gomez, dictator since 1909, dies. Venezuela takes first steps toward political modernization.
1945 summer		Mrs. Eleanor Roosevelt becomes the first wife of a US President to visit Venezuela.
	October	Democratic Action party and junior military officers stage coup and establish reformist government under Romulo Betancourt, president of a seven-man junta.
1948 February		Betancourt inaugurated as first freely elected Venezuelan president. Overthrown in November 1948 and replaced by military junta soon to be dominated by dictator Marcos Perez Jimenez.
1952 December		Perez Jimenez assumes direct control. Political liberties curtailed, political leaders exiled or killed.
1958 January		Perez Jimenez ousted. Venezuelans mark the start of the constitutional democracy they enjoy today.
	December	Betancourt elected President for five-year term.
1963 December		Raul Leoni elected President; power transferred from one freely elected President to another for the first time in Venezuela's history.
1964-1967		Attempts by extreme leftists and Cuban-supported insurgents to disrupt democratic processes defeated by Interior Minister Carlos Andres Perez.

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1968	December	Rafael Caldera, Social Christian party leader, elected President; the first time presidency was passed from one political party to another.
1970	December	Venezuelan Congress passes the Petroleum Reversion Law which sets a definite date--1983--for the turnover of the foreign-owned petroleum industry to the state.
1973	December	Carlos Andres Perez elected President. Promises early nationalization of country's two major resources--petroleum and iron ore.
1974	April	Perez' "May Day" speech proposes the nationalization of the iron ore industry by the end of the year, strict application of the Andean Pact Foreign Investment Code, and a program aimed at more equitable distribution of the nation's oil wealth.
	July	Venezuela establishes a $3 billion investment fund to manage a portion of its surplus oil earnings. In following months, Perez authorizes assistance to less affluent Latin American and Caribbean countries totaling more than $1.8 billion.
	December	Perez hosts a meeting of Central American presidents to expand Venezuela's influence in the Caribbean. The US Trade Reform Act provokes sharp reactions from Perez who urges that a special session of the OAS be convened.
1975	January	Perez nationalizes the foreign-owned iron ore industry with compensation.
	March	Perez visits Mexico, discusses plans for establishment of an exclusively Latin American economic organization.

	April	A 17-nation multinational Caribbean fleet established with Venezuelan financial backing.
	October	Latin American Economic Organization (SELA) created.
1976	January	Perez announces the nationalization of the foreign-owned, billion-dollar petroleum industry. The foreign oil firms provide technical assistance and marketing facilities to Venezuela.
	February	William Niehous, US Owens Illinois official in Caracas, kidnaped by leftist terrorists.
	November	Perez pays first visit to Europe and the USSR. Signs an oil exchange agreement in Moscow.
1977	April	Perez visits the Middle East, the first Venezuelan President to visit any Arab state.

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VENEZUELA -- POLITICAL

Venezuela is a nouveau riche country, whose backwater image was transformed by the emergency of the petroleum industry in the 1920s. Today, Venezuela stands near the top of Latin America in economic and social indices, such as living standards, per capital income, and level of international reserves. The rapidity of this change, however, has outstripped the cultural progress of the nation, and it is frequently said that Venezuela's favored classes jumped too quickly "from the ox cart to the Cadillac and the jet plane."

Uneven development has left millions of Venezuelans living in abject proverty with so slim a stake in the existing system that economic reform and income redistribution are imperative. As a result, there was total national support for President Carlos Andres Perez to "recover" natural resources. In 1975 he announced the nationalization of the iron ore industry and in 1976 the petroleum industry. The new income provided by the increase in oil prices in recent years provides an opportunity to achieve the social and economic changes that no Venezuelan political leader dares miss.

The Accion Democratica (AD) Party, which today controls both the executive and legislative branches of the government, has gradually evolved from a nationalist revolutionary movement to a mature and moderate party modeled along social democratic lines. The party's founder, Romulo Betancourt, flirted with Communism in his youth and the party began with a socialist orientation. During the political battles of the 1940s and 1950s the party and its leaders gradually moved to the right, becoming finally anti-Communist, although with a strong tinge of hostility toward foreign investment. By the early 1960s, the Accion Democratica government of Romulo Betancourt was actively engaged in armed confrontation with Communists and Castro-inspired insurgents seeking its overthrow. Today's President Carlos Andres Perez was then minister of interior and distinguished himself by his heavy-handed repression of subversive forces. From 1958 to 1968 Accion Democratica controlled Venezuela. Its governments were moderate, but they gradually encroached on the traditional prerogatives of the private petroleum sector, mainly by increasing the taxes on this industry.

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In 1968, a razor-thin victory at the polls brought the Social Christian Party (COPEI, an acronym for Comite por Organizacion Politica y Electoral Independiente) and President Rafael Caldera to power. Control of congress, however, rested in the hands of the AD. During the ensuing five years, President Caldera continued measures to increase control over the foreign-owned petroleum industry.

At the same time, COPEI began to veer away from the rigid anti-Communist stance of previous AD administrations. It reestablished relations with the USSR and other Communist states and took the first steps toward normalizing relations with Cuba. As the AD and COPEI sought to outdo the other, nationalistic measures multiplied. During the Caldera administration, oil companies' taxes were sharply and retroactively increased, the incipient natural gas industry was nationalized, and a "Reversion Law" was enacted, sharply curtailing the freedom of action of the private companies. A comprehensive foreign investment law, proposing maximum permissable percentages of foreign control of businesses engaged in specific lines of activity, was also introduced. Its utility was obviated by the country's entry into the Andean Pact in 1973.

Against this background, the forces of economic nationalism began to demand an accelerated reversion of the oil industry to the state. They feared that by the time the concessions expired in 1983, Venezuela would be left with depleted wells and useless equipment. In fact, by the elections of December 1973, all 14 candidates for the presidency pledged themselves to bring about accelerated reversion of the petroleum industry before the date stipulated in the Reversion Law.

Immediately following his landslide victory, AD candidate Carlos Andres Perez publicly committed himself to resolve this problem within the first two years of his administration, and immediately set out to demonstrate that he was not beholden to special interest groups or even to the old party warhorses. On 29 April 1974, he presented his government's political and economic programs in a stirring speech and effectively muted the political opposition during his first two years in office. Perez championed high oil prices in OPEC and began using Venezuela's oil wealth to attempt an economic and social transformation of the country.

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Simultaneously Perez embarked on a number of foreign policy initiatives. He took steps to become both a hemispheric spokesman and a leader of Third World countries. In this arena, Perez appears to have been generally successful, although some Latin American officials private complain about Venezuela's heavy-handed tactics. None is willing to challenge Venezuela's self-proclaimed leadership role, however, as long as Venezuela remains a source of badly needed petroleum and economic assistance.

Now beginning his fourth year in office, Perez' international role is firmly established and acknowledged, but he finds himself increasingly tested by growing domestic political and economic problems. His challenge comes from the opposition Social Christian Party under the aggressive leadership of its nominated presidential candidate, Senator Luis Herrera Campins.

After two years of disarray and inaction, COPEI is mounting a vigorous assault on the government's policies. The party seeks to exploit discontent caused by the rising cost of living, shortages of consumer goods, continuing inflation, lack of low-income housing, inadequate educational facilities, inefficient public services, and government corruption. These issues, plus the lack of tangible evidence for the average Venezuelan of the economic oil boom, have caused some slippage in Perez and his party's popularity.

Perez has also encountered some difficulties with factions in his own party who resent his "caudillo" style of governing, his reliance on nonparty advisers such as his young former campaign manager, Diego Arria, and his seeming disregard for the advice of party elders such as Romulo Betancourt, with whom his relations are increasingly strained. Betancourt believes Perez' economic and foreign politics blur the sharp distinctions between the social democratic AD and the country's leftist parties. Betancourt is determined that long after he has left the political scene the party he founded will continue to adhere to democratic processes and to oppose leftist and military governments. Both politicians are determined to secure the presidential nominations for a candidate who most nearly represents his political views. Betancourt supports AD Secretary General Luis Pinerua, who controls the party machinery. Perez backs Jaime Lusinchi, the party's

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congressional leader, who is widely respected among the rank and file. These members will vote by secret ballot for their party's nominee for the first time this July.

The stakes are high for both Perez and Betancourt. Perez seeks to ensure the completion of his ambitious domestic development program and activist foreign politics after he leaves office next March. Betancourt wants the party to be purged of elements he considers unprincipled or corrupt, and to be led by a president unalienably identified with the anti-Communist left.

Either way, the outcome of the December 1978 elections is uncertain. Both the Accion Democratica and COPEI are aware that the military, the final arbiters of political power in Venezuela, will be keeping a close watch on the progress of the campaign to prevent any actions which might threaten the country's democratic traditions or its economic and political stability.

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VENEZUELA -- ECONOMIC

The Venezuelan economy is one of the most developed in Latin America. GNP totaled $30 billion in 1976, and its per capital income of $2,380 is the highest in Latin America. Income distribution is very uneven however; about one-third of the 12.7-million population lives at near-subsistence levels. Unemployment is estimated at about 6.4 percent of the labor force--moderate by Latin American standards--but underemployment is widespread. The 3.0-percent average annual growth rate of the Venezuelan population is one of the highest in Latin America.

Oil accounts for nearly one-third of Venezuela's GNP, some 65 percent of government revenues, and over 90 percent of export earnings. Venezuela's fairly large industrial sector relies heavily on imported raw materials and capital goods and is protected by high tariffs. In addition to petroleum refining, industrial output is largely oriented toward basic consumer goods, textiles, and automobile assembly. Agriculture, mainly sugarcane, corn, coffee, and rice, accounts for about 5 percent of GNP and one-fourth of total employment.

Oil Policy

Government oil policy stresses limiting production to conserve reserves, securing maximum prices, and control of production, marking, and exploration. As a member of OPEC, Caracas has strongly supported oil price hikes to finance its massive spending plans. Since 1974, it has implemented one of the largest output reductions of any OPEC member and has nationalized its oil industry. In recent months, it has pressed for a single price for OPEC oil and for increased OPEC aid to Latin American and other developing countries.

Venezuelan-US Relations

Venezuela and the US have for many years enjoyed a special and close economic relationship. Venezuela is our sixth largest trading partner and our third largest market in Latin America. It is our third largest supplier of crude oil and petroleum products, accounting for 13 percent of total US oil imports. The United States has furnished 70 percent of Venezuela's $2.0 billion in foreign direct investment and,

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despite the recent nationalization of the iron ore and oil industries, US investors are still interested in participating in Venezuelan development programs.

The US-Venezuelan relationship has been complicated, however, by Venezuela's exclusion as an OPEC country from benefits under the US Trade Act of 1974, which provides generalized trade preferences for imports from most developing nations. Although US-Venezuelan trade has not been greatly affected by the exclusion, Caracas has protested strongly, emphasizing that it had been a reliable supplier to the US during the Arab oil embargo. President Perez hopes that the new US administration will change the Act and was disappointed when President Carter did not call for such a change in his recent speech before the OAS.

Economic Performance in 1976

Venezuela registered a respectable 5.7-percent increase in real GNP in 1976. Strong performances by the manufacturing and construction sectors paced the upswing, offsetting stagnating oil output and sharp declines in mining and agriculture. Oil production, after a steady decline since 1970, has leveled off at about 2.3 billion barrels per day (b/d). Venezuela is now the world's fifth largest producer. Inflationary pressures have abated somewhat, reflecting in part government measures to reduce liquidity through more restrictive monetary policies.

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Venezuela: Economic Indicators

	1973	1974	1975	1976*
Real GDP growth (%)	6.7	5.8	5.4	5.7
Manufacturing output growth (%)	17.0	22.0	14.0	11.0
Crude petroleum output (1,000 b/d)	3,370	3,000	2,350	2,290
Inflation (%)	4.1	8.3	10.3	6.9
Unemployment rate (%)	N.A.	6.3	N.A.	6.4

*Preliminary.

Prospects

Real economic growth over the remainder of President Perez' term will likely approximate the 5.5 percent annual rate of the past three years, reflecting continued large public investment programs and strong consumer demand. Financed by massive oil revenues, Caracas has initiated a $27-billion development program to develop infrastructure and the metal and petro-chemical industries. Public development outlays together with the large current outlays for wages, welfare programs, and subsidies, will continue to increase private demand and thus spur industrial production. At the same time, rising imports and extensive price controls will keep the inflation rate at an acceptably low level.

Caracas plans to continue oil production at about the current level of 2.3 million b/d over the next couple of years. Meanwhile, it will be pursuing large exploration programs to bolster its declining oil reserves. These programs may not accomplish much, however. Venezuela's determination to maintain its independence from the oil companies, especially during the upcoming presidential election campaign, may well prevent Caracas from seeking the large foreign participation necessary to achieve its oil exploration goals.

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For the first time in recent years, in 1976 the balance of payments ran a slight deficit--approximately $283 million. Reduced oil export volume together with a 15 percent jump in imports reduced the trade surplus to $2.6 billion and cut the current account balance nearly 40 percent. The capital account registered a significant deficit as a result of heavy outflows, largely compensation payments for the nationalized oil and iron ore industries. The external payments situation nevertheless remains healthy: foreign exchange reserves are large, and Venezuela's international credit standing is excellent.

By the mid-1980s, however, declining oil reserves may well force further production cuts, reduced import capacity, and slower economic growth unless major new oil deposits are discovered. Consequently, Caracas can be expected to continue to push for higher oil prices in OPEC councils.

Venezuela: Balance of Payments

(Million US $)

	1973	1974	1975	1976*
Exports (f.o.b.)	4,601	10,600	8,700	8,932
Imports (f.o.b.)	2,626	3,900	5,500	6,300
Current account balance	586	5,800	2,400	1,500
Overall balance	680	4,101	2,348	-283
Gold and foreign exchange reserves	2,412	6,513	8,861	8,578

*Preliminary.

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