

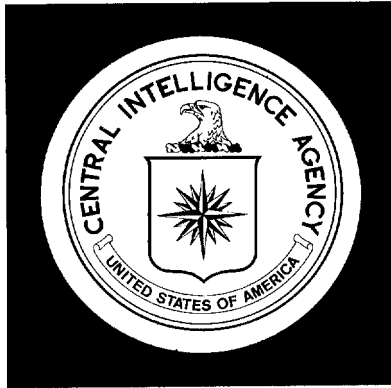
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Weekly Summary

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July 16, 1976

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary,

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Middle East

LEBANON 1-2

Christian and Syrian forces this week continued to press their military advantage against their Palestinian and Lebanese leftist adversaries as the scene of heavy fighting shifted from the Beirut refugee camps to the northern and eastern parts of the country. The latest leftist and Palestinian reverses have prompted Palestinian leader Yasir Arafat to agree to meet with Syrian leaders on July 16 in Damascus. Increasingly at odds with his Lebanese leftist allies and disheartened by the failure of the other Arabs to put effective pressure on Syria to stop its offensive against the fedayeen, Arafat may be ready to attempt to negotiate a cease-fire.

The Christians—pushing farther beyond the traditional line dividing Christian and Muslim territory—linked up

with the Syrians encircling the Muslim-controlled port of Tripoli and claim to have captured the city's principal source of fresh water. There are indications that Damascus sent perhaps as many as several thousand additional troops into northern Lebanon last weekend, although this has not been confirmed.

Syrian forces also began their long-threatened assault on Balabakk, the only remaining leftist stronghold in the Bekaa Valley not under Syrian control. By midweek, Syrian forces had breached the city's defensive perimeters, and fierce fighting was going on inside the town itself. In Beirut, fighting continued in the usual confrontation areas, including the Palestinians' Tall Zatar camp, where a small number of defenders continued to hold out.

Continuing resupply problems have become a key bone of contention between Arafat and his leftist allies. Late last week, both Arafat and leftist leader Kamal Jumblatt appealed urgently to other Arabs for military assistance.

Egypt, Iraq, and Libya have been supplying arms to the Palestinians and leftists for some time now.

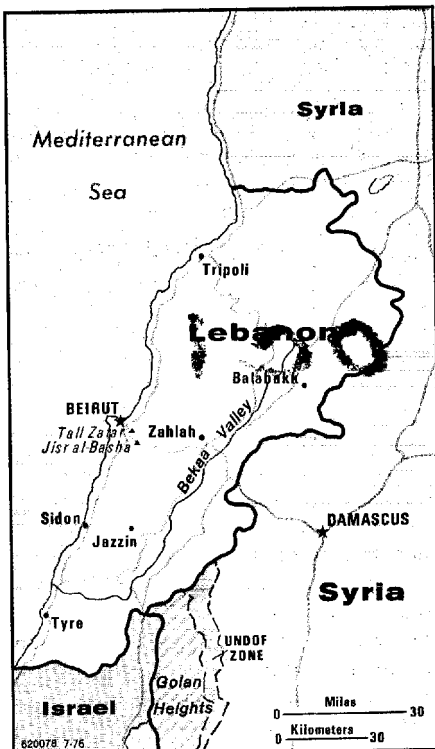
The Egyptians also urged the Arab League to supply the Arab military contingents already in Lebanon—they are from Syria, Libya, Sudan, and Saudi Arabia—with heavier arms so they could intervene directly in the fighting rather than act simply as a peace-keeping mission. The Arab foreign ministers, who met again in Cairo on July 12-13 on the Lebanese crisis, quickly shelved the Egyptian proposal in favor of several vaguely worded resolutions that only underscored the league's continuing inability to play an effective role in Lebanon.

Syria did agree at the meeting to pull back forces from Sidon, and Syrian troops have subsequently withdrawn to positions beyond Jazzin to the Bekaa Valley. The move is probably another of the Syrians' tactical concessions, however, designed primarily to finesse the Egyptians and ward off further Arab pressure. The gesture may also have been intended to make it easier for Arafat to open negotiations with Damascus without appearing to be capitulating to Syrian demands. (A fuller discussion of Syrian strategy vis-a-vis the Palestinians begins on Page 9.)

The Israelis, meanwhile, continue to take a relatively relaxed attitude toward Syrian actions in Lebanon. Defense Minister Peres, a hard-line conservative, indicated last week in private that Israel was prepared to tolerate a consolidation of Syrian control in Lebanon, reflecting the Israelis' present satisfaction with Syrian-Christian cooperation against the Palestine Liberation Organization. At the same time, however, Israeli leaders continue to have nagging suspicions about the long-term adverse effects for Israel of Syria's military presence in Lebanon. Both Prime Minister Rabin and Foreign Minister Allon have repeatedly expressed concern that Syria could ultimately seek an accommodation with the Palestinians that would leave the Christians isolated and free the Palestinians to resume their operations against Israel.



Kamal Jumblatt



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JORDAN

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King Husayn this week designated Mudhir Badran, head of the royal court, to succeed Zayd Rifai as prime minister, minister of defense, and minister of foreign affairs. Rifai apparently resigned voluntarily and probably will remain as an influential unofficial adviser to the King.

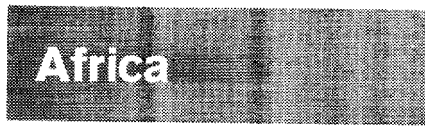
Badran is a political and economic conservative from Jordan's East Bank. Although he has only tenuous ties to the area's current tribal leadership, he will be considered by the King's traditional supporters to be an improvement over Rifai, who tended to neglect army and Bedouin interests.

Badran has held a variety of military, intelligence, and civilian posts. He is not a powerful politician or personality, however, and almost certainly will be a much weaker prime minister than Rifai.

The change will be welcomed by Crown Prince Hassan, whose political influence declined steadily during Rifai's three years in office. In fact, Hassan's position will probably not be significantly strengthened, although he may make new efforts to persuade the King to temper his support for policies promoted by Rifai. Hassan can be expected to push for a

reduction in Jordan's commitment to cooperate with Syria and for an improvement in relations with Egypt and Saudi Arabia and against any far-reaching agreements with the Soviets.

Although Rifai has been closely identified with the Jordanian decision to discuss an air defense deal with the Soviets, there is no evidence that his resignation is



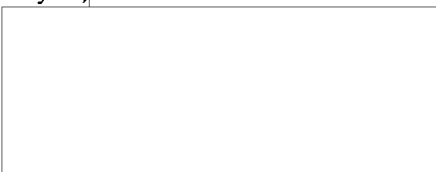
KENYA-UGANDA

The danger of military conflict between Kenya and Uganda as a result of Israel's use of Nairobi airport in rescuing hostages held in Uganda receded somewhat this week, although the armies of both countries remain on alert. Continuing tensions between Nairobi and Kampala were reflected in economic harassment measures by the Kenyans, reprisals against Kenyan nationals by the Ugandans, and secret diplomatic undertakings by both sides.

Neither side has made any significant military moves for several days. The Ugandan units near the border remain reinforced; Kenyan forces are being kept some distance from the frontier, under orders to make no move that Amin might construe as a provocation.

Kenyan military officers seem confident that a Ugandan ground attack would soon grind to a halt. Nairobi believes Uganda is short of fuel, that Kampala's military equipment is poorly maintained, and that Amin's army does not have the will to fight. The Kenyans, with virtually no air defense, are more concerned about an air strike from Uganda. Kenyan claims that a number of Libyan Mirages were sent to Uganda following the Israeli raid on Entebbe airfield remain unconfirmed.

Nairobi has denied Amin's charges that Kenya has imposed a total blockade on goods destined for landlocked Uganda. The Kenyans halted rail shipments of aviation fuel to Kampala for five days, but agreed to permit a small delivery on July 14, [redacted]



Claims in the Nairobi press that 250 Kenyans living in Uganda have been

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Crown Prince Hassan
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directly related to Jordan's recently renewed efforts to secure Saudi funding for a US system. Riyadh will be gratified, however, by Rifai's departure from office. Rifai's inability to deal effectively with the Saudis has long been a major impediment to successful negotiations.

Husayn visited Saudi Arabia on July 4 and 5, presumably to brief the Saudis on the results of his visit to the Soviet Union last month and to explore the possibilities for an increase in funding for a US system. [redacted]



Mudhir Badran

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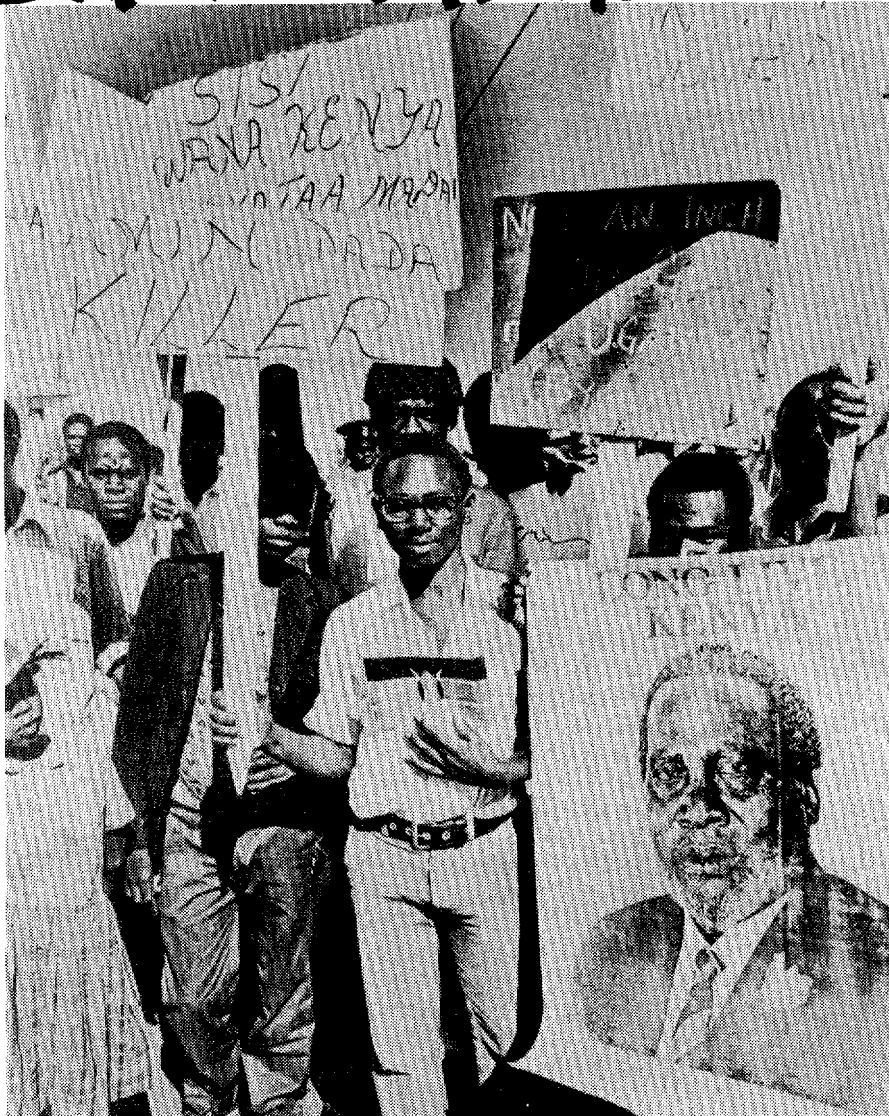
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ETHIOPIA 29-27



Recent anti-Amin demonstration in Kenya

killed by local security forces are no doubt exaggerated, but there have been some killings and other acts of reprisal. There is no hard evidence that systematic and officially sanctioned reprisals are under way, but at the very least the Kenyans are probably considered fair game by undisciplined Ugandan soldiers or other Ugandans.

On the political front, neighboring Tanzania has indicated it would not receive a Ugandan delegation whose purpose was

to seek assurances of Dar es Salaam's neutrality in case of war between Uganda and Kenya. The Tanzanians have no love for Amin and have given sanctuary and limited aid to anti-Amin exiles since Amin came to power in 1971.



Major Mengistu Hailemariam, the first vice chairman of the ruling military council, is directing a new purge of suspected military opponents, including officers who have played a major role in the regime. The purge seems likely to increase opposition within the armed forces to the council and to Mengistu personally.

On July 13, the council announced the execution last weekend of 19 persons for alleged antigovernment and criminal acts. The list included General Getachew Nadew, the chief martial law administrator and armed forces commander in Eritrea, and Major Sisay Habte, the third-ranking member of the council. Both officers were accused of coup plotting.

The other 17 persons executed were businessmen and civil servants accused of crimes ranging from hoarding foodstuffs to negligence of duty; they are apparently being made scapegoats for the council's economic policy failures and mismanagement. The announcement also said a member of the council had been arrested and two others had fled Addis Ababa to avoid arrest. There are indications that additional council members may be arrested soon.

None of the victims of the purge is known to have been actively plotting against the government. Both Getachew and Sisay, however, had ties to dissidents in the armed forces, and both reportedly had urged the council to moderate the radical leftist policies advocated by Mengistu and his faction. The troops commanded by Getachew in Eritrea are war-weary and impatient with the council's inability to find a political solution to the long conflict with secessionist guerrillas.

Mengistu may have suspected Sisay, an air force officer, of collusion with members of the air force who recently demonstrated serious discontent with the council. Some air force officers and enlisted men went on strike in late June over the council's military tactics in Eritrea.

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The troops in Eritrea, members of the division that guards the border with Somalia, and air force personnel reportedly all sent similar lists of demands to the council in recent weeks. They called for a dissolution of the council, the restoration of civilian rule, and a peaceful settlement of the Eritrean conflict.

The US consul in Asmara has received reports that the troops in Eritrea are angry about Getachew's execution.

25X1 [redacted] military officers in Eritrea have been meeting since they learned of Getachew's death to discuss a move to oust the council. The officers are said to be in touch with military units in other areas.

25X1 A determined effort by dissident units to move troops to Addis Ababa to oust the council might well succeed. Relatively few units still guard the capital, and many of their members probably would not fight to defend the council.



Mengistu Hailemariam

FTAI

63-64 1000

Tribal fighting flared last weekend in the French Territory of the Afars and Issas, further complicating French efforts to bring about an orderly transition to independence.

According to some reports, clashes between Afar and Issa tribesmen—traditional enemies—began as skirmishes between the Afar-dominated National Independence Union, which is headed by local government president Ali Aref Bourhan, and the predominantly Issa opposition party, the African People's Independence League. Serious rioting erupted after Issas attacked the Afar-inhabited quarter in Djibouti, the capital. At least 13 people were killed—most of them reportedly Afars—and 50 injured before police restored order.

During the outbreak, Issas attacked and burned the home of Ali Aref's brother. Issas hold Aref responsible for denying them full participation in the territory's politics and economy.

Last month representatives of the union and of the league and other opponents of Aref—meeting under French auspices—agreed in principle to form a coalition government and to support changes in the territory's electoral laws that would give the Issas and other ethnic Somalis greater representation in the



Ali Aref Bourhan

political process. The union representatives signed the agreement over the objections of Aref, whose support within the party has declined sharply over the past year.

The resurgence of tribal hostility may make it difficult for the union and the league to continue their collaboration. Aref will probably try to convince the Afars that they need his continued leadership to protect their interests against the league. If he succeeds, territorial politics will again become polarized, considerably reducing France's chances of creating a government strong enough to withstand Somali pressure to annex the territory.

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29.30 Cuba - Cape Verde Islands May Establish Air Link

Cubana Airlines may be planning to add the Cape Verde Islands to the itinerary of its twice-weekly commercial air service to Africa. A protocol for an agreement for an air link between Cape Verde and Cuba was signed in Praia, capital of the Republic of Cape Verde, by civil aviation officials of both countries, according to the Angolan domestic radio on July 9. The protocol must be ratified by the two governments, but this is likely to be little more than a formality.

Cubana's two weekly flights to Africa now leave Havana Tuesday and Saturday

evenings and stop off in Barbados, Guinea, and Sierra Leone before arriving in Luanda—the turn-around point—26 hours later.

The preparations for adding the Cape Verde Islands to the itinerary suggests that Havana sees for itself a continuing role in their political and economic development—a role significant enough to require better access to the area. The Cubans used the islands as a refueling point on several occasions during the height of the trooplift to Angola.

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NAMIBIA

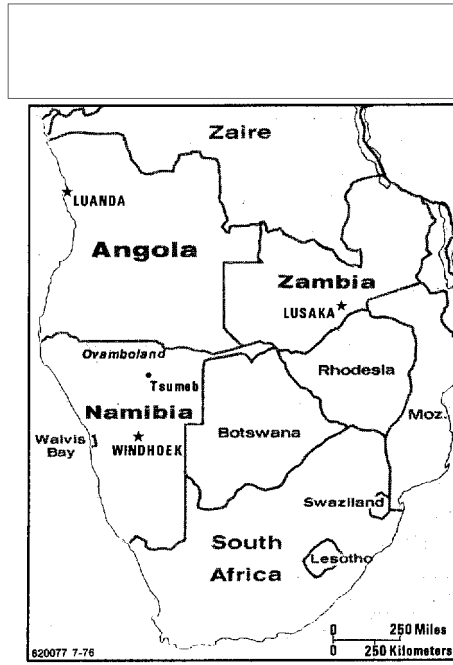
Angola-based insurgents of the Southwest African People's Organization, which seeks Namibia's independence from South Africa, appear to be operating more aggressively along the Angola-Namibia border. They are also penetrating deeper into Namibia.

Last week a guerrilla band killed an Ovambo tribal policeman and members of his family at their home near the Angolan border, then killed a farmer in a nearby village, and seized a school teacher whom they took back to Angola. According to the South African commissioner general for Namibia, nine more Ovambos were abducted by other guerrilla bands last week. It was the highest toll of SWAPO killings and kidnappings within a single week.

Prior to these incidents, the insurgents had killed at least 20 civilians and 8 South African soldiers since last July. Most of the civilian victims were Ovambo leaders or other tribal members who collaborated with the South African administration.

The insurgents, also predominantly Ovambos, continue to seek out such targets. The policeman killed last week was a bodyguard for the chief minister of the Ovamboland government established by Pretoria in 1973.

South African authorities have confirmed that a ten-man guerrilla group from Angola crossed the southern border of Ovamboland last month and entered the copper mining area around Tsumeb, where all but two were killed. This is the deepest known penetration by a group of this size.



Portuguese people had repudiated the turmoil fomented by the Communists and their sympathizers during the months when these groups exerted an exaggerated influence on government policy. He said there is a place for responsible political opposition in Portugal, but stressed that it must be to a government and not to the concept of democracy.

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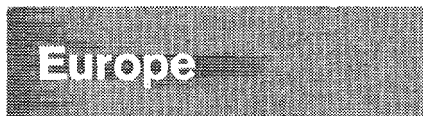
His remarks were enthusiastically received by the representatives of the parties that had supported his campaign for the presidency—the Socialists, the centrist Popular Democrats, and the conservative Social Democratic Center. The Communists, unhappy over their exclusion from the new government, sat solemnly through the speech.

Early indications are that Eanes intends to leave most political matters to Socialist leader Soares, whom he will soon appoint prime minister. Eanes' own priorities appear to lie in using his position to mobilize support for the minority government Soares is expected to name next week.

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PORTUGAL 36-40

General Antonio Ramalho Eanes was sworn in on July 14 as Portugal's first freely elected president in nearly 50 years, officially marking the end of more than two years of oftentimes turbulent military rule.

In his inaugural address, Eanes asserted that, by his election to the presidency, the

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41-42

EC SUMMIT

The EC heads of government made significant progress on several outstanding issues—most notably direct elections to the European Parliament—at their summit meeting in Brussels on July 12 and 13. Much remains to be done, however, before their decisions can be translated into concrete achievements.

Agreement on the allocation of seats in a 410-seat European Parliament removed the greatest obstacle to holding direct elections, which now are scheduled for May or June, 1978. The decision should give a major impetus to efforts by Christian Democratic, Liberal, and Social Democratic parties within the EC countries to organize into groups and develop common platforms on European issues in preparation for the elections. Talks on the many complex legal and procedural problems that remain will continue at the EC foreign ministers' meeting in Brussels next week.

Britain and Denmark maintain reservations on certain election procedures. They may seek Community permission to continue the current practice of appointing delegates to the parliament, while agreeing to adopt uniform voting

procedures before elections are held again in 1982. The summit decision must also be accorded legal standing, and several possibilities now being considered—ratification by member-state parliaments, for example—may prove troublesome for some, especially France.

The EC leaders issued a declaration on terrorism, instructing their ministers to draft a convention on the prosecution and extradition of terrorists, particularly when hostages are involved. West Germany, with support from the UK, has been pushing hard for a convention in the hope it will act as a springboard for new efforts both within a larger European context and at the UN.

The Nine, acknowledging that “urgent and determined” efforts must be made to harmonize EC economic and monetary policy, decided that a meeting of EC finance ministers—originally set for September—should be held next week. Discussions will center on the current economic situation and a recent Dutch initiative for monetary reform.

The Nine were unable to reach formal agreement on the question of Community and smaller EC state representation at big-power summits. The larger states promised, however, to consult with the

“little five” before accepting such in-25X1
vitations and not to make decisions there
on matters affecting the Community.

ITALY

43-46

President Leone asked Giulio Andreotti on July 13 to try to sort out the post-election political tangle and form Italy's next government. Andreotti's job was made more difficult by dissension within the Socialist Party which led to the resignation of the Socialists' top leadership early this week.

Andreotti may attempt to form a smaller, more streamlined cabinet, including some Christian Democrats who have not served in previous cabinets, as well as some technicians. Andreotti appears to recognize that his party, perhaps faced with its last opportunity to head the government, must be prepared to take decisive steps to prove that it can govern effectively.

The Christian Democrats are faced with the obstinate refusal of the Socialists to return to the government, and reportedly have been considering the formation of a minority government to see them through the next few months. The resignation of Socialist Party Secretary De Martino, as well as the 30-member party directorate could foreshadow changes in the Socialist outlook that might have some effect on the government negotiations. In any case, Andreotti will have to wait until the new Socialist Party leadership is chosen to pursue his talks with that party.

Meanwhile, the Christian Democrats appear to be moving toward closer cooperation with the Communist Party. Their aim is to work out a series of parliamentary compromises with the Communists that would enlist their support for specific government programs, while at the same time denying them a formal role in the government. The Christian Democrats have already made unprecedented concessions by ceding the



*Dutch Premier and President of the EC Council Den Uyl greets
President Giscard and Chancellor Schmidt at the EC summit*

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Communists the presidency of the Chamber of Deputies and seven lesser parliamentary posts. The Communists are also likely to receive chairmanships of several of the less sensitive parliamentary committees.

In exchange for such concessions, the



Giulio Andreotti

UPI

Christian Democrats hope the Communists will be satisfied with an indirect role in the legislative process. This would take the form of a programmatic accord in which the Communists could review the government's legislative proposals and submit counterproposals. Should such an accommodation ultimately emerge, the Christian Democrats would probably continue to insist that there is a distinction between the majority and the opposition, but that distinction would be blurred significantly.

The exact nature and extent of the cooperative arrangements to be worked out by the Christian Democrats and Communists may be influenced by the outcome of the leadership struggle in the Socialist Party.

USSR 47-49

Our early July estimate of the Soviet grain crop is 195 million tons, the same as our mid-June estimate. A crop of this size plus imports already purchased would allow the Soviets to recoup some of the losses in their meat and livestock program after last year's shortfalls.

Crop conditions in most of the winter grain area continue unusually favorable. Greater-than-normal losses last fall and winter, however, will restrict the winter grain harvest to an estimated 45 million tons. Prospects for spring grains generally remain good at an estimated 150 million tons, second only to the record 1973 spring grain crop of 159 million tons. West of the Urals, conditions are almost uniformly good; conditions east of the Urals are uneven due to localized showers.

Soviet domestic grain requirements this year depend on the planned rates of growth of livestock herds, meat output, and grain stocks. Additional demand could come from Eastern Europe, especially Poland.

A grain supply of 210 million tons in the 1977 crop year—assuming a 195-million ton harvest and imports already contracted for—would allow the USSR to restore the quality of bread and other grain products to normal levels, increase meat output by about 800,000 tons in the second half of 1976, and slowly increase livestock inventories. Much higher levels of grain imports would be required for large increases in grain reserves, livestock herds, and grain exports to Eastern Europe.

So far this year, the Soviets have bought about 14 million tons of grain for delivery beginning this month. This includes 6.9 million tons from the US, 4.2 million tons of which applies to the Soviet commitment to buy at least 6 million tons for delivery in the year beginning next October. In addition, the Soviets have bought 2 million tons of soybeans, including 1.5 million tons from the US.

The Soviets have given no hint on further purchases during the balance of the crop year, but balance-of-payments

considerations could be critical. Grain and soybean purchases so far in 1976 amount to nearly \$3 billion.

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CEMA 50-52

Heads of government from all the CEMA countries except Cuba—which, as usual, sent a deputy premier—met in East Berlin from July 7 to 9. The participants renewed efforts to expand collaboration by agreeing to draft five new "target programs" for cooperation through 1990. Long-term planning among CEMA members has always been difficult, and progress will probably be slow.

The target programs apparently will deal with the sectors of fuel, energy, and raw material development; consumer goods production; machine building; agriculture; and transportation. Moscow may have been behind this new round of planning, calculating that the economic difficulties of the East European countries would make them more disposed to compromise.

Romanian Prime Minister Manescu pressed—apparently without success—for a separate target program that would focus on accelerated growth of the less-developed CEMA countries. Bucharest maintains that Romania is less developed and thus qualifies for special benefits—a contention Moscow rejects.

The Romanians were able to get frequent references into the communique pointing to the necessity of equalizing levels of economic development. The communique claims that the five specific programs will in effect compose a generalized plan of accelerated growth for the less-developed countries. This language provides Bucharest with enough ammunition to keep the issue alive.

The conferees took special pains, in the wake of the Polish riots, to project an aura of business-as-usual, but there was probably some candid discussion of East European economic problems and prospects for further consumer unrest.

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Western Hemisphere

PERU 53-56

A brief military rebellion last week by a rightist army general, while easily put down, is symptomatic of the disharmony within the Peruvian military over the future course of the revolution and the regime's leadership and policies.

The rebellion on June 9 was sparked by an open clash between leftist Prime Minister Jorge Fernandez Maldonado, the army commander, and General Carlos Bobbio Centurion, a conservative who has been working with like-minded officers in the army and navy to deflect a leftward drift in government policy.

After an argument that had both ideological and personal aspects, Fernandez Maldonado, with President Francisco Morales Bermudez' concurrence, decided to remove Bobbio from his post as commander of a training center near Lima.

Bobbio resisted, and a brief battle ensued at the center. Bobbio gave up the fight when it became clear he had no immediate support. He has since been retired, and all military commands have publicly condemned his action.

Fernandez Maldonado is at least the short-term winner, having eliminated an important conservative voice from army ranks, but his problems are not over. He must still contend with bitter opposition from the navy, he can expect little help from the air force, and most important, there is some uncertainty about the leanings of various key subordinates in the army.

By itself the navy can do little more than serve as a catalyst—perhaps, for example, making good on its most recent threat to set to sea in protest against Fernandez Maldonado. This might spur a significant contingent of army dissidents into action. For the moment, however,

rightists in the army, having lost in Bobbio their best available spokesman, must regroup around new leadership.

President Morales Bermudez will benefit only briefly from the show of loyalty accorded him after last week's rebellion.

He must still contend with military disunity and mounting economic problems. His civilian finance minister reportedly intends to resign if he fails to obtain a crucial stopgap loan during his current visit to US banks. The departure of this minister would raise further questions about the effectiveness of the President's leadership.

[Redacted]

ARGENTINA 57-59

Argentina's military government has checked the country's runaway inflation, but at the expense of deepening the economic recession.

The monthly inflation rate dropped from 38 percent in March to under 3 percent in June, chiefly as a result of restraints on wages and cuts in government spending. More than 60,000 government employees have been fired as part of the government plan to reduce the budget deficit by 75 percent in 1976.

Real wages, which peaked a year ago, are now at their lowest point in over a decade. With 1960 as the base year at 100, real wages last month dropped to 63, compared with 210 for June 1975. Economy Minister Martinez de Hoz has permitted only one 15-percent wage hike since the junta came to power, while prices nearly doubled before inflation was checked.

Businessmen are beginning to complain of declining demand, and the government will now try to expand purchasing power but at a measured pace. In particular, the regime will attempt to stimulate foreign and domestic investment.

As production begins to revive, the inflation rate is likely to rise again. The jun-

ta's first concern will be to see that inflation does not again get out of hand.

[Redacted]

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International

60-62
WORLD RICE PRODUCTION

We estimate a record world rice harvest ranging from 335 to 340 million tons for the current crop year, 4 percent above last year's record crop. Almost every Asian country, except China and Vietnam, is expecting a larger crop this year, and production outside Asia is expected to be up by 11 percent.

Rice available for export in 1976 should reach nearly 10 million tons—over 30 percent more than was exported last year. This volume is probably about 2.8 million tons more than importers will want to buy, leaving some major exporters—including the US, Pakistan, and Thailand—with large carry-over stocks. Record domestic harvests will enable many major rice importers, such as South Korea, Bangladesh, and the Philippines, to decrease imports this year. States like India, Indonesia, and Sri Lanka, which must import large quantities this year, will benefit from increased availability and lower prices.

The 24-month decline in world rice prices can be expected to continue through most of 1976. The extent will depend on stock rebuilding policies, consumption levels in the major importing nations, and prospects for the 1976 fall harvest. World stocks may be rebuilt to levels held prior to the rice shortages of the 1973-74 crop year.

The US Department of Agriculture estimates US rice supplies available for export in 1976 at almost 3 million tons and forecasts that total exports will be 1.8 million tons, down 17 percent from last year's record level.

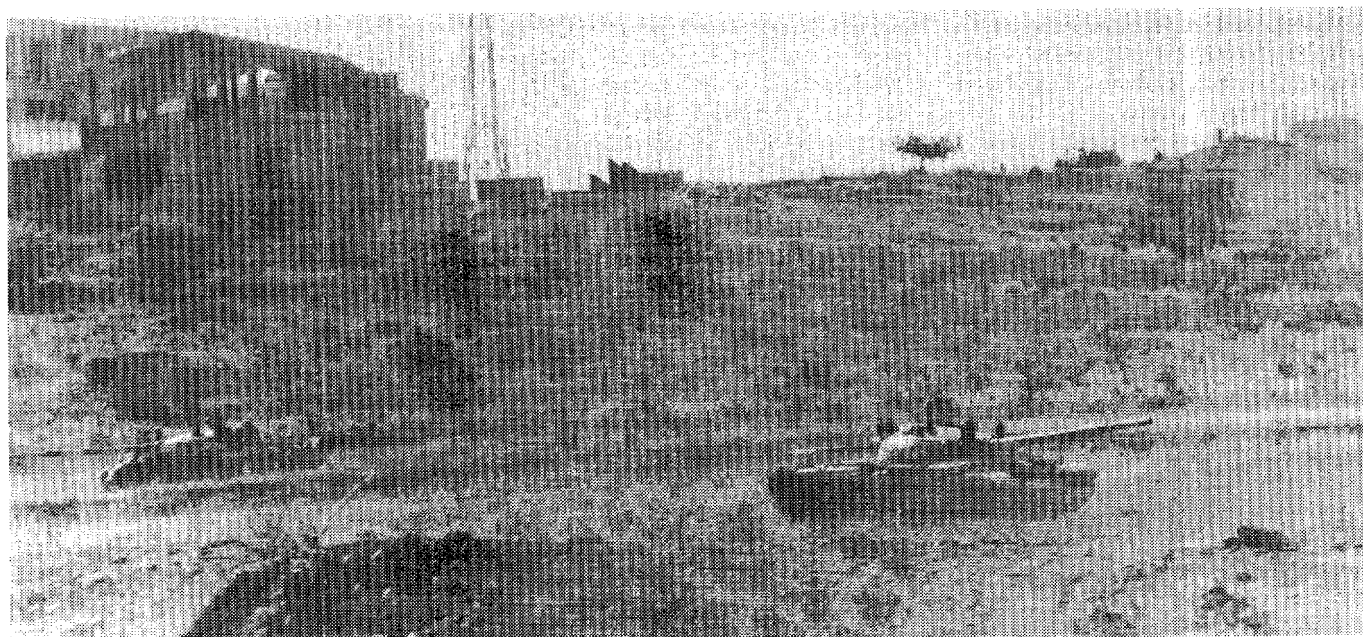
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Syria appears intent on keeping up its pressure on the Palestinians and leftists in Lebanon until it gets the settlement it wants. Damascus believes it must deal decisively with the Palestinians before political talks can be organized looking toward negotiation of a new modus vivendi between contending Lebanese factions.

65-66

Syria-Palestinians: Pressure in Lebanon



Syrian tanks near Zahle

GAMMA

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Syria appears determined to continue its military pressure on Palestinian and leftist forces in Lebanon until leaders of these groups accept or are forced to acquiesce in a political settlement on terms favorable to Syria.

If Palestine Liberation Organization chairman Arafat were to agree now to make significant concessions, Damascus probably would settle for Palestinian adherence to past Lebanese-Palestinian accords regulating fedayeen activity in Lebanon and would allow the PLO to continue to operate as an independent but weakened organization.

If fedayeen forces persist in challenging

Syria's armed intervention, however, Damascus is likely to attempt to limit sharply the Palestinians' independent military capability.

Syria would also attempt to force the PLO under its political control and to encourage Palestinian leaders to replace Arafat with a leader or group of leaders willing to accept accommodation with Syria.

Despite Palestinian claims this week that Syria has agreed to pull back from Lebanon's cities—a promise probably intended to buy time—Damascus believes that it must deal decisively with the Palestinians before it can force the Lebanese to work out a political settlement.

The Lebanese Christians, who are receiving both moral and material support from Syria, are eager to cooperate in this approach and may even seek to keep the fighting going after the Syrians have achieved their military objectives.

Lebanese leftists remain obstinate and will continue to pose a major political and security problem for Damascus. If Palestinian military involvement ended, however, the leftist forces could not confront Syria alone or prevent establishment of a Syrian-backed government.

Syrian President Asad is working with the Christians to consolidate Syrian or Christian control of most of Lebanon with the exception of leftist- and fedayeen-con-

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trolled quarters of the major port cities and portions of the south. The fedayeen would be restricted to these areas and to the Palestinian refugee camps.

Following this, Asad presumably will join with powerful Christian leaders in forcing President Franjyah to resign and would encourage president-elect Sarkis to resume negotiations toward formation of a new government and a new Lebanese security force.

We believe Damascus expects, and is prepared, to keep several thousand Syrian troops in Lebanon for the indefinite future to support Sarkis' efforts.

Military Strategy

Syria withdrew its lightly armed commando forces from the immediate Beirut area late last month. This move, however, did not represent a decision by Syria to reduce its military pressure on the Palestinians.

It was designed primarily to dispel growing Arab criticism of Damascus' direct attacks on the Palestinians. The level of Syrian military activity in most other areas of Lebanon has increased significantly in the past week.

Additional Syrian troops are entering the country. The US embassy in Damascus recently estimated Syrian troop strength in Lebanon at approximately 18,000 men.

The recent attacks by the Lebanese Christian militias on Walf Zata and Jir al-Basha Palestinian camps in Beirut began as the Syrians were withdrawing from the city and more than offset any reduction in Syrian military pressure on the Palestinians.

Most of the Syrian forces that had been stationed in Beirut returned to Syria, but more heavily armed Syrian units located near Sidon, in the Bekaa Valley, in northern Lebanon, and in the central mountains intensified their attacks on Palestinian and leftist forces.

Syrian forces this month joined with the Christian militias in reopening the road connecting the isolated, predominantly Christian city of Zahlah with the more secure Christian area in the central mountains. This will facilitate the resupply of

Christian forces directly from Syria.

In the near term, Syria presumably will avoid the heavy ground combat that almost certainly would be required to end fedayeen control of portions of the major cities.

Such a campaign would result in numerous casualties, damage the morale of the Syrian army, and fuel renewed criticism of Asad at home and in the Arab world. Syrian naval, air, and ground forces will in any case be capable for the most part of preventing regular resupply of leftist and fedayeen forces.

Continued Buildup

There is no evidence that Damascus feels it can or must withdraw its troops from Lebanon. Palestinian forces controlled by Syria—the Palestine Liberation Army and the Saiqa fedayeen group—have proved unreliable substitutes for regular Syrian units, and Damascus has no confidence that any Arab League contingent can play a useful role.

If the Palestinians do not seek a negotiated settlement quickly, Asad is likely to increase the military pressure. The Syrians and Christians probably would seek first to prevent any substantial movement into or between fedayeen-controlled areas, hoping that the Palestinians, lacking resupply, would soon exhaust their stockpiles of arms and ammunition.

Following or failing this, Syrian and Christian troops presumably would increase their shelling of fedayeen areas and try gradually to constrict the fedayeen-controlled areas of the three major cities. This strategy would be based on the expectation that the fedayeen would decide ultimately to make significant political concessions rather than risk total destruction.

Damascus might at times respect calls for cease-fires to gain time for resupply and regrouping but appears willing to pursue its fight with the Palestinians until it has sharply limited the fedayeen's independent military capability. Syria would not, however, want to bear the opprobrium of having completely destroyed the fedayeen movement.

Syrian forces may seek to establish

effective control of all movement in and out of Palestinian camps and in the extreme case might attempt to relocate certain fedayeen military camps to isolated areas of the country where Damascus could monitor all arms movements and military operations.

A system of controls almost this severe has been in effect in Syria for some years and has virtually eliminated unauthorized fedayeen military activity.

Political Pressures

Damascus obviously also hopes that it can force political concessions by undermining Palestinian and wider Arab backing for Fatah and for Yasir Arafat. Syria has mounted an intensive propaganda campaign to convince Palestinians that Fatah—not Syria—is acting against the Palestinians' best interests in Lebanon.

Damascus has been willing to cooperate with Arab League and third party mediation efforts to the extent necessary to head off effective opposition to Syria or support for the Palestinians.

The Syrians charge that Fatah has violated the charter of the Palestine Liberation Organization by attacking other Palestinian groups and the forces of another Arab state. Damascus has sought to demonstrate that its Lebanese policy is backed by leaders of the civilian Palestinian organizations represented in the PLO. Syrian spokesmen have also played up Syria's recent support for the Palestinians in the UN and other international forums.

Syria's propaganda thus far appears designed primarily to inhibit greater support for Arafat and his Fatah colleagues, but its accusations that the Fatah-dominated PLO leadership is violating the organization's charter come close to questioning the leadership's right to continue in office.

It would be only a small additional step for Damascus to prompt a pro-Syrian Palestinian leader to call for a new meeting of the Palestine National Council, the PLO's parliamentary arm, to elect a replacement for Arafat as chairman of the PLO.

A meeting of the council is in fact over-

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due. The group theoretically convenes every year, but it has not met since June 1974. Although the chairman of the council has publicly declared his support for Damascus' Lebanese policy, it is doubtful that a majority of the group would vote to replace Arafat.

The most likely result would be an open split of the PLO into pro- and anti-Syrian factions. If the Syrian-Palestinian confrontation continues for much longer, Damascus may conclude that even this would work to Syria's benefit.

If Arafat continues to refuse to seek accommodation with Syria, Damascus probably will work both to unseat him as head of the PLO and to undermine his position in his own Fatah organization. Syria would like to eliminate Fatah control of the PLO, but, failing that, would hope to reduce Fatah's preponderant influence.

Damascus presumably will continue for a time to work against Arafat indirectly and gradually, preferring that Arafat be forced out by other Palestinian leaders rather than directly by Damascus. Syria probably would support a pro-Syrian leader who is not a member of one of the fedayeen groups or would support a group of leaders drawn from pro-Syrian and in-

dependent fedayeen groups.

Fedayeen Successors

The most likely Syrian choices for a successor to Arafat would include: Misbah Budayri, commander of the Palestine Liberation Army; Khalid Fahum, chairman of the PLO's National Council; Abd al-Muhsin Abu Mayzar, exiled West Bank leader and member of the executive committee of the PLO; Zuhayr Muhsin, head of Saiqa; or possibly Khalil Wazir, a top-ranking Fatah leader with long-standing ties to Syria.

There is little chance that Wazir, a founder of Fatah, would move against Arafat and attempt with Syrian backing to seize control of both Fatah and the PLO.

It is not impossible, however, that Fatah leaders—who on important issues do make some decisions as a group—might decide that Arafat has failed them in the Lebanon crisis and should be replaced, but only by a reliable Fatah member with an established ability to deal with Damascus.

Such a person, they might calculate, could reach accommodation with Syria yet preserve the independence of the PLO. Wazir would meet these qualifications even though he is not charismatic and his

radical ideas on fedayeen tactics make him unpopular with the Saudis and the other Persian Gulf Arab states that support the Palestinian organizations.

Salah Khalaf—head of Fatah's Black September Organization, Arafat's unofficial deputy in Fatah, and a personal opponent of Wazir—would not be a likely choice for Damascus.

Khalaf took charge of Fatah's anti-Syrian operations in Lebanon during Arafat's recent extended absence and has threatened to carry out subversive activities inside Syria. He probably would be Egypt's choice to head the PLO in any post-Arafat period.

Faruq Qaddumi, the PLO's de facto foreign minister and Fatah's representative on the PLO executive committee, is a much less powerful figure, but he is a possible compromise choice for all parties.

Damascus would be pleased that Qaddumi's accession would leave the PLO weaker; Egypt would be relieved that the organization had not fallen under the full control of Damascus; Fatah leaders presumably would be satisfied that a member of their group, but not one of their personal rivals, had taken charge.

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Zuhayr Muhsin



Abd al-Muhsin Abu Mayzar



Faruq Qaddumi

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Although Iraqi purposes are, as usual, difficult to fathom, the month-long buildup along the Syrian frontier is most likely intended to counter Syrian pressure on the Palestinians and leftist groups in Lebanon. Another purpose may be to incite President Asad's domestic rivals to move against him.

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Iraq: Intentions Toward Syria

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Iraq has maintained for over a month an unusually large military force in the western part of the country along the main routes leading to the border with Syria. The Iraqis have used the buildup to exert pressure on Syria, but the paucity of information available to us on the inner workings of the regime makes it difficult for us to judge how far Baghdad is prepared to go.

We still believe the Iraqis began to concentrate their forces to relieve Syrian pressure on Palestinian and leftist groups in Lebanon and to incite domestic enemies of Syrian President Asad to move against him.

Neither objective has been attained so far, but continuing signs of dissatisfaction in Syria with Asad's Lebanon policy undoubtedly are encouraging Iraq to keep its forces near the border. As long as they remain there, there is the danger of conflict, if only by miscalculation.

Prospects for Conflict

We envisage at least two situations in which Iraq might be tempted to take the risk of a military incursion into Syria:

- If a Syrian group moving to seize power appeared more amenable to working with Iraq than is Asad.
- If Damascus seemed on the verge



Saddam Hussein

of annihilating the Palestinian-leftist forces in Lebanon. Baghdad would hope that Damascus would withdraw units from Lebanon rather than shift even more forces from the Golan Heights to meet the Iraqi advance. Iraqi forces now on the border out-

number the Syrians four to one.

Baghdad, in any event, would be reluctant to go it alone. It would try in advance to line up diplomatic support from the other Arab states. Libya's Qadhafi would almost certainly cheer any effort by Baghdad to protect the Palestinians against Syria.

Iraq probably calculates that the other Arab states would, at the very least, press Damascus into mediation before any skirmishing between Syrian and Iraqi forces could get out of hand.

The Department of State/INR believes it unlikely that Iraq would move into Syria to prevent the defeat of the Palestinian-leftist forces in Lebanon for fear of one or more of the following consequences:

- The probability of defeat at the hands of the Syrians.
- The likely strong opposition of Saudi King Khalid, who would also enlist the Shah of Iran.
- The possibility of Iranian military pressure along the Iraqi border.

Curbs on Baghdad

Troop morale is one important constraint on Iraqi behavior. Many of the Iraqi soldiers sent to the Syrian border have been away from their home garrisons for a month or more. Troops

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bivouacked in the southwest are subjected to a hostile desert environment in which maximum daily temperature exceeds 38 degrees celsius (100 degrees Fahrenheit).

There were signs of strain between the Iraqi army and the ruling Baath Party leaders early this year, and strong man Saddam Husayn is probably wary of further antagonizing the military.

Relations between Saddam and the armed forces—never very close—worsened last January when he had himself appointed to the rank of lieutenant general, despite the fact he had had no prior military experience.

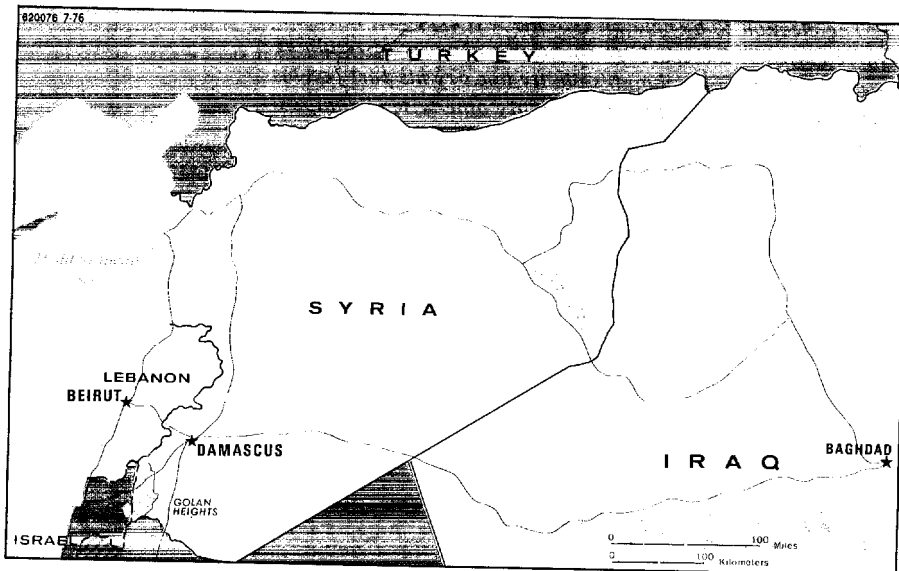
Baghdad has been angling for some time to make political capital of Damascus' efforts in Lebanon. As early as mid-February—over a month before Syrian regular forces openly intervened in Lebanon—the Iraqi Baath Party's newspaper warned Damascus that the use of Syrian military forces against Palestinians and Lebanese leftists "could not be passed in silence."

Libyan Prime Minister Jallud unwittingly provided Baghdad with a justification for the move it may have been intending to make. In mid-May, Jallud shuttled between Lebanon, Syria, and Iraq on a mission having two objectives: the reconciliation of Syrian-Iraqi differences and the arrangement of a truce in Lebanon.

At the end of his diplomatic swing, Jallud claimed to have succeeded in the former. Syria, according to Jallud, had agreed to join with Libya, Iraq, and Algeria in a hard-line political front and military alliance against Israel.

Iraq seized upon Syria's alleged agreement to the Jallud proposal to order over half of Iraq's combat units toward the Syrian border, ostensibly en route to the Israeli front. With great fanfare, Iraqi President Bakr paid tribute in a Baghdad ceremony to troops described as having been mobilized to perform their "national duty."

Having set the scene, Baghdad countered Damascus' refusal to allow Iraqi units to enter Syria by charging that the Syrians had broken their pledge to



Jallud to form a military front against Israel.

The Syrian rebuttal makes clear, however, what Jallud probably did not tell Baghdad—that Damascus was demanding the prior fulfillment of an array of conditions that would have taken years to implement even if Damascus actually intended to follow through.

Old Quarrel

The tension between Syria and Iraq has historical roots in the deep personal enmity between leaders of the rival wings of the international Baath Party who rule in Baghdad and Damascus. Saddam Husayn, the present leader of the faction that rules in Iraq, came to power in 1968; Asad has headed the faction dominant in Syria since he staged a successful coup in 1970.

Baghdad has been free to focus on the Asad regime since early last year when it inflicted a decisive military defeat on rebellious Kurdish tribesmen after striking a deal with Tehran that ended Iran's support for the Kurds.

Shortly after the Iran-Iraq accord was signed in March 1975, Saddam Husayn reportedly commented privately that Baghdad, freed of its entanglement with the Kurds, could now turn its attention to Damascus.

Baghdad's meddling in Syrian domestic

affairs has noticeably increased over the past year. Baghdad has made no effort to conceal its ultimate objective; an Iraqi minister, interviewed in April by the *Washington Post*, admitted that Baghdad had made a policy decision in early 1975 to use all means, including subversion, to hasten Asad's downfall.

Lebanon Angle

Baghdad apparently believed that the introduction in early April of large numbers of Syrian regular forces into Lebanon would both elicit strong criticism from the other Arabs and trigger serious domestic unrest in Damascus.

On April 10, Baghdad abruptly cut off oil to Syria, forcing Damascus to purchase elsewhere at much higher prices the high-quality crude it needs to meet its military and commercial requirements.

Damascus has been retaliating by supporting a new group of dissident Iraqi Kurds; this drew a sharp diplomatic protest from Baghdad in mid-May.

In Lebanon, moreover, Syrian-controlled forces have in recent months fired on the Iraqi embassy and ambassador's residence, burned the offices of two Baghdad-financed newspapers, and attacked a Palestinian guerrilla unit supported by Baghdad.

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Despite the success of the developing states at the Nairobi conference last May, they are likely to find it harder to maintain unity as talks with the industrialized states become more specific. At that point, many will be moved to defend national and regional interests.

Debate Among Developing Countries

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Many of the developing states are inclined to attribute their success at the UN Conference on Trade and Development in Nairobi in May to the unity of their negotiating caucus, the Group of 77. Efforts to maintain that unity at a number of meetings later this year will be strained by what some members perceive as a need to defend individual and regional interests on the questions of raw materials and debt problems.

At the same time, the radical members of the Group of 77 will try to enlist support for their uncompromising approach toward the industrialized states. We do not expect the radicals to win out anytime soon, but they could gain strength if the talks between the rich and poor countries break down.

The most important resolutions to come out of the Nairobi conference from the point of view of the developing states were ones on commodity supports and the debt problems of developing states. The industrialized states, albeit with reservations, agreed for the first time as a group to begin talks on helping the developing states in these matters.

Immediately following the conference, a number of developing states expressed dissatisfaction with the results. They argued that the Group of 77 should have held out for a firm commitment and timetable to implement a commodity program; failing that, they should have broken off talks and returned to the offensive.

A more balanced view, recognizing that the developing countries got as much, and perhaps more, than they could realistical-

ly have expected, is now gaining increasing acceptance.

Government officials of a number of developing states from Asia, Africa, and Latin America have in varying degrees cited the agreement to begin talks as a success. An attempt at a meeting of the nonaligned coordinating committee to brand the Nairobi conference a failure was rebuffed.

Conflicts To Surface

Conflicting interests, both economic and political, doubtless will surface. Developing states that import raw materials are becoming more aware that the demands of raw material exporters to tie their prices to those of manufactured goods will be expensive for them as well as for the industrialized states. When talks begin on these matters, the importing states will want special concessions from their partners in the Group of 77.

Differences will also arise in the area of debt relief for developing countries. Those states already engaged in fairly active international commerce—primarily the Latin American and some Asian states—have come to rely on commercial debt and will not want to jeopardize their credit ratings by supporting demands for the general debt moratorium that the poorer developing states—mainly in Africa and South Asia—are seeking.

Tensions over these issues are already evident in the more frequent criticism of the Organization of Petroleum Exporting Countries. Jamaica, for example, has openly criticized OPEC dominance in the Paris Conference on International Economic Cooperation, and the Indians and the Brazilians have tried to outmaneuver the OPEC delegates in the

forum.

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Failure of the OPEC states during the Nairobi Conference to use their \$800-million special aid fund to support the integrated program for commodities has raised further doubts among many of the developing states about whether OPEC should have their support on other issues. An apparent OPEC decision to decrease its share of the total contribution to the International Fund for Agricultural Development may also raise questions among other developing states.

The potential for increasing the schisms within the Group of 77 has apparently not deterred Gamani Corea, the secretary general of UNCTAD, from pressing for a rapid start to the commodity talks called for in Nairobi. Indeed, Corea may think a rapid show of progress would tend to unify the developing states.

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Debate on Tactics

Another basic debate among the developing states involves the tactics that should be used to pursue their demand for a "new international economic order." The more radical states, led by Algeria and Cuba, which had the upper hand until the special UN session on development last September, have favored making extreme demands and using automatic voting majorities to force adoption of their proposals by UN bodies.

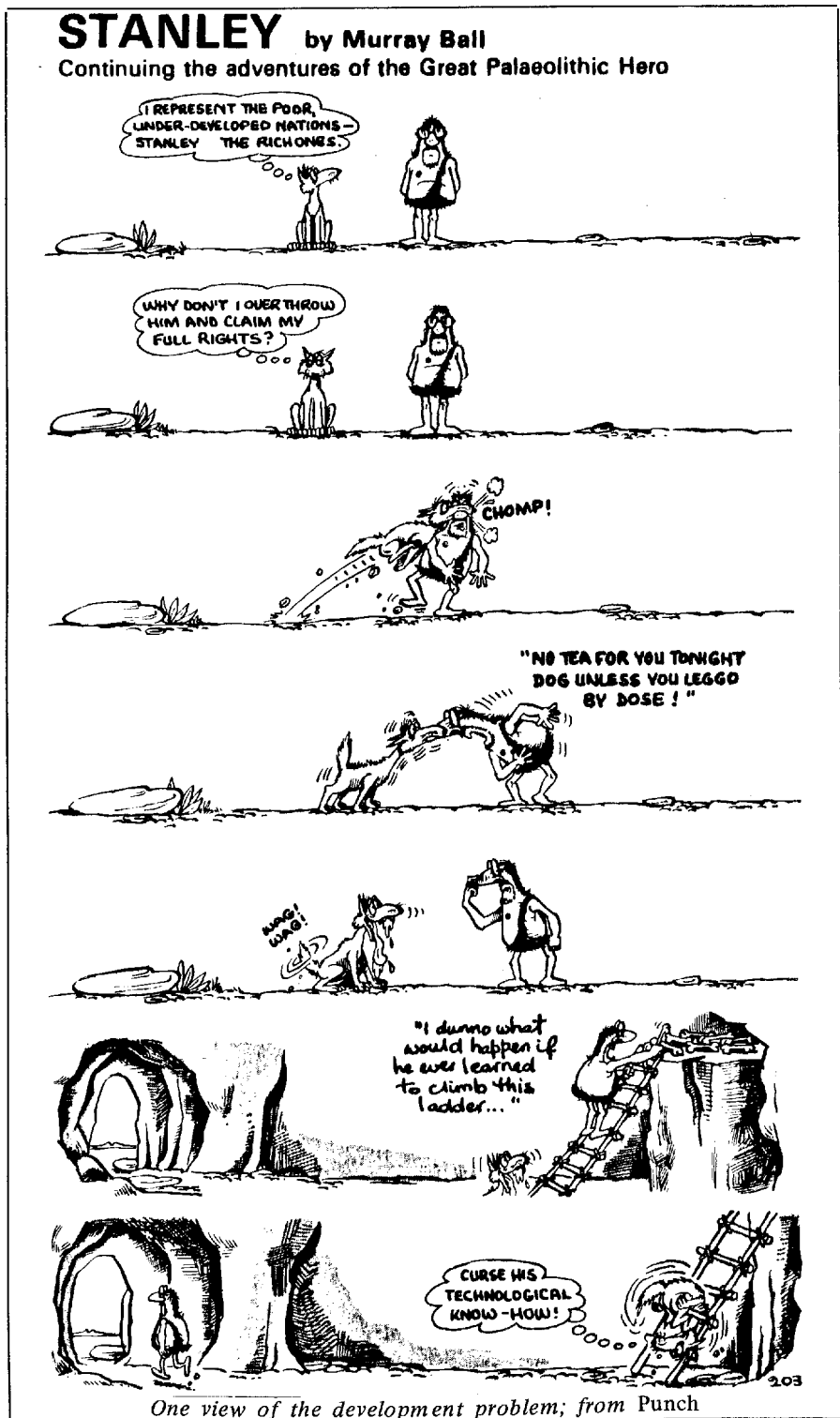
These states have advocated the creation of new producer cartels and other concerted efforts to compel the industrialized states to adopt their view of how the world economic system should function.

Other states advocate a negotiated approach and are pointing to the limited progress in UNCTAD and other international bodies as evidence that this can further the goals of the developing countries.

These states are concerned, however, that continued differences among the industrialized countries on raw materials issues will lend credence to the radical view that the industrialized states will not willingly concede any points to the developing states.

The radical states will have opportunities to push their line at the summit meeting of nonaligned states in Colombo, Sri Lanka, next month and at a meeting in Mexico in September to discuss economic coordination among the developing countries. To counter such efforts, the more moderate developing states will be looking for signs of progress in any of a number of multilateral meetings with the industrialized states.

The Conference on International Economic Cooperation is one forum where the moderate developing states can make their case. Almost all the developing states are unhappy with the slow pace of these talks, although interest may pick up if current indications of a possible breakthrough in the detailed talks to be held this fall are borne out.



One view of the development problem; from Punch

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Only 19 of the 113 members of the Group of 77 are represented in this forum, and some sign of progress is necessary for the 19 to convince those states not represented that these discussions are worth pursuing.

The Multilateral Trade Negotiations also will be looked to for indications that

a negotiated approach offers more promise than confrontation. The developing states at this point are particularly interested in concessions on tariffs for tropical products and on a regime of "special and differentiated" treatment in the application of a general tariff reduction formula.

The preparations for the commodity and debt talks agreed to in UNCTAD, and to some extent the August session of the Law of the Sea Conference, also will provide opportunities for the moderate developing countries to bolster their stand against the radicals.

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The Indian economy has improved significantly in the year since Prime Minister Gandhi assumed emergency powers, primarily because of a bumper harvest. The upswing should continue—provided the unpredictable summer rains cooperate—but the longer term prognosis is not so bright.

India: The Improving Economy

179-82

The Indian economy has improved significantly in the year since Prime Minister Indira Gandhi assumed emergency powers, primarily because of good weather and the resulting bumper harvest. The upswing should continue, provided the unpredictable summer rains cooperate.

The economic performance of the past 12 months and Gandhi's increased personal powers provide a unique opportunity to attack India's basic economic problems. We see no sign that Gandhi is prepared to pursue seriously this opportunity.

Shortly after proclaiming the emergency, Gandhi announced a sweeping economic and social reform program. The proposals were mostly rhetoric, although a few important results have been achieved.

Mixed Results

Gandhi's drive against tax evasion has led to increased tax receipts, and her "voluntary" income disclosure scheme has brought out some \$2 billion in hidden income and wealth. An "unofficial" ban on strikes has been an important element in the expansion of industrial production

since late 1975.

Gandhi has also taken steps to attack some of India's longer term economic problems. For the first time family-planning services are being emphasized in rural areas, where they are most needed if India is to make headway on population control. New Delhi's arm-twisting of state governments on interstate river disputes has paved the way for long-needed irrigation projects, although vast sums will be required, and actual benefits are years away.

The Gandhi government has not attacked the major impediments to India's economic growth: the low level of saving and investment, and the lack of incentives for agricultural and industrial production. Land reform has not been pushed because it would adversely affect a major political faction within Gandhi's party.

Total net investment continues to be a small percentage of gross national product—some 11 percent. Private investment has not revived, and foreign investment is at a very low level because of government controls. The principal export industries are in the private sector and are heavily taxed to help finance public investment.

Agricultural output reached record

levels last year; good weather rather than government policies has been responsible. Last summer's unusually good monsoon rains resulted in a record food-grain output of 115 million tons, up from 101 million tons in the previous year. On a per-capita basis, however, current grain availabilities are slightly below the previous high of 196 kilograms (about 400 pounds) in 1971.

The bountiful harvest, plus grain imports of 7.4 million tons, have built up buffer stocks to record levels, expected to reach 12 million to 13 million tons by late summer. New Delhi again has stocks sufficient to keep food prices in check and to carry the country through a poor crop year without undue shortages. A bad monsoon would have a pervasive influence on the entire economy, however, and could wipe out the benefits of several good years.

Fiscal Improvement

A series of tough anti-inflationary measures taken in the summer of 1974, a year prior to the emergency, have brought prices under control. Wholesale prices, which increased 26 percent in 1974, rose only 3 percent in 1975, and thus far in 1976 are below last year's level. The measures include:

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Billboard in New Delhi emphasizing goals of Gandhi's 20-point program

- a compulsory savings deposit scheme for higher income levels,
- credit tightening,
- reduced public expenditures, and
- higher taxes.

India's foreign payments and official reserves have improved considerably in the past year. More realistic exchange rates have led to a substantial increase in remittances from Indians living overseas.

The rupee was delinked from sterling in September 1975 and has been revalued six times since then. The total appreciation of the rupee related to sterling has been nearly 13 percent. In the six-month period following delinking, reserves jumped \$700 million to \$2.2 billion, the highest level in 20 years.

India's trade deficit should ease slightly in 1976, after three years of steadily higher deficits. Between 1973 and 1975, prices for three of India's most essential imports—petroleum, food-grains, and fertilizer—soared, although this was offset partly by rapidly rising world market prices for exports, especially for sugar.

For 1976, food and fertilizer imports will almost certainly be reduced, and oil imports should remain constant. Exports

should improve again owing to higher earnings from engineering goods, sugar, tea, and iron ore.

Foreign Help

Despite these positive developments, India continues to need foreign assistance. The Aid to India Consortium will maintain its assistance at last year's level, and large capital inflows are expected from Iran for development of Indian iron ore and aluminum production. India will also continue to rely on concessionary credits from Iran and Iraq for oil imports.

Industrial output increased about 6 percent in the fiscal year ending on March 31, following three years of about 2-percent growth. The improvement was due to the excellent monsoon, labor peace, greater labor productivity, and easing of import and industrial licensing procedures.

These factors, however, will not provide sufficient economic momentum to attain New Delhi's goal of 8- to 10-percent industrial growth for the current fiscal year. The improved performance of the economy during the past year is only beginning to overcome the depressing effects of several years of low economic growth and inflation on Indian purchasing

power. As consumer demand picks up, the current economic constraints on industrial expansion should ease.

Performance has varied widely among different industries. Recovery in heavy industry has been led by the aluminum and machine-tool industries, both up approximately 25 percent. Inventories have risen rapidly, particularly in the coal and steel industries, where public-sector firms have been under government pressures to increase output.

Textiles remain depressed because of sluggish exports and a change in the pattern of domestic demand—away from coarser fabrics toward synthetics. The jute industry is in difficulty because of slack foreign and domestic demand.

Production of consumer durables and automobiles is sharply down, the latter attributable in part to the doubling of gasoline prices since 1973. Both industries have been hurt by anti-inflationary policies, which have severely tightened commercial credit.

On balance, industrial activity should continue its recovery. Given the expected revival of consumer demand, output should increase 5 to 6 percent this year.

Outlook

The short-term outlook is favorable. The excellent harvest and, to a lesser extent, the upswing in industrial output, have provided the momentum for another good year. India's gross national product should do as well as last year's 5-percent increase.

The long-term prospects are less good. Gandhi's new powers have given her some breathing room to embark on realistic long-range economic and social policies. Sustained growth can be achieved by reducing India's dependence on the annual monsoon, which will require a herculean investment effort.

With regard to industrial development, Gandhi's government has shown no indication of moving away from policies that in many ways have given India the worst of two worlds—an excessively bureaucratic form of socialism and an overprotected and overregulated private sector.

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President-elect Lopez Portillo has set ambitious social and economic goals for his administration, but his range of options in pursuing them will be narrow. In addition to restoring private-sector confidence, an expansionary oil policy will be essential.

Mexico: Economic Policy

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Mexican president-elect Jose Lopez Portillo, in a major speech before his election on July 4, called on Mexicans to unite in an "alliance for production" to increase productivity and reorient output from consumer to capital goods.

Lopez Portillo urged that economic growth be accelerated, that the lot of the large and growing number of poor be improved, and that the government deficit be cut. Although the goals are populist and have led some observers to believe he will follow President Echeverria's free-spending policies, he has on other occasions given emphasis to the private sector and has sought the advice of business leaders.

Over the long run, his programs for both welfare and for increases in productivity can be achieved only by vigorous development of Mexico's vast oil reserves.

Since the last devaluation of the peso, in 1954, Mexico has earned a reputation for financial stability and sustained economic growth. In 1972, however, the Echeverria government initiated an expansionary monetary and fiscal policy that was aimed at relief for Mexico's poor and at widening the role of the public sector.

The government's actions included substantial raises in money wages, bigger welfare outlays, and a jump in government payrolls. As a result of these policies and the impact on Mexico of the global

recession, Lopez Portillo will inherit an economy afflicted by:

- An enormous increase in federal spending and in the federal government's deficit.
- A rapid rate of inflation.
- Stagnating private investment.
- Slowing economic growth.
- A large current-account deficit.
- Greatly increased foreign indebtedness.

The goals set by Lopez Portillo run the gamut from costly populist welfare programs to incentives for the private business sector. His administration will confront a narrow range of options in pursuing these ambitious goals, since it will face the immediate problem of regaining financial stability. The critical element of economic policy will be restoration of private-sector confidence and investment spending.

A turn-around in private investment—which has declined under Echeverria's policies—will depend on a more favorable business climate and adequate long-term credit for the private sector. To minimize inflationary pressure, this credit policy must be accompanied by increased private saving and reduced government borrowing.

We expect Lopez Portillo to increase credit to the private sector but not to woo the business community by reducing taxes and the state's role in the economy.

Another major requirement will be to

reduce the large public-sector deficit. Lopez Portillo will probably pursue tax reform and improvement in administration to prevent tax evasion in order to increase government revenues. Revenues will also increase as oil production rises.

More decisive restraint on government spending and increase in labor productivity are necessary to hold the line on waste and on the share of operating expenditures in the budget. Lopez Portillo is reportedly planning to achieve these objectives by a major reorganization of the executive branch.

The new administration will be confronted by a large external debt. Although debt service is still manageable, the government will have to shrink its current-account deficit to assure continued credit-worthiness.

The prospects for Mexican exports are exceptionally bright. Even if imports rise fast enough to allow for an 8- to 9-percent real increase in economic growth in the next few years, Mexico will be able to reduce drastically its current-account deficit by rapid development of its petroleum reserves.

An expansionary oil policy is essential to carrying out in full Lopez Portillo's economic programs. He apparently favors a quick expansion of Mexican oil exports. In contrast, a vocal segment of the Mexican leadership feels strongly that oil resources should be husbanded.

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