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Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon

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CIA Report on "Chile's Economic Vulnerabilities"

Attached for your information at Tab A is a report prepared by CIA on the outlook for the Chilean economy, its vulnerabilities, and the likely impact of U.S. economic sanctions which might be considered. The report reaches the following conclusions:

—The Chilean economy has performed poorly in recent years, and little or no growth is in prospect for 1971. While a severe economic downturn this year is not likely, there will be some interruptions in output as a result of expropriations, business failures, and stepped-up land reform.

—The U.S. has little economic leverage in Chile and economic sanctions would probably have only a limited impact on Chile's economy over the next year or two. (The U.S. accounted for only 17% of Chile's exports in 1969 and probably for less in 1970. Most of these exports, including copper, could be sold to other markets.)

—Chile would not be particularly vulnerable to a termination of U.S. aid since it has a backlog of over $400 million in long-term credits (of which only about $70 million consist of U.S. official loans) which are usable over the next three years.

—In addition to having no real leverage over copper sales, the U.S. also has none over the process. The Chileans could continue to operate the copper mines without us, although output might be less efficient than under U.S. management. Chile could get necessary supplies and technical help to run the industry from a number of countries other than the U.S. since the technology used is common to the copper industry.

—Although the U.S. has been a major supplier of capital goods to Chile, blocking future sales to Chile also would have only a small, short-term impact since similar goods could be purchased from other sources, such as Western Europe and Japan.

—In the short run, sanctions would probably improve Chile's financial position by giving Allende an excuse to default on U.S. public and private loans which total $900 million.

In sum, the report suggests that traditional economic sanctions such as those used against Cuba probably would have little immediate adverse impact on Chile. It also suggests they could prove counterproductive by giving Allende an excuse to

tighten his political control, boosting his local popularity, increasing international sympathy for his regime, and causing Chile to move more rapidly to strengthen its ties with the Soviet bloc.

Last October, Ambassador Korry indicated that the economic situation in Chile was likely to deteriorate this year and might reach a serious point about the time of the April 4 municipal elections. He implied thereby that we might have some measure of leverage in Chile at that time. The report indicates, however, that the economic situation is not likely to reach a really serious point this year and that we have no real leverage over the immediate situation in Chile.