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Weekly Summary

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CI WS 76-032
No. 0032/76
August 6, 1976

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August 6, 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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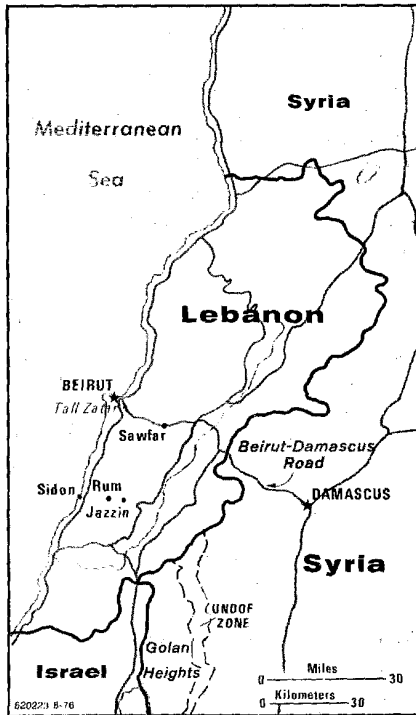
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Middle East-Africa

LEBANON 7-2

A nationwide cease-fire—the first step in implementing the Syrian-Palestinian accord concluded on July 29—was finally arranged late this week by Arab League mediators in Beirut. The accord, which also calls for roundtable negotiations and Palestinian adherence to the 1969 Cairo agreement regulating fedayeen activities in Lebanon, has won only lukewarm support from the other major warring parties.

Lebanese leftists and radical fedayeen have scored the agreement for failing to include a Syrian pledge to withdraw from Lebanon and have urged PLO chief Yasir Arafat to repudiate it. The Christians, fearful that Syria may have reached a secret understanding with the Palestinians, are insisting that the fedayeen adhere to even more stringent



restrictions than in the past.

Despite leftist pressure, Arafat would clearly like to end his feud with the Syrians and seems to be trying to make the agreement work. The Palestinians sent their principal negotiator, Faruq Qaddumi, back to Damascus this week to help work out the terms of a general cease-fire.

Damascus, in turn, has urged the Christians to abide by the accord. The Syrians particularly pressed Camille Shamun to permit the evacuation this week of some of the more than 1,000 wounded Palestinians trapped in the Tall Zatar refugee camp.

Syrian Foreign Minister Khaddam may go to Beirut soon to help oversee the truce accord. If he does go, it could reflect a Syrian decision to put more direct pressure on the Christians to observe the cease-fire terms.

The Syrians, however, are probably still skeptical that Arafat will live up to his end of the bargain. They have made no move yet to pull back from Sawfar on the Beirut-Damascus road, which the Palestinians claim the Syrians promised to do. Instead, Damascus has been rearming the Christians. Earlier this week the Syrians attacked the village of Rum, an important Palestinian-held position between Jazzin and the port of Sidon where the leftists and Palestinians continue to receive a steady flow of "volunteers" and arms shipments by sea via Libya and Egypt.

The Syrians also tried to drive a wedge between the Palestinians and Egyptians by unilaterally inserting a preamble into the Syrian-Palestinian accord blaming the second Sinai agreement between Egypt and Israel for the war in Lebanon. Arafat quickly dissociated himself from the preamble. The Syrian maneuver appears only to have reignited the propaganda battle between Damascus and Cairo. Stung by the charge, Cairo has accused Syria of trying to annihilate Palestinian and leftist forces in Lebanon and of conspiring with the Israelis in a plot to assassinate Arafat.

SYRIA 35

The appointment of Major General Abd Ar-Rahman Khulayfawi as Syria's new prime minister reflects President Asad's confidence in his domestic position



Prime Minister Khulayfawi

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and in his foreign policies, especially toward Lebanon.

The former prime minister, Mahmud al-Ayyubi, had offered to resign after losing his party post in elections last year. Asad, however, believed that those who were seeking to unseat Ayyubi were in fact working to limit his own power, and he refused to replace the prime minister in order to avoid any appearance of yielding to pressures.

With Syrian troops now entrenched in Lebanon and domestic political and security problems apparently under control, Asad presumably concluded that his position was strong enough to go ahead with the cabinet change.

Khulayfawi is expected to announce a list of cabinet members late this week. Several key ministers are likely to retain their positions, underscoring Asad's intention to continue his present policies.

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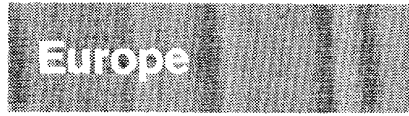
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Khulayfawi is a long-time confidant of the President. He was a key supporter when Asad took power in 1970, and served as minister of interior and prime minister until ill health forced him to resign in late 1972. Well-regarded in both party and military circles, Khulayfawi is a strong, pragmatic administrator.

Syria's Baath Party newspaper has suggested that Khulayfawi will draw on his wide experience in dealing with domestic issues, concentrating on economic and financial problems. This would better enable Asad to maintain his focus on foreign affairs.

Like his predecessor, Khulayfawi is a member of Syria's orthodox Sunni Muslim majority. His selection preserves the regional and confessional balance in Asad's regime. The President and many of his supporters in the army belong to the small Alawite Muslim sect, centered in Syria's coastal region.

[Redacted]



ITALY 19-18

Parliament this week began debate in preparation for confidence votes in the senate and chamber on Prime Minister Andreotti's Christian Democratic minority government. Andreotti's government will almost certainly be approved, but it will be the first under the 1948 constitution to depend for its survival on Communist cooperation in parliament.

The vote will be taken in the senate this week and in the chamber next week. Andreotti must receive a majority from those voting in each house to complete the installation of his government, which was sworn in by President Leone on July 30. Because none of the major parties will join the Christian Democrats in voting af-

firmatively, Andreotti will need Communist abstention to survive the votes.

Although the Communists have been hinting that they would abstain, the party did not officially agree to do so until Andreotti presented his program in parliament late this week. The Communists had earlier commented positively on the way Andreotti drew up his program—he included the Communists and organized labor in the consultations—and on the composition of his cabinet, which excludes Christian Democrats accused by the Communists of corruption or incompetence.

The Communists were probably encouraged to abstain also by the enhanced influence they will acquire as the pivotal party in the installation of Andreotti's government. Once the Communists abstain, the Christian Democrats—with 135 seats in the senate and 262 in the chamber—will be able to muster a majority regardless of how the remaining parties vote. The Communists will clearly have to be consulted on any major government programs and will cite their new role as evidence that Italy cannot be governed without Communist cooperation.

In drawing up his cabinet, Andreotti has sought to freshen the Christian Democrats' image by including more new faces and technocrats than any recent government. Eight of his 21 ministers are new, including Italy's first woman cabinet officer. For the first time in years, no former prime ministers, other than Andreotti, are included in the cabinet.

Andreotti, meanwhile, received some encouragement from abroad this week when visiting French Justice Minister Lecanuet conveyed the French government's willingness to support Andreotti's efforts to deal with Italy's economic problems. Lecanuet did not publicly specify what form French support might take.

Currency Reserves

19-20

Since the elections in June, Italy has increased its foreign currency reserves by \$1.12 billion through lira sales and repaid all of the \$500 million drawn on its swap facility with the Federal Reserve Bank of

12-74 French Territory of the Afars and Issas

A refusal by one of the principal political parties in the French Territory of the Afars and Issas to participate in a new government has frustrated French efforts to form a broad-based regime to lead the territory to independence.

The legislative assembly elected Abdallah Khamil Mohamed on July 29 to serve as president of the new government. Ali Aref Bourhan, the former president, had resigned in mid-July after losing the support of a majority of the assembly's members.

Khamil, an Afar tribesman who had been secretary of the territory's governing council under Aref, was elected by only 24 of the assembly's 40 deputies. Sixteen members of Aref's National Independence Union walked out of the assembly session without voting.

Khamil's ministerial appointments included two members of the African People's Independence League, a predominantly Issa party. The League has steadily gained strength over the past year

as a rallying point for Aref's opponents, but it has no seats in the legislative assembly. The other ministers are former supporters of Aref in the legislative assembly who broke with the ex-president because they believed he was practicing divisive ethnic politics.

France had hoped to form a broad coalition government capable of withstanding efforts by Somalia, aided by its supporters in the territory, to annex the territory. The refusal by Aref's party to support Khamil increases the likelihood of instability as the FTAI approaches independence.

Aref contends that the Independence League is simply a stalking horse for Somalia. The League receives financial support from Somalia, and militant members support union with it, but the French are hoping that the inclusion of the League in the government will strengthen the position of party members who favor genuine independence.

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Prime Minister Andreotti (l) with President Leone

New York.

Major factors influencing the increase in reserves appear to be the Christian Democrats' retention of a plurality in the general election, the prior deposit scheme, and the normal influx of summer tourists. An expected extension of the amnesty permitting the return of capital illegally exported is also likely to encourage the return of funds.

The import deposit plan has absorbed liquidity and stabilized the exchange rate. The scheme, which requires a 50-percent noninterest-bearing deposit on most foreign purchases, has been extended three months. The high interest rates in Italy have also helped the lira.

The exchange market intervention that has accompanied the reserve increases has kept the lira, which closed at 834.9 to the dollar on August 4, remarkably stable since the elections. In the last week, the Italian currency has not varied by more than one lira from the rate of 835.5 to the dollar; nor has it varied from the 834 to 840 range since the beginning of July. Italian authorities have intervened in order to obtain reserves and to avoid greater lira appreciation that could hurt exports.

The lira still faces an uncertain future. The \$2 billion gold-backed credit granted by West Germany is due in September. While no decision on repayment has been made, Italy may pay back \$200 to \$500 million in order to make it easier to renegotiate the loan and to avoid having to pledge more of its gold reserves as collateral to counter the fall in gold prices.

The lira's prospects will be clouded by uncertainties over the durability and economic programs of the new government, as well as by the high rate of inflation—currently at a 20 to 22 percent annual rate, more than double the average rate of Italy's major trading partners.

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USSR-CSCE

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Moscow marked the first anniversary of the Conference on Security and Cooperation in Europe with a spate of articles proclaiming full Soviet compliance with—and Western violation of—the provisions of the final act. Moscow emphasized its role in bringing about the CSCE and what it sees as its major ac-

complishments: the establishment of the principles of the inviolability of frontiers and noninterference in the internal affairs of others, and its contribution to "detente."

The Soviets claim that they have implemented the provisions of Basket III, citing the relaxation of exit visa procedures, increased sales of Western newspapers, improved working conditions for foreign journalists, and removal of some travel restrictions for Western businessmen. In general, however, they have limited their discussion of Basket III, concentrating instead on other evidence of their compliance with the final act: broader political contacts; Brezhnev's proposal for a European conference on the environment, transportation, and energy; and the advanced notice they gave of two military exercises.

The Soviets contend it is the West that has failed to comply with the final act. There is greater use of Western cultural materials in the Soviet Union than vice versa, Moscow asserts, and a large number of foreign visitors have come to the CEMA countries.

Moscow attacks the West for:

- Interfering in the internal affairs of the USSR and other countries, such as Italy.
- Subversive, anti-Soviet activities of Radio Free Europe and Radio Liberty.
- Continuing to deploy new weapons systems.
- Increasing defense expenditures.

The Warsaw Pact countries are using the anniversary to repeat standard themes on CSCE, but some differences in emphasis are detectable. Warsaw's commentaries skirt the issue of free exchange of ideas. Prague, in a somewhat more vigilant tone, reiterates that it will not allow "ideological subversion" against the socialist states. Bucharest drones on about the principles of nonintervention and sovereign equality applying equally to all CSCE states. The Yugoslavs point to the tough tasks ahead before real security in Europe is achieved.

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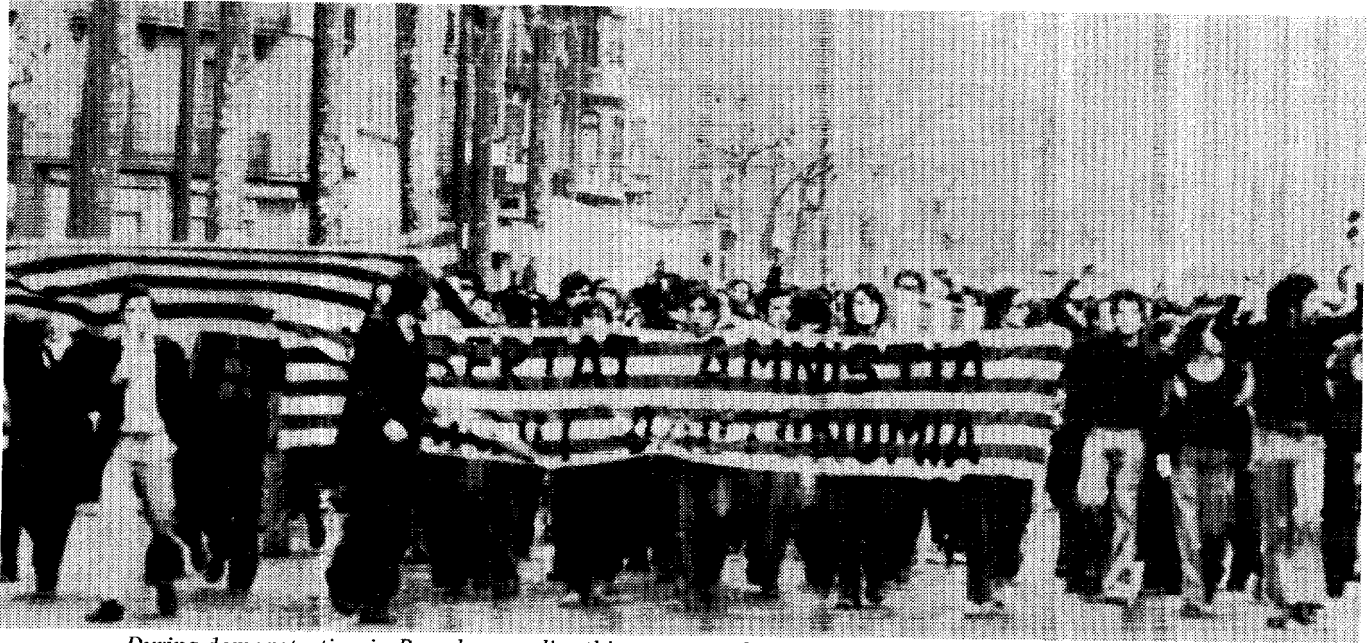
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During demonstration in Barcelona earlier this year, marchers demand amnesty for political prisoners

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SPAIN

2-10-29

The amnesty decree issued by King Juan Carlos late last week is a positive step toward the national reconciliation promised by Prime Minister Suarez. The initial reaction of opposition leaders and the press has been favorable, although some criticized limitations in the decree.

The amnesty is intended to boost the government's political reform program by enlisting the support of the previously illegal democratic opposition parties. These parties have been vociferous in their demands for a complete amnesty. Now that the government has responded with the decree, talks which Suarez has begun with opposition leaders about the government's plans for reform should be facilitated.

The amnesty will free many of Spain's remaining political prisoners and restore civil rights to the Republicans who fought against Franco in the Civil War. Estimates of the number of political prisoners affected by the decree vary because implementation will be left to the courts and the exact number will not be known until all cases are reviewed.

When the amnesty was announced, the minister of justice estimated their number at some 200—a figure considerably less than the 600 who are believed to be in prison for political reasons. The US embassy later reported that more than 400 are likely to be freed.

The amnesty covers all political crimes, such as participation in previously illegal political meetings and distribution of propaganda.

Specifically excluded are persons convicted of terrorism causing death or injury and workers charged with organizing or taking part in politically motivated strikes.

The government had difficulty overcoming the opposition of conservative senior officers to including the military in the amnesty, according to a Madrid official.

The nine officers convicted earlier this year of subversion because of membership in the clandestine Military Democratic Union will be released but forbidden to return to military service. Jailed conscientious objectors will also be freed, and armed forces members who fought against Franco in the Civil War

will become eligible for pensions.

Western Hemisphere

CUBA

41-42

A substantial share of Cuba's trade with noncommunist countries has gone to US subsidiaries since the partial lifting of the US embargo in August 1975.

In the past 10 months, Cuba has awarded these firms sales contracts totaling \$293 million—the equivalent of one fifth of Cuba's estimated noncommunist imports last year. About 60 percent of sales have involved agricultural commodities.

Some 85 percent of the business went to US subsidiaries in countries such as Canada and Argentina, which are already among Cuba's large trading partners. Purchases from Cuba by US subsidiaries thus far have been limited to about \$2-million worth of tobacco and molasses.

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JAMAICA

46-99

Opposition Jamaica Labor Party leader Edward Seaga apparently has backed away from a threat made privately last month to pull out of the coming national election because of the government's partisan enforcement of the state of emergency.

In mid-July he told the US ambassador that the Labor Party could not win under existing conditions and that a decision on whether to remain in contention would be made at a party meeting on July 25. Now, buoyed by a recent successful campaign swing, Seaga says that he thinks his party might still be able to win a "fair" election notwithstanding the state of emergency. He fears, however, that harassment of his



Edward Seaga

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party will intensify as the election—which must be held by next May—draws near.

Seaga's concern is warranted. The potential for uncontrolled violence in response to government provocation poses a major threat. Labor Party leaders have so far taken pains to keep their gunmen on a short leash; even the arrest of deputy party leader Pearnel Charles—who remains in prison—did not provoke retaliatory action.

The People's National Party headed by Prime Minister Michael Manley and the Labor Party traditionally have employed violence to aid their cause. There is every reason to believe that in the key "swing" districts, the use of force will be more savage than ever. Already the security forces—even with all reserves on duty—are stretched thin and morale is low. It is doubtful that they will be able to maintain order if violence escalates and spreads beyond Kingston.

Meanwhile, Cuba and Jamaica have continued a high level of interchange in the past few weeks on a broad range of issues. For the second year, Cuban Political Bureau member Juan Almeida headed a delegation that participated in Jamaica's independence celebration on August 2. There has been close contact all summer between top officials of Manley's party and a section of the Cuban Communist Party staffed by personnel responsible in the 1960s for efforts to export Cuba's revolution.

Seaga claims that the chief of this party section—who in the 1960s headed Cuba's General Directorate of Intelligence—will visit Jamaica in early August. In addition, the first contingent of Jamaican youth that spent the past year in Cuba studying construction techniques returned home at the end of July. The 183 members were hand-picked by Minister of Housing Anthony Spaulding, a prominent radical, who had worked closely with the ruling party's youth arm. They can be expected to serve as political organizers for the party during the campaign. Another contingent of 300 is scheduled to go to Cuba later this year.

BRAZIL

50-53

Brazil's trade deficit fell to \$1.3 billion during the first six months of 1976 compared with \$1.8 billion in the same period last year.

Exports should increase about 16 percent in the second half of this year, compared with 5 percent in the first half, for an overall 11 percent for the year. The trade deficit for the year should be 60 percent lower than last year.

Despite rising interest payments on foreign debt, the improved trade balance is likely to reduce the current-account deficit to \$5 billion for the year—down nearly \$2 billion from 1975.

After a slow first quarter, caused by reduced sugar sales, export earnings are picking up rapidly this year. Foreign sales in June climbed to \$1 billion, a record high monthly total.

A record value of coffee exports made up nearly one third of the total. Sharply rising world coffee prices contributed to the jump. Increased soybean sales also were a factor in Brazil's record June trade performance.

Stringent import controls are an important factor in the trade improvement. Government organizations, which account for nearly half of all imports, have been ordered to cut purchases abroad by 25 percent this year. In addition, the requirement for a noninterest-bearing advance deposit with the Central Bank equivalent to the value of an import has been expanded to cover nearly one third of Brazil's imports.

Overall import volume, already down about 4 percent in the first six months, is unlikely to exceed 90 percent of the 1975 level.

Record harvests for some crops and a revival of industrial output prompted by strengthened consumer demand in the first half of the year should raise Brazil's real economic growth rate slightly—to 5 percent—in 1976 despite import restrictions. This recovery still leaves the country well below the 10 percent annual average of the boom period of 1968 to 1974.

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Far East

PHILIPPINES 76-58

Negotiations on the status of US bases in the Philippines—now in their eighth week—have made only limited progress. The informal target date of late July for completion of an agreement passed with the resolution of only less contentious points.

Manila is continuing to press for a clear US acknowledgment of Philippine sovereignty over the bases and for elimination of what it considers to be relics of US extraterritoriality. The Philippine negotiating team is demanding more than cosmetic control over the bases; it wants a say in all operations staged from them.

The team so far has avoided coming to grips with the basic issue of compensation—in the form of military aid—that Manila wants for US use of the bases.

President Marcos has recently indicated a disposition to defer serious negotiation on this and other sensitive issues until after the US presidential election.

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Demonstrators demand names of Japanese officials involved in Lockheed scandal

JAPAN 73-35

Tension and uncertainty pervade the ruling Liberal Democratic Party, with Japanese prosecutors now poised to arrest additional politicians and officials implicated in the Lockheed affair. Following the dramatic arrest of former prime minister Tanaka early last week, speculation centered on LDP Secretary General Nakasone as the next major figure to be named.

Prime Minister Miki has not said whether he would follow tradition by resigning if a senior party official or cabinet member is implicated, but he

would come under strong—perhaps overwhelming—pressure to do so. Without such a complication, Miki appears determined to remain in office while his opponents, assembling around deputy prime minister Fukuda, seem equally intent on ousting him. Even barring any additional major developments in the investigation, a potentially explosive clash between Miki and his rivals is in the making.

Despite the obvious opening presented by the Lockheed scandal, opposition parties have once more taken to squabbling among themselves. Last week, Communist Party chairman Miyamoto charged the other three opposition parties with taking bribes in exchange for cooperation with the conservatives in the Diet; indig-

nant denials followed quickly. This week, the Socialists returned the favor by reviving questions about Miyamoto's involvement in a pre - World War II murder case.

Meanwhile, an initial public opinion sampling has registered strong satisfaction with the investigation so far, including Tanaka's arrest. At the same time, a majority hold the conservatives responsible for the affair rather than Tanaka as an individual. Finally, overwhelming majorities of 90 percent or more in polls believe that corruption exists in all political parties and that the importance of money in politics will not change a great deal as a result of the Lockheed expose.

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Foreign Minister Miyazawa is the architect of Tokyo's harder line toward Peking. He has made a number of widely publicized remarks that have led to a cooling of Sino-Japanese relations.

Japan-China: Harder Line Toward Peking

54
[Redacted Box]
After nearly a year of official optimism, Japan has lowered its expectations and hardened its position in its relations with China.

The changes suggest that in the near term, Japan feels under no compulsion to conclude a treaty of peace and friendship with China and is prepared to accept what it probably hopes will be only a temporary deterioration in relations with Peking.

Miyazawa's Role

The architect of this shift in Tokyo's position is Foreign Minister Miyazawa. In widely publicized remarks over the past few weeks he has:

- Warned the US against any improvements in its relations with China that might adversely affect Taiwan's security.
- Cautioned Peking about the anti-Soviet statements of Chinese visitors in Japan.
- Characterized the difference between the attitudes of Japan and China toward the USSR as the primary obstacle to concluding a Sino-Japanese peace and friendship treaty.

Although Miyazawa's statements reflect views on China policy that Japanese government leaders have expressed privately, his decision to go public—and become a target of Chinese wrath—suggests that he is motivated by personal as well as broader foreign policy concerns.

Miyazawa is a relatively young and ambitious politician who calculates that his remarks will strengthen his position during this period of Liberal Democratic Party infighting. Although Miyazawa has been regarded as a progressive throughout his career, he has long been on good terms with Deputy Prime Minister Fukuda, the leader of the party's more conservative wing. Since becoming foreign minister in late 1974, Miyazawa's efforts to mend relations with Taiwan and South Korea have measurably improved his standing with party conservatives.

Miyazawa may well share the widely held view within the party that a Fukuda-led government is likely to come to power regardless of the political fallout



Foreign Minister Miyazawa

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from the Lockheed affair. His actions on China could strengthen his ties with Fukuda by helping lay the groundwork for Fukuda's foreign policy; as the next prime minister, Fukuda would inherit a notably stiffer policy toward Peking without having to bear the onus for instituting the change.

Prime Minister Miki, long hopeful of concluding a treaty with Peking, reportedly was upset by Miyazawa's remarks. Miki apparently has concluded, however, that he is boxed in on the issue by the current political balance in his party. In discussing Sino-Japanese issues in the Diet on July 28, Miki neither overruled nor undercut Miyazawa's statements. Thus, little forward movement in Tokyo's ties with Peking is likely while Miyazawa is foreign minister.

The Treaty Impasse

Broader considerations also have encouraged the change in Tokyo's outlook. The most important has been increasing Japanese pessimism over prospects for a

peace and friendship treaty, which is hung up on the anti-Soviet "hegemony" clause that Peking insists be included in the pact.

Despite a consensus in Japan in favor of the treaty, Tokyo is concerned that unqualified acceptance of the antihegemony principle would publicly identify Japan with an overly extreme anti-Soviet posture. This sensitivity, combined with pressure from more conservative and pro-Taiwan members of the Liberal Democratic Party, has prompted Japanese attempts to dilute the antihegemony formula.

China's persistent failure to accommodate on this issue, its recent press criticism of Miyazawa's position on the treaty, and the current leadership struggle in Peking have led Tokyo to conclude there is little possibility for compromise in the near future.

Taiwan and the US Angle

Given Japan's pessimistic view of the prospects for a treaty, the timing of the Sino-US normalization process has

assumed greater importance in Tokyo. Japan is determined to maintain as good, if not better, contacts with China than does the US, and Miyazawa, concerned that the US might formalize ties with China before or after the November election, has been cautioning US officials since early June about any abrupt change in Sino-US relations.

Miyazawa is not opposed to eventual Sino-US normalization or to a new format for assuring Taiwan's security. But, like others in Tokyo, he regards a US guarantee for Taiwan's future as the major issue in the Sino-US normalization process. The Japanese have maintained a considerable economic stake in Taiwan since establishing relations with China in 1972. In Tokyo's view, a sudden break in US relations with the Chinese Nationalists might jeopardize Taiwan's political stability, threaten Japan's profitable trade and investment links with the island, and complicate its relations with China.

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A recent article in Peking Review suggests by analogy that the left has not made much political headway since Teng Hsiao-ping's fall from power.

China: Problems for the Left

An unsigned article in last month's *Peking Review* has striking parallels with the present political situation in China. It may indicate that the left has encountered substantial difficulty in making further gains since Teng Hsiao-ping's fall from power.

In particular, the leftists seem to be admitting that they lack support among the military and among civilian leaders in the provinces and that Mao's withdrawal from public life has not helped their cause.

The article is an update of one published during the anti-Confucius campaign in 1974 which contained some phrases that

have a moderate cast. The new version includes new material which may refer to more recent events, such as Mao's declining health, and rewrites a number of politically sensitive passages that give the article a decidedly leftist thrust.

Significantly, both versions contain strong attacks on provincial military and civilian leaders. The fact that the article has thus far been noted only in a foreign language journal not readily available in China could be an indication of the great sensitivity of the subject matter.

Using historical analogy, the article describes a power struggle between "reformists" and "conservatives," two

factions that closely resemble today's leftists and moderates. The article says that conservatives in the national leadership controlled access to the emperor (read Mao) and ran the government in collusion with provincial leaders. The reformists were able to chip away at the conservatives' power by demoting or removing some conservatives from office, but ultimately the reformists could not dislodge their opponents because they lacked military power.

The article seems to be referring to the ouster of Teng Hsiao-ping and possibly some of his subordinates, but it also suggests that the left cannot make further

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headway without military support. Indeed, the support of the military, especially of the powerful military region commanders, is probably crucial in the current power struggle. There is no evidence that the majority of the military is backing the left.

The article states that after the reformists failed to gain the upper hand in the national government, the conservatives were able to strengthen their own position by using the emperor's illness as a pretext to force him to abdicate. This appears to be an allusion to the party Central Committee's decision that Mao will no longer meet foreigners because of ill health. It suggests that the decision may have been motivated by political as well as medical considerations and that leftists were not in agreement with it. Mao's absence from public view certainly makes it difficult for the left to use his name as a source of their authority. New statements from him supporting their position—and none have appeared since Mao's seclusion—would immediately be suspect if only because the public has no way of knowing to what extent the Chairman is directly able, physically or politically, to insert himself in the political process.

The article contends that opposition to the emperor has always come from senior provincial leaders rather than from officials at lower levels, where there is a reservoir of leftist strength. Moreover, provincial governors, with the support of "haughty soldiers" and "fierce generals," openly defied orders from the national government.

To rectify this situation, the reformists in the analogy advocated abolishing provincial governorships and appointing trustworthy soldiers, thereby turning over local administration to lower level officials. This seems to be a call to purge provincial leaders and regional military commanders, most of whom have not been enthusiastic about the anti-Teng campaign. Abolition of provincial governorships bears some resemblance to an idea floated late in 1974 to break up China's 29 provinces into 51 units—a plan never implemented.

The article on two occasions refers to a five-month period during which the reformists enjoyed a measure of political power. Once the conservatives regained power, high level officials in the reformist camp were removed from office. Five months is roughly the length of time between the naming of Hua Kuo-feng as "acting premier" and the publication of the article itself. This could be a subtle appeal to Hua Kuo-feng to side with the left during the current struggle—he thus far seems to have avoided firm factional alliances—on the grounds that his premiership could be short-lived if the leftists lose out.

Some Chinese do feel that Teng Hsiao-ping could make a comeback because he is still a member of the party. Teng's party membership seems to be a sore point with the left, which has argued for his dismissal from the party. The moderates could indeed attempt to bring Teng back should Mao die in the near future. A left-

tist bid for Hua Kuo-feng's support on the grounds that the popular Teng has not yet been completely eliminated as a rival could have some appeal to the Premier.

The left has clearly gone out on a limb in this article by emphasizing its differences not only with civilian but also military leaders in the provinces. The article could be read as a near declaration of war against these important military figures. The peculiarities of publication, however, the choice of a foreign language journal, and the lack of any reference to the earlier version of the article or the author suggest some disagreement in the leftist camp over the exploitation of the most sensitive charges raised in the article. Its generally defensive tone, moreover, suggests that it may be more a statement of principle than an attempt to expand the campaign and may be an admission that the left must establish a wider base of support.



Hua Kuo-feng

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The spreading drought in Eastern Europe has hurt harvest prospects for this year, and output will be further reduced if it is not broken very soon. Large US grain sales to the region seem likely.

Eastern Europe: Drought Hurts Harvest

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The spreading drought in Eastern Europe has hurt prospects for a record grain harvest this year.

In mid-June, forecasts by the US Department of Agriculture placed potential output at a record 93 million tons. As a result of the continued hot, dry weather, we now project this year's grain output at about 89 million tons, only slightly better than last year's mediocre crop.

Grain output at this level, coupled with a serious reduction in fodder and forage crops, suggests that imports of grain in the marketing year ending June 30, 1977, will remain near the record level of 12 million tons reached last year. If the US retains its market share, exports to Eastern Europe may again exceed 6 million tons, twice the level of the 1973 to 1974 period.

Drought conditions are worst in East Germany. As of mid-July, soil moisture had fallen to less than half of normal. Until rain fell at the end of July, critically low soil moisture levels also had existed in western Poland, Czechoslovakia, and Hungary. A second drought area centers in Romania's main grain producing region and extends into Bulgaria. Only Yugoslavia has received adequate rainfall. Crops there are reported in good condition.

The drought will have the least impact on winter grains, reducing output by about 5 percent. We expect the winter wheat harvest to reach 31 million tons—10 percent higher than last year, but almost 3 million tons below the record crop of 1974.

Drought damage will be more severe to spring-sown grains, and to the fodder

crops, especially potatoes for feed use. Pastures are also hard hit. The corn harvest may reach 27 to 28 million tons, roughly 5 to 10 percent below last year's crop despite a somewhat larger area planted this spring.

Output will be further reduced if the drought is not broken very soon. Premature harvesting of corn for silage, rather than for grain, would lower our projection even further.

Potatoes, important for both food and fodder in the northern countries, will be in short supply, contributing to the continued meat shortages. Fresh vegetables and fruits also will fall short of consumer needs.

East German grain production will fall for the second year in a row. Dry conditions have ruled over much of East Germany since last September, and water levels are now so low that some localities are being supplied from water trucks. If sufficient rains do not fall soon, East Germany will have to cope with another disastrous potato harvest. Last year, a summer drought reduced the potato crop by one third.

Grains in Poland survived the winter in good condition, and timely rains fell in May to offset a dry spring. The current drought is confined to the western and southwestern parts of the country. Reports from Wroclaw indicate that potato and sugar beet crops are stunted and reflect concern over premature ripening of grain crops. In other areas, where summer rainfall has been adequate, cool temperatures will delay the start of the harvest.

In Czechoslovakia, grain production probably will be held to the 1975 level. According to the US agricultural attache,

additional output from a 5 to 6 percent increase in winter wheat acreage was probably more than offset by damage from freezes in early March. Potential losses from the drought were moderated by light rains in early July. Prospects for the corn harvest are still uncertain; corn has developed poorly, and more rain is needed this month to avoid large losses. Good rains still could save the potato and sugar beet crops.

The drought hit Hungary later than other East European countries and has had a relatively small impact on wheat. The moderate rainfall on July 21 and 22, covering four fifths of the country, may alleviate the situation. The most serious damage is to fodder crops, meadows, and pastures. The corn crop, more than half of grain output, could be damaged if good rains do not come soon. Hungarian officials already estimate that potential export availabilities of wheat and corn may be cut by half, or 1 million tons.

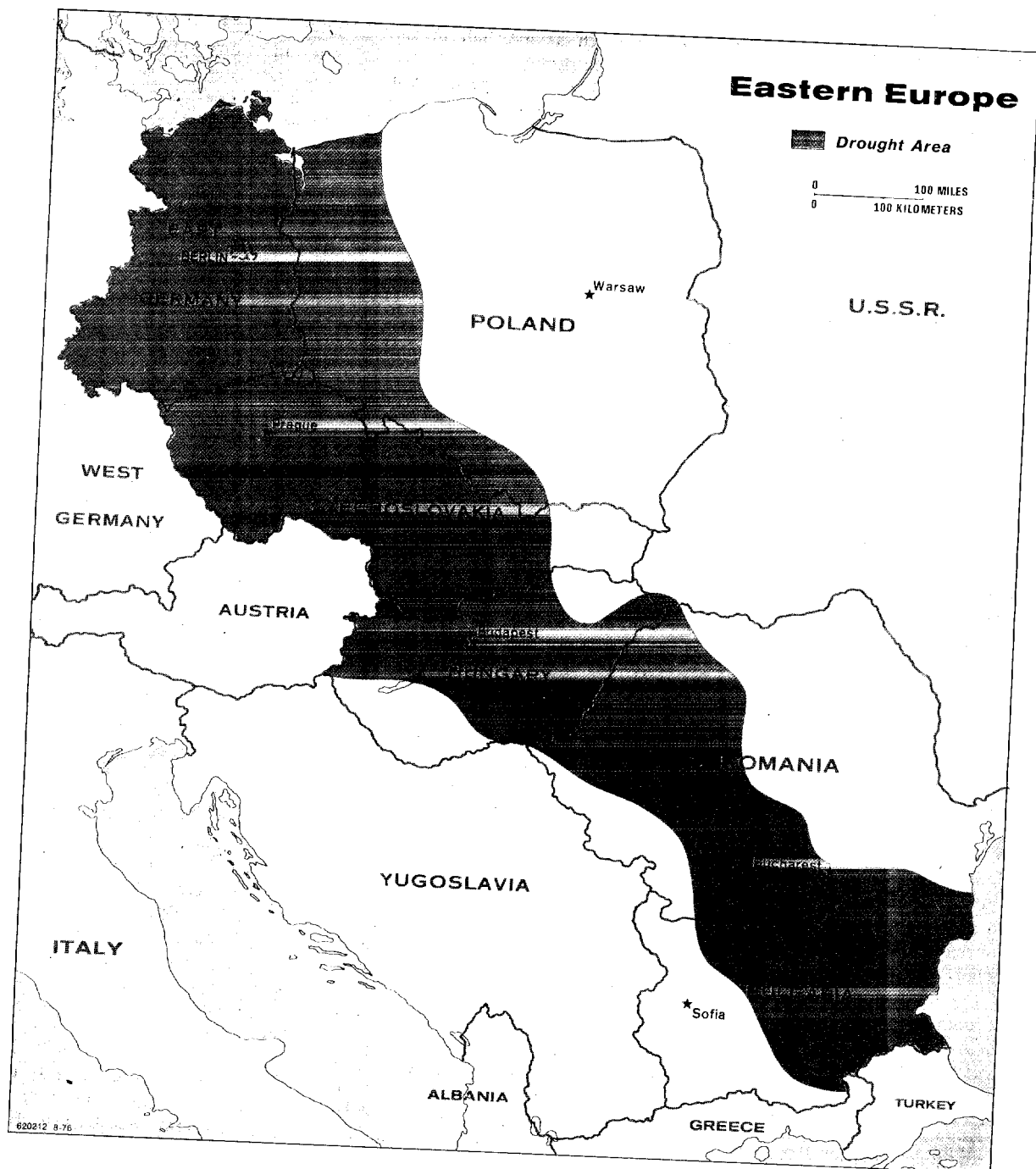
Severe drought struck southeastern Romania in early May. Many wheat fields were plowed under and replanted with corn, but the continuing drought suggests the new effort will not succeed.

Little information is available on crop conditions in Bulgaria. Much of the corn is grown on irrigated land which will temper the impact of the drought.

East European countries will have to increase their purchases in foreign grain markets. Among the major importing countries, East Germany and Czechoslovakia probably will boost their grain imports to about 4 million tons and 2 million tons respectively. Even with larger grain imports, East Germany will not be able to avoid acute shortages of animal feed.

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Polish grain imports will probably be less than they were last year, but they may run between 4 and 5 million tons, mostly wheat and corn. The amount may depend on whether Warsaw chooses to import meat for immediate consumption or grain to support livestock production.

East European purchases in the West,

particularly from the US, will depend largely on the amount of grain the USSR can supply. The USSR has provided in the past as much as one half of East European grain imports.

Last summer, Moscow suspended grain shipments to Eastern Europe because of its own poor harvest. The US inherited

most of the normal Soviet business, providing about 6.5 million tons compared with 3 million tons the previous crop year. If the USSR supplies a minimum amount—around 3 million tons—US sales to Eastern Europe could equal last year's level.

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The Hague has proposed a major overhaul of the European joint float, but West Germany opposes it, and the UK and Italy have reservations. The Netherlands may be receiving support from Paris and some of the smaller joint float countries.

EC: Overhaul of Joint Float Proposed

[Redacted]
The Netherlands proposed a major overhaul of the European joint float at last week's meeting of European Community finance ministers. The proposal calls for wider bands on joint-float currency fluctuations, more frequent adjustments in central rates, and constraints on parity changes for nonparticipating EC currencies.

The Dutch initiative reflected the problems encountered in maintaining parity between the guilder and the stronger West German mark.

From its beginning in 1972, the EC currency band—the "snake"—has been beset by problems. Britain and Italy dropped out of the arrangement within a year of its inception. West Germany has twice revalued relative to other float currencies. France has left the snake twice, most recently in March 1976.

The snake's chief problem has been its inability to cope with differential rates of inflation and shifts in short-term interest rates among member countries. Bonn's success in fighting inflation has made the West German mark the strongest currency in the band. The heavy intervention costs involved in keeping the mark and weaker currencies within 2.25 percent of

one another—and members' resistance to additional changes in central rates—precipitated the withdrawal of the pound, lira, and French franc.

The truncated snake has continued to encounter similar problems. The West German inflation rate of 5 percent is about half the rates in other participating countries. To maintain parity with the mark, the smaller member countries have been forced to maintain tighter fiscal and monetary policies than they would prefer.

With unemployment ranging from 5.5 to 8 percent, the governments of Denmark, Belgium, and the Netherlands have found the go-slow economic policies politically painful. The Dutch proposal is an attempt to dilute float rules sufficiently to give the smaller participants an alternative to the disciplined German economic policy stance.

As might be expected, West Germany opposes the Dutch proposal on grounds that its adoption would further lessen incentives for harmonizing economic policies among EC members. The UK and Italy also are skeptical. Both have rates of inflation well above those in other EC countries and feel they need the flexibility of floating to pursue domestic policy goals.

Bonn and London succeeded at last week's meeting in postponing serious discussion of the proposal until October. In the meantime, the plan will be studied by the EC monetary committee.

The Hague may be receiving support from Paris and from some of the smaller joint float countries. The Dutch proposal parallels a reform package presented earlier this year by France, prior to its desertion from the joint float. Many of the smaller countries, like the Netherlands, have had trouble maintaining parity with the strong West German mark and probably favor a more flexible system.

While Bonn has managed to prevail against a reform for the time being, the Schmidt government probably recognizes that maintaining the snake will likely require changes in either the operating rules or the central rates. On the basis of the past West German record, we expect that Bonn may opt for a moderate mark revaluation, but only after the national election in October. Until then, the Schmidt government will want to avoid charges that it has harmed West Germany's chances for a sustained economic recovery by revaluing. [Redacted]

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