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

Steel

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

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

Shifting Trade Patterns

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

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

Funds Flood Sudan, The New Arab Granary

SUDAN

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

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

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

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

According to the program, AADAI shareholders will sponsor capital intensive infrastructural development projects, operning the way for commercial investors to put together profitable business packages in fields such as canning, trucking, livestock production, textiles, and so forth. AADAI will provide 45 percent of the financing, while the remaining 65 percent of the plan's expenditures will be in foreign currency under arrangements explicitly set up by AADAI.

In the plan's first phase-10 years, 100 integrated projects will be started to develop infrastructure and Sudan's agro-industry. In the second phase, yet to be delineated in detail, emphasis will be placed on "the acceleration of productive projects." Based on 1970 prices, agricultural exports will increase 300 percent during the plan's first phase. By 1985 Sudan will be able to provide 42 percent of sugar, and 58 percent of meat equivalent in animal feed.

Some People Don't Like This Idea

Critics around the World Bank have charged that it is unrealistic for a country that must still import food for its own population to think it can begin producing food for the entire Arab world. The International Labor Organization recently published a report on Sudan which claims that modern capital-intensive irrigated farming is "not profit-worthy." Fertilizer must be bought from abroad, the ILO complains, heavy inputs must be made in social services and capital goods. The ILO alternatively suggests the "development of traditional agriculture." In the same vein, the World Bank is pressuring the Sudanese and their Arab backers to "reconsider" their development schemes and to take into account the "wider implications" of the 25-year plan like the "social cost." Do not "rush in headlong to make Sudan a major exporter of food by 1980," the Bank has warned AADAI.

Such interest's admonishments—and other pressures—have had their impact. In the wake of the July 2 coup attempt, Numeiry suddenly proclaimed that he wanted stronger ties with the U.S. Numeiry made a two-week visit to the U.S. where he urged U.S. investment in Sudan's chrome industry, claiming that Sudan's ore is of higher quality that South Africa's. Currently, most of the chrome extracted by the nationalized Ingessana Hills Mining Co. is exported to Japan. Numeiry also showed willingness to "open the door" to foreign banks, after he had nationalized all the banks in Sudan years ago. Chase Manahattan plans to open a branch in Khartoum and has expressed readiness to participate in Sudan's Six- Year Plan.

But David Rockefeller's relationship toward Sudan is hardly beneficent. In 1974, Chase was involved in a development scheme arranged by Adnan Khashoggi, a freelance Saudi financier, for a $250 million project for food and infrastructure in Sudan. The credits to Sudan were backed up by a Saudi loan guarantee arranged by Khashoggi, and Chase was named as manager. But at the last minute, Chase pulled out of the consortium and the whole scheme collapsed, leaving the Saudis stuck with the loan guarantee.

The top priority of development efforts in Sudan is infrastructure, specifically the development of irrigation and transport, i.e., roads, harbors, railways, pipelines, etc. Port Sudan—through which more than 95 percent of Sudan's exports and imports pass— is barely able to manage the growing volume of heavy capital equipment and a new port at Suakin is slated to be built. Rolling stock is in short supply; in addition, oil products now take up 40 percent of the railway's capacity. When the Port Sudan-Khartoum pipeline and highway is completed this year, the railway will begin to work more efficiently, allowing for goods to reach their destination on schedule. An expansion of the railway and road system is currently underway, financed to a large extent by European capital.

Irrigation is the other prime focus, with almost 2 million acres of uncultivated land scheduled to be irrigated. Plans also exist for the rapid expansion of rain-fed mechanized farming in the Kassala-Darfur regions, with 200 million acres earmarked for eventual cultivation!

Sources of Capital

The extent of capital investment in Sudan is immense. *Saudi Arabia* is extremely active in Sudan. Last November, King Khalid visited Sudan to advance economic cooperation between Sudan, Saudi Arabia, and Egypt. Khalid gave $700 million in credits to Numeiry. The Saudis are setting up an oil refinery in Port Sudan and have agreed to supply Sudan's oil needs through 1979. They are also financing the search for minerals in the Red Sea. Members of the Saudi royal family as well as Khashoggi are investing heavily in cattle farming in Sudan, with U.S. firms acting as managers of the projects.

Kuwait likewise extremely active in Sudan, as are to a lesser extent the United Arab Emirates, *Abu Dhabi*, and *Iraq*.

Sudan is also attracting considerable business from Europe and Japan. *Italy* has signed numerous trade agreements with the Sudanese; *France*, the *Netherlands, West Germany*, and *Japan* have extending sizable loans. *Great Britain* maintains its position as Sudan's number one trading partner. For example, Massey Ferguson provides tractors for the Gezira and Rahad agriculture and irrigation schemes; Lonrho manages the giant Kenana Sugar Estate; Fletcher and Stewart are building two important sugar factories. Last November, at approximately the same time that King Khalid arrived in Sudan, a 14-man mission sponsored jointly by the London Chamber of Commerce and the British Agricultural Export Council visited Sudan. The Lonrho Kenana project is exemplary of the kind of joint British-Arab cooperation. Kenana will, by 1980, produce 300,000 tons of sugar to be increased to 1 million tons, making it the world's largest combined sugar plantation and refining estate. Last year, Kuwait bought 23 percent of Kenana's stock.

Financial Crisis

Despite extensive Arab financing, Sudan now faces considerable balance of payments troubles, including a large trade deficit ($592.6 million in 1975, an increased of 66 percent over the 1974 level), and an inflation rate of 20 percent. The result is that Khartoum has been forced to borrow from abroad, bringing the ratio of debt servicing to export earnings to 35 percent: The difficulties have not discouraged investors, however. The New African Development journal uports that investors recognize that "the import of capital machinery which has contributed to the balance of payments deficits will begin to produce profitable returns. The well-publicized sugar schemes have served as a sort of dry run for developments already under way in other sectors of the economy."