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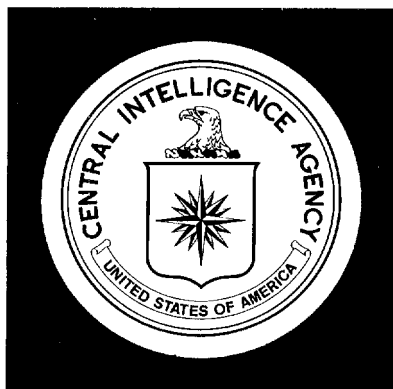
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Weekly Summary

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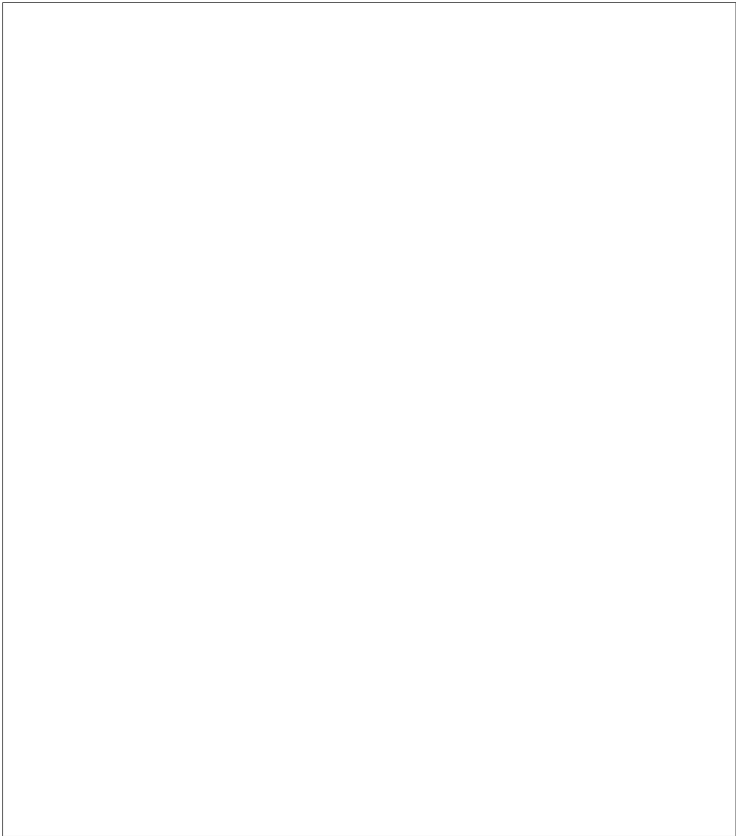


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December 3, 1976

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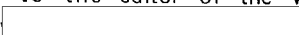
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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary. 

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Asia

CHINA

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A meeting of the standing committee of the National People's Congress, China's legislature, opened on November 30 in Peking. The last and most important item on the agenda is appointments to and removals from high-level government positions.

China's foreign minister, Chiao Kuan-hua, has been replaced by former UN Ambassador Huang Hua, one of Peking's most seasoned diplomats.

A possible explanation for Chiao's political difficulties is the reported anger of Defense Minister Yeh Chien-ying, now the number-two man in China and a staunch supporter of the ousted vice premier, Teng Hsiao-ping, over Chiao's apparent eagerness to join the attack on Teng.

The Foreign Ministry in any case appears to be in for a major shakeup. Chinese ambassadors to Canada, West Germany, France, Italy, Japan, Turkey, and the UN have all been recalled, apparently permanently. Some of these men may be in line for new posts at home, but nearly all have been identified to some degree with Peking's more outward-looking foreign policy of the 1970s.

Thus far, the Chinese have been at pains to emphasize continuity in their foreign policy since the death of Mao, and the new foreign minister does not seem likely to make major changes.

The meeting on November 30 featured a brief speech by Party Chairman Hua Kuo-feng, who nominated Chou En-lai's widow to be one of the vice chairmen of the standing committee of the National People's Congress. Hua, whose speech was greeted with "thunderous applause," is plainly trying to capitalize on the immense popularity of the late Chou En-lai.

National People's Congress Vice Chairman Wu Te also gave a speech. Wu hailed Hua's appointment as party chair-

man and acclaimed the fall of the leftists. He reiterated the conciliatory attitude, announced in a *People's Daily* editorial on Sunday, toward lower level followers of the leading leftists. Wu also called for the continuation of criticism of Teng Hsiao-ping.

It has been rumored that Teng will be rehabilitated now that his major detrac-



Huang Hua

tors have fallen, but Wu's comment strongly suggests that Teng's rehabilitation, while still likely in the longer run, is not imminent.

SOUTH KOREA

1-4

There are continuing signs of concern and uncertainty in South Korea over the prospects for US-Korean relations.

South Korean official statements continue to insist that US policy under President-elect Carter will not change radically, that the US will consult fully with both Tokyo and Seoul, and that the Korean government will be able to convince the US of the correctness of its

current policies.

At the same time, underlying themes suggest uncertainty. South Korean officials insist that any increased pressure on them on the human rights issue will be rejected as unacceptable interference in Korean internal affairs, and that South Korea can "go it alone" if the US begins troop withdrawals. 25X1

These themes have been featured more prominently in the government-controlled press in the past week or so. Editorials have criticized the "excessive interference of our developed-nation allies" and called for Korea to "develop in accord with our own history, culture, and tradition." South Korean officials, in conversations with US embassy officers, have also stressed the serious consequences if the US presses too hard on South Korean internal affairs.

Despite the firm line taken by Pak and other South Korean officials, the government has recently taken several tentative measures to loosen up domestic political controls. Christian leaders have been allowed to hold a series of conferences on human rights, press censorship of foreign news has been eased slightly, and an opposition assemblyman was allowed to testify at a trial of opposition figures. 25X1

There are rumors that a fairly sweeping leadership shakeup is coming soon and that it will involve such insiders as Korean CIA Director Sin Chik-su, key Blue House aide Kim Chong-yon, and a number of cabinet officers. President Pak may intend to signal by such moves that he is not completely inflexible as he enters a new phase in US-Korean relations, one that he clearly expects to be rocky at times.

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BANGLADESH

General Zia ur-Rahman, de facto leader of Bangladesh since November 1975, assumed full powers as chief martial law administrator this week. The title had been held by President Sayem, who remains president but is relegated to a ceremonial status.

Within hours of Zia's former takeover, leaders of most major political parties were under arrest; reports indicate that some 100 politicians have been targeted for detention. Some of them may be tried for corruption. Khondakar Mushtaque Ahmed, leader of the Democratic League, may be tried for his alleged role in the murder of several

political leaders. Mushtaque, installed as president of Bangladesh by the army officers who killed former president Mujibur Rahman in August 1975, was himself ousted in the first of two military coups in November last year.

Zia probably decided to act now in order to head off possible active opposition to his government's decision, announced on November 21, to postpone the national election. President Sayem had publicly promised an election by next February and probably pushed within the government for a return to normal political activity. Other government and military officials apparently persuaded Zia that a return to partisan political activity would regenerate political violence.

No open opposition to the postponement of the election has yet appeared.

US embassy sources report that several influential politicians may have been secretly organizing opposition to the government. Zia may have learned of the plotting. In any event, he presumably wanted to remove any rivals—particularly Mushtaque, who has significant popular support—at least temporarily from the public eye.

Effective opposition to Zia's actions is unlikely. Most Bangladeshis are apparently satisfied with the relative stability and prosperity the martial law administration has brought to the country during the past year.

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Soviet Union

BREZHNEV ON THE US

Soviet General Secretary Brezhnev, in a speech on November 30 honoring visiting Secretary of the Treasury Simon, summarized Soviet grievances with the US, but expressed hope for expanded cooperation in the future. His comments were clearly intended for the incoming US administration and the new Congress.

Brezhnev laid a special emphasis on the importance of eliminating discriminatory US trade legislation, as was appropriate to the occasion—the fourth session of the US-Soviet Trade and Economic Council—but he also devoted considerable attention to strategic arms limitations and other arms control issues. He blamed the US for holding back progress in both trade and arms control and implied the US must take the initiative in overcoming current obstacles.

Brezhnev was blunt, as was Foreign Trade Minister Patolichev earlier that same day, in criticizing US trade policy toward the USSR. He repeated Soviet

warnings that US businessmen will continue to lose Soviet business unless US trade discrimination against the USSR is eliminated.

The Soviets have given renewed attention recently to the subject of US-Soviet trade, suggesting that they hope the new administration will be able to work out an acceptable compromise with Congress.

In his remarks on November 30, Brezhnev decried the anti-Soviet rhetoric of the US election campaign and emphasized the "clear and consistent" nature of Soviet policy toward the US, especially in attempts to curb the arms race. Praising past Soviet proposals and US-Soviet agreements in this area, he said the USSR is prepared to go further in cooperation with the new administration "if it is prepared to act in the same spirit."

Brezhnev voiced strong support for limiting strategic offensive arms and called for an intensification of efforts to sign a new SALT agreement. He said that it is "high time to put an end to the freeze of this important question imposed by Washington" and that he expects an agreement to be based on the Vladivostok understandings. He added that the USSR is prepared to discuss possible new

measures to prevent the proliferation of nuclear weapons and reduce the threat of nuclear war.

EGYPTIAN TALKS

10-19

The USSR and Egypt both appear unwilling to make the first concession as they maneuver on the question of rapprochement.

The talks in Bulgaria several weeks ago between foreign ministers Gromyko and Fahmi do not seem to have had any tangible results. Soviet and Egyptian polemics have continued unabated after the two-day meeting. The Soviets in particular have gone out of their way to underscore their grievances with the Egyptians. The USSR clearly does not want to risk losing face by making concessions before any sign of change in Egyptian policy.

The two sides have encountered difficulties in their preliminary discussions on renewal of the annual trade agreement for 1977. A Soviet trade delegation left Cairo on November 27 apparently without having reached a settlement on the types and quantities of goods to be included in next year's agreement.

President Sadat has publicly

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President Ceausescu (right) greets Soviet party chief Brezhnev

acknowledged the need for continued contacts and last week disclosed that he had sent a note to General Secretary Brezhnev proposing a summit meeting. The Egyptian President added that the Soviet leader will have to "take me as I am and not as he wants me to be," apparently signaling that Egypt is not prepared to return to a friendship treaty or even to a statement of principles as the basis of a new relationship.

Egypt has, however, come out in favor of the Soviet proposal to resume the Geneva conference on the Middle East,

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[redacted] This will create a better atmosphere for improved Soviet-Egyptian relations, but we see no indication of any rapid movement toward a rapprochement.

Sadat is trying to get US attention by reviving his Soviet connection, but he apparently does not want to make any move toward the USSR that would compromise

his dealing with the next administration in Washington.

15-20

BREZHNEV VISITS ROMANIA

Soviet party chief Brezhnev made his first formal visit to Romania from November 22 to 24; each side projected the impression of improved relations without making any fundamental concessions.

Outstanding differences came to the surface during the toasts and speeches, but the bland joint declaration glossed over these issues and highlighted areas of agreement. There was no mention, however, of a growing "unity of views" as there was during President Ceausescu's meeting with Brezhnev in the Crimea last summer.

Brezhnev pushed hard for increased Soviet-Romanian cooperation, but the declaration—which stresses closer party and state ties at all levels—provided few specifics. The two men did agree to consult more frequently on bilateral and in-

ternational matters in order to "harmonize" their positions. It is doubtful, however, that Romanian policy will change significantly.

During the negotiations, the Romanians reportedly found it necessary to remind the Soviets of language about party autonomy contained in the final document of last June's European communist party conference.

The international section of the declaration bears a distinct Romanian imprint in its reference to the nonaligned movement, to disarmament, and to the Middle East. There reportedly was "intensive discussion" of Ceausescu's views supporting a new international economic order, and compromise language emerged in the declaration. On other issues, such as Balkan cooperation and Romania's proposal for a nuclear-free zone there, Brezhnev refused to budge.

Ceausescu reportedly did not succeed in wresting a commitment from the Soviets to supply Romania with additional raw

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materials and some oil. The two leaders pledged only to "pursue" overfulfillment of the 1976-80 bilateral trade agreement, and the declaration suggests there will not be a substantial expansion in trade before 1980. The two leaders also decided to postpone indefinitely the meeting of the bilateral joint economic commission, originally scheduled for last October.

Both sides are probably satisfied with the talks. A Romanian diplomat noted that Brezhnev's visit signifies that the USSR has achieved "a certain understanding" of Romania's positions. For their part, the Soviets are no doubt pleased at the semblance of unity the visit evokes.

Romania balanced its favorable media coverage and impressive welcome of Brezhnev with extensive attention to the simultaneous visit of US Commerce Secretary Richardson and references to the "friendly visit" to Peking of a Romanian deputy defense minister.

MEAT SHORTAGES

26328-29
The timing of the USSR's recent purchase of 42,000 tons of meat from Argentina, Australia, and New Zealand is somewhat puzzling because the worst of the Soviet meat shortage is apparently over. Recent purchases bring total meat commitments for 1976 to nearly 200,000 tons, and talks under way with Australia, New Zealand, and the EC might lead to an additional 150,000 tons. If such contracts are concluded, Moscow's hard-currency outlays for foreign meat may reach \$250 million this year.

We had expected large Soviet purchases of meat earlier this year to offset sharply reduced domestic meat production, a consequence of last year's harvest failure. Instead, purchases were minimal at the time when domestic meat shortages were at their worst. The leadership seemed to have weathered a potentially difficult period with little evidence of public discontent.

The current interest in meat purchases may result from:

- A larger-than-expected reduction in meat inventories.

- An improved hard-currency outlook. This year's abundant harvest has reduced pressure to use hard currency for grain imports in 1977.

- A recognition that even the reduced plan for domestic meat production—13.3 million tons this year—cannot be met. Industrial meat output in October was the lowest for that month since 1970 and at the end of the month was running 21 percent behind last year's level.

Soviet meat supplies will remain unusually tight until early next year, when an increase in domestic Soviet meat production is likely.

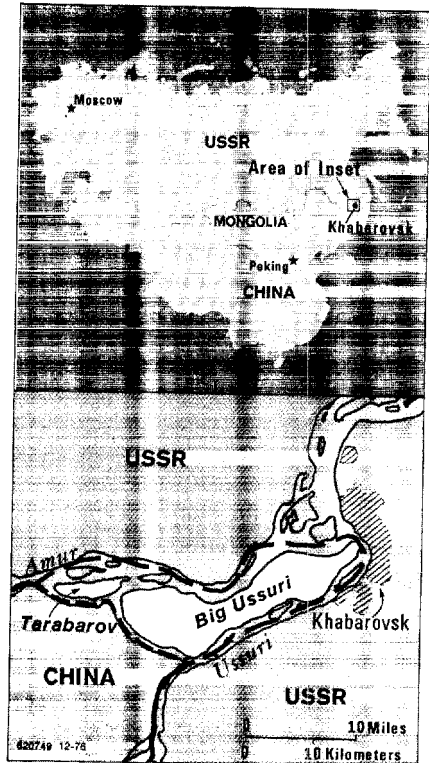
Diets in general this winter will nevertheless be more varied than last winter. Supplies of dairy products, potatoes, winter vegetables, sugar, and bread reportedly are adequate at government-controlled prices in most major cities; rural areas are still experiencing shortages of butter, eggs, and flour.

N.S. BORDER TALKS WITH CHINA

Deputy Foreign Minister Ilichev, Moscow's chief negotiator at the long stalemated Sino-Soviet border talks returned to Peking on November 27 and reportedly met with his Chinese counterpart, Deputy Foreign Minister Yu Chan, on November 30. Ilichev had been absent from the talks since May 1975, the longest absence of a chief Soviet negotiator since the talks began in October 1969.

Soviet Ambassador Tolstikov told reporters at the airport in Peking that Ilichev's return was a Soviet initiative. Moscow probably views it as another step in its continuing effort to build a public record of Soviet reasonableness in dealing with Mao's successors. Chinese Vice Premier Li Hsien-nien's strongly negative speech on Sino-Soviet relations two weeks ago may have made the Soviets believe that they had to try harder to keep alive the possibility of a Sino-Soviet rapprochement.

We doubt that the Chinese have given the USSR any sign of willingness to engage in serious negotiations on the border



problem. Chinese propaganda continues to be as hostile as ever toward the Soviets.

About two weeks after the death of Mao, Moscow sent its deputy at the talks, General Gankovsky—who also had been absent from China for a prolonged period—back to Peking; all indications are that he has had only minimal contacts with the Chinese.

Ilichev, nonetheless, may carry some new proposals that take into account China's reason for rejecting the last Soviet offer for a settlement of the eastern border in 1973. China reportedly declined that offer because it did not cover the disputed islands opposite Khabarovsk or the other disputed portions of the border west of Mongolia and contained no provision for Soviet troop withdrawals.

The USSR is unlikely to give in on the troop withdrawal issue, but it might offer to compensate the Chinese for Big Ussuri and Tabarov islands and could make an initial offer on the western sector of the border.

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Africa

RHODESIA

31-33

Cross-border strikes by white-led Rhodesian forces against insurgent camps in Mozambique, which have continued intermittently since the end of October, are apparently paying at least short-term military dividends.

The raids have resulted in the destruction of sizable quantities of munitions, demonstrated the vulnerability of both the guerrillas and their Mozambican defenders, and probably forced the insurgents to move farther back from the border. The Rhodesian security forces have also retaliated in force against Mozambican military units that initiated border actions; in at least one case, the

Rhodesians used jet fighters.

Inside Rhodesia, the security forces have apparently tracked down numerous guerrilla bands, including many infiltrating for the first time. Nearly 250 guerrillas were killed last month, according to Rhodesian communiques. The weakness of the guerrillas' military training was evident, and they have also been hampered by factional fighting at camps inside Rhodesia.

Although the Rhodesian security forces apparently intend to keep up the pressure on the guerrillas, the insurgents will probably make a stronger showing in the weeks ahead. The heavy rains are getting under way and beginning to provide significantly improved vegetation cover for the guerrillas. Moreover, their ranks will be swelled as more of the large numbers of black Rhodesians recruited over the past year become available. Some of these recruits are currently being moved from Mozambique to more secure

training camps in Tanzania, where Chinese instructors have long been stationed.

At the Geneva conference, the participants finally moved last weekend from the independence date issue to begin discussions on the form and substance of a transition government. A group of key insurgent military leaders returned to Geneva on December 2 to augment Robert Mugabe's Zimbabwe African National Union delegation, the group that has taken the hardest line in the talks.

The participation of these militants, who apparently continue confident that their guerrillas can soon achieve a military victory, seems sure to complicate efforts to reach an agreement.

ANGOLA

39-35

A new government lineup announced last weekend in Angola suggests that President Agostinho Neto has strengthened his domestic political position.

The new cabinet is composed mainly of Neto loyalists, particularly in the most important posts. Lopo do Nascimento, a long-time Neto supporter, remains prime minister. He will be assisted by three deputies, at least two of whom are Neto stalwarts. The new foreign minister, a white, has long served as Neto's right-hand man.

Absent from the new cabinet is Nito Alves, an outspoken critic of Neto who had been interior minister. Since the end of the civil war last winter, Alves has been working at building a personal power base among black radicals in the military and the large number of unemployed black Angolans.

A communique issued after a party meeting last month had seemed to point to Neto's formal assumption of the position of prime minister. Instead, it is apparently intended that he will take over some of the functions previously exercised by the prime minister, particularly in establishing policy guidelines in both domestic and foreign affairs.



Rhodesian troops display weapons captured during raid into Mozambique

PICTORIAL PARADE

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NAMIBIA 36-38

A meeting last week between South African Prime Minister Vorster and a committee of the multiracial Namibian constitutional conference apparently failed to resolve the impasse that has developed between the conference's white and nonwhite participants.

The committee had requested the meeting with Vorster because its efforts to devise a multiracial interim government to oversee the transition of the South African - administered territory to independence were stalled by basic disagreements among the 11 delegations to the conference. The delegations represent the whites and the 10 nonwhite ethnic groups inhabiting the territory.

Most of the white members of the committee have insisted on interim arrangements that would diffuse power among the existing ethnic homelands in a loose federal system instead of setting up a strong central government. Such a system would enable the whites to maintain control of Namibia's rich mineral resources even though they make up only 12 percent of the population.

Shortly before the committee went to



Prime Minister Vorster

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Pretoria to meet with Vorster, some of its nonwhite members told the press that a loose federal system was unacceptable. They also said they intended to ask Vorster to press the hard liners in the white delegation to yield to the nonwhite majority.

According to the US embassy, guarded commentary from several participants at the meeting indicates that Vorster stressed the urgency of reaching an early consensus on forming a government, but made no clear effort to encourage the white hard liners to compromise with the nonwhites.



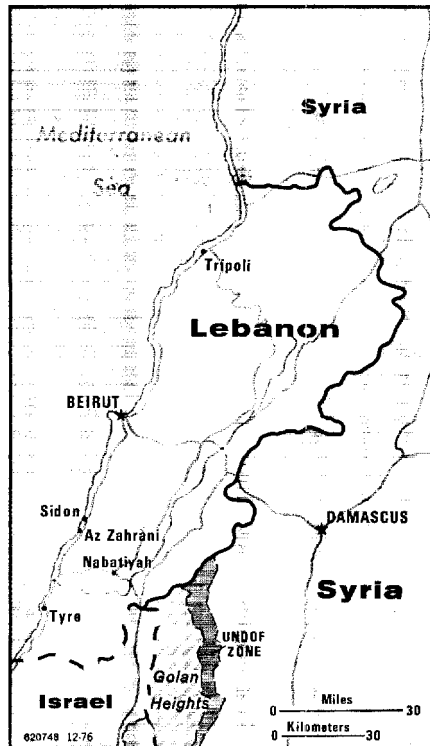
LEBANON 39-41

Syrian peacekeeping forces in Lebanon were forced to delay their plans to move into key cities in southern Lebanon this week because of repeated warnings from Israel that it would not tolerate the presence of a non-Lebanese military force so close to its border. The Israelis last week increased their military strength in northern Israel slightly—but with much publicity.

Syrian units had intended to take up positions in the southern port city of Tyre—where Palestinian and Lebanese leftist groups are still receiving arms shipments—and to secure the Palestinian stronghold at Nabatiyah. Syrian forces have not moved any farther south than Az Zahrani, however, and are not in a position either to control fedayeen cross-border operations against Israel or to quell continuing clashes between Israeli-backed Christian troops and Palestinian and leftist forces along the southeastern border.

President Sarkis spent most of the week trying to find a compromise solution, but Israel's position seems to give him little leeway.

Militant Palestinian leaders, apparently



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emboldened by the halt of Syrian peacekeeping troops, issued a sharply worded policy statement last weekend criticizing Syrian efforts to dominate the Palestinian movement and affirming their determination to continue the "struggle" against Israel from southern Lebanon. These leaders have been critical of Palestine Liberation Organization chief Yasir Arafat's recent attempts to reach an accommodation with Syria and his implied willingness to prepare for wider Middle East peace negotiations.

Ironically, the militants apparently intend to try to use Israel's suspicion of Syria to help preserve their freedom of action in southern Lebanon. In this regard, they also warned this week that the Palestinians would not cooperate with Syria's announced intention to begin collecting heavy weapons from all combatants in Lebanon. Most of the Palestinians' weapons have been moved to redoubts in the south.

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JORDAN

43-44

The changes in the Jordanian cabinet announced on November 27 represent a modest political victory for Crown Prince Hasan and his ally, Prime Minister Badran, and a setback for their political opponent, former prime minister Zayd Rifai. For the past several months Rifai has served as an unofficial adviser to King Husayn.

Most of the six members dropped from the cabinet were supporters of Rifai who were having difficulty working with Badran. Their replacements are generally nonpolitical technocrats or politicians with ties to the Crown Prince and his associates.

One of the new cabinet members is a well-known political adversary of Rifai and an advocate of Bedouin tribal interests. His appointment confirms the King's interest in having Badran put together a cabinet that will help assuage East Bank and army unhappiness.

Although the cabinet shuffle suggests that Rifai may be less influential than he was expected to be in his advisory role, it does not mean that policies he promoted are being abandoned.

Rifai has been identified mainly with Jordan's efforts to work out close economic and military cooperative arrangements with Syria. The King sup-

ports this policy and apparently is preparing to take additional steps during Syrian President Asad's visit to Amman early this month. [redacted]

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IRAN

42

Iran's current-account surplus, which probably will total \$5.6 billion this year, does not support the Shah's argument for a large oil price hike.

Even with no oil price increase next year, Iran probably would run a \$4.2-billion current-account surplus. A 10-percent oil price hike would raise the 1977 surplus to \$5.6 billion.

Iran experienced a financial setback last year when imports almost doubled and exports declined in response to the slump in world demand for heavy crude oil. Imports of capital goods, industrial raw materials, and transport equipment rose dramatically as Iran rushed ahead with its ambitious development program. The current-account surplus in 1975 dipped to \$3.6 billion from \$13.2 billion in 1974.

Oil exports began to rebound early this year, and crude oil liftings were close to capacity. As a result, we expect total exports to rise by \$3.2 billion this year.

Imports, on the other hand, will remain

at about the 1975 level. In the first nine months of this year imports from the US, Iran's largest supplier, were down 17 percent from last year's level.

The economy has not yet digested last year's rapid increase in imports. Port expansion and modernization projects have made little headway; the volume of cargo clogging Iran's major ports has reportedly doubled since the end of 1975. Food and military equipment imports have been given priority; consumer durables, construction materials, and capital goods deliveries are caught up in the backlog.

Slow progress in clearing and expanding the ports and the government's decision in June 1975 to stretch out the development plan should hold down import gains for the next few years.

The increase in this year's trade surplus has been partly offset by a rise in net service payments. Much of the rise in the services deficit reflects larger expenditures for foreign managerial services to carry out development projects.

On the capital account, Iran may register a deficit of as much as \$2.9 billion this year, partly reflecting capital flight. In late October, the Shah admitted that an outflow of \$2 billion of private funds had occurred over the preceding 16 months, largely in reaction to the strict limitations on profit margins enacted in mid-1975. [redacted]

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PERSIAN GULF

45-47

The foreign ministers of the countries on the Persian Gulf were unable to agree on a formula for closer cooperation on regional issues during a two-day conference in Oman last week.

The conference was the fourth meeting since July 1975. Each has ended with talk of further sessions, but the prospect for meaningful cooperation, especially on regional security, is receding.

The attendance of Iraq at the meeting assured its failure. Iraqi leaders support regional cooperation only among Arab states—thus excluding Iran—and only on such prosaic subjects as information and

health. They refuse to discuss regional cooperation on security matters.

The Iraqi foreign minister attended the meeting only after failing in his efforts to have it called off. He insisted that discussions be limited to the question of freedom of navigation through the Strait of Hormuz.

Iraqi diplomacy is aimed at blocking any regional formula that limits the movement of ships through the strait.

Iran, supported by Oman, takes the position that the Persian Gulf is a closed sea from which foreign military presence should be excluded.

The Shah of Iran has advocated a comprehensive multilateral security pact for

the Gulf region. He regards such a pact as a way to consolidate Iran's already strong position and as a vehicle for employing Iranian power in a policing role.

Political developments in early 1975, including a political accord between Iran and Iraq, encouraged the Shah to believe progress on a pact was possible. Subsequent developments have almost certainly convinced him a pact is not now attainable.

Bilateral ties, like those developed in recent years between Iran and Oman, offer an alternative way of employing Iran's power in the region, the Shah may be switching the emphasis of his diplomacy to this channel. [redacted]

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Western Hemisphere

MEXICO

48-49

Mexican President Jose Lopez Portillo, sworn into office December 1, devoted most of his inaugural address to economic policy, stressing the need to restore confidence in the government. His remarks indicate that he plans an orderly shift away from the expansionary fiscal policies of his predecessor.

On November 30, outgoing President Echeverria used his last full day in office to polish his populist image. He gave peasants titles to 445,000 hectares of land that had been expropriated in past years and ordered a new expropriation of some 3,500 hectares to be split into small plots for peasants' homes.

In his inaugural speech, Lopez Portillo said the current crisis in public confidence in the government is a danger to the economic and political future of the country. He warned that continued economic disorder could cause domestic strife that would have to be dealt with by force. He said a period of austerity will be necessary and that it will include import controls and cuts in government spending.

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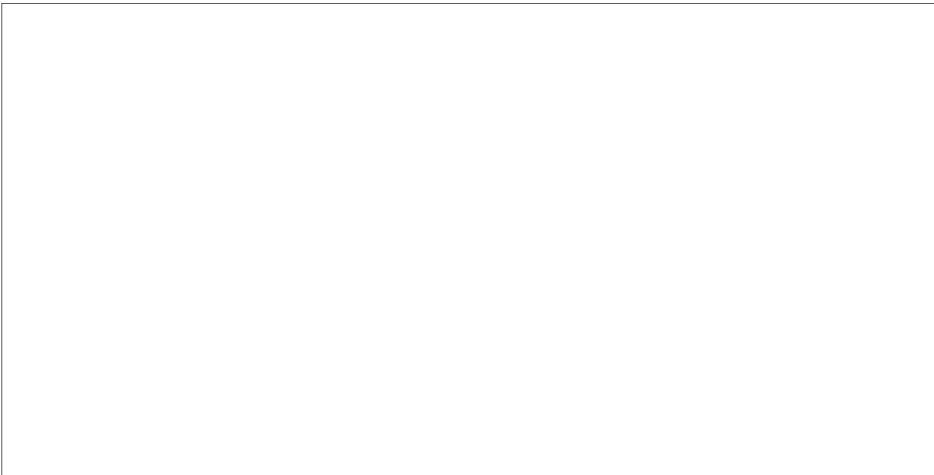
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He referred several times to the country's many current problems and to his commitment to solve them. He said he needs time to find solutions. Many of his remarks were intended to ease the climate of uncertainty that marked Echeverria's last months in power.

Although he did not spell out clearly his views on agricultural reform, the new President indicated that he views land distribution as the wrong way to solve the urgent rural problem because peasants cannot produce efficiently on small parcels of land. These sentiments, in direct conflict with the expropriations carried out by Echeverria, will be received well by conservatives, but will not help those landowners already affected by Echeverria's actions.

Lopez Portillo will be under pressure to revoke the expropriations, although any effort to reverse Echeverria's actions would risk a peasant uprising.

Lopez Portillo's cabinet is composed of close associates with strong administrative records rather than well-known political figures, indicating that he will emphasize administrative efficiency rather than the political rhetoric that characterized Echeverria's years.



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CHILE-PERU-BOLIVIA ⁵⁸⁻⁶¹

Chile's blunt rejection of a Peruvian formula for providing Bolivia with a corridor to the sea seems to set the stage for a deadlock that could get the US involved in the long-festering dispute.

Chile had earlier offered to grant Bolivia exclusive sovereignty in a corridor on the Chilean side of the present Chile-Peru border. The Peruvian counterformula called for tripartite control in part of the corridor.

Chile asserts that the Peruvian initiative represents "a clear and manifest modification" of Chilean sovereignty as established by a 1929 treaty. Chile argues that Peru's prerogatives under the treaty are limited to approving or rejecting Chilean plans involving disposition of the territory, which Chile conquered from Peru about a century ago.

If the two sides are unable to come to terms, the US may become involved under a provision of the 1929 treaty that refers any dispute over interpretation of the treaty to the US president.

Peruvian Foreign Minister de la Puente announced last week, before Chile's rejection, that if Chile and Bolivia rejected Peru's counterproposal the situation would return to "point zero." An official response to Chile on November 26, however, implied that Peru is still willing to talk.

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Two new opposition groups emerged recently in Israel where the long-dominant Labor Party seems likely to face its greatest challenge in next year's general election.

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Israel: Domestic Political Scene in Flux

The recent emergence of two new opposition leaders on the Israeli political scene is symptomatic of rising popular dissatisfaction with both the Rabin government and the equally lackluster and faction-ridden Likud opposition bloc.

With a hard election fight coming next fall, Prime Minister Rabin and other Labor Party leaders are almost certain to urge the US not to press Israel to engage in serious negotiations with the Arabs until after the election lest they harm Labor's chances of staying in power.

Yigael Yadin, a highly respected former Israeli chief of staff, recently announced the establishment of a new political party that is likely to have a moderate, reformist cast.

Ariel Sharon, a controversial and popular general who led the Israeli armored attack across the Suez Canal in the 1973 war, recently broke with the conservative Likud to establish his own hard-line group.

The actions by both men will affect the outcome of the general election next fall. Yadin, a moderate on peace negotiations, poses the greater threat to Prime Minister Rabin's Labor Party. He will probably pick up support among splinter groups and independents who favor "dovish" policies on Arab-Israeli issues. He is also likely to make some inroads among long-time supporters of the Labor Party who

have become disenchanted with the Rabin government but are reluctant to vote for Likud, especially under its present leadership.

Sharon, despite his personal appeal, is likely to have a more limited impact on the outcome than the less dynamic Yadin. A political maverick and rigid hard-liner on Arab-Israeli issues, Sharon is likely to draw more votes from Likud than from Labor, but only enough to win a few seats at best.

Other Political Challenges

The Labor Party has other problems. The small Independent Liberal Party, with four Knesset seats, apparently is about to drop out of the governing coalition.

This will leave the Labor Alignment—the ruling coalition's core group composed of the Labor Party and the left-wing Mapam—more dependent on its hard-line coalition partner, the National Religious Party, which controls 10 of the government's 63 remaining seats in the 120-member Knesset.

Mapam, for its part, is considering breaking up the Alignment to run an independent slate of candidates next fall, although it apparently would stay in the present government.

Mapam leaders have felt frustrated in the minor role assigned their group and are threatening to pull out of the election alliance with Labor unless Rabin and other party leaders support a much more dovish party platform for the election.

Labor Party Divisions

Potentially the most serious of Labor's problems are the divisions within the party

itself. Rabin faces challenges to his leadership from former foreign minister Abba Eban, a leading dove, and Defense Minister Peres, a hard liner.

Consequently, Rabin would prefer to see the party adopt a vaguely worded plank on negotiations that would allow him to head an outwardly united Labor Party into the fall campaign. He fears—justifiably—that if he bows to Mapam demands former defense minister Moshe



Prime Minister Rabin

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Dayan and some other Labor Party hawks will bolt the party, leaving Labor even more divided than it is now.

The net effect of the present jockeying is to create increasing doubt about the outcome of next year's balloting. Some

observers believe the Labor Party could lose for the first time since independence in 1948.

Even if Labor emerges with a plurality again, which still seems likely, it will probably be a reduced one. In that case,

negotiations over cabinet positions would, at a minimum, be even more arduous and time-consuming than in the past. The end product could well be an even less flexible Israeli negotiating team than the present one.

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Egypt's efforts to diversify its sources of military equipment are complicated by financing problems, by the long lead times before West European equipment will become available, and by the need to find the money just to maintain existing stocks of Soviet-made weapons.

63, 64

Egypt Searches for New Sources for Weapons

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[redacted] Egypt's rift with the USSR has seriously reduced Cairo's military readiness and has given added impetus to its search for new sources of arms. Although Egypt and the USSR recently have tried to improve relations, Cairo is determined to diversify its weapons supply base.

The small shipments of Soviet military supplies still being sent to Alexandria consist mostly of Egyptian equipment being returned after servicing.

The Search for Other Sources

Egyptian efforts to obtain spare parts and equipment from East European and Chinese sources have met with only limited success. Agreements signed last year with Czechoslovakia, North Korea, Hungary, and Yugoslavia are providing small imports of field artillery, ammunition, antitank missiles, and helicopter spare parts.

China is supplying Egypt with small quantities of equipment and spares.

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[redacted] Egypt also has approached US, British, and Italian firms about refurbishing and retrofitting major Soviet weapons and equipment—including tanks and MIG fighters—to facilitate future maintenance.

[redacted] Cairo began to look for new sources of arms after it expelled most of the Soviet military technicians stationed in Egypt in 1972; it intensified this effort after the Soviets failed to replace all of Egypt's 1973 war losses of weapons and equipment. In late 1973, Saudi Arabia gave Egypt 38 Mirage jet fighters as grant aid, although deliveries were not completed until this year. Cairo's procurement initiatives were subsequently slowed by a lack of financial resources and Arab reluctance to bankroll Egyptian arms purchases indiscriminately.

[redacted] Purchases from the UK of missile boats, the navy's top priority requirement, also have been postponed for lack of money.

In the long run, Egypt hopes not only to refit its forces with Western equipment but also to expand domestic military output. The Arab Industrial Organization was established last year by Egypt, Saudi Arabia, Qatar, and the United Arab Emirates to encourage development of a domestic armaments industry in Egypt.

Egypt's current arms output is limited to light infantry weapons, ammunition, explosives, and transport vehicles. Although Egypt's defense industry outpaces that of other Arab nations, it is small by Western and Israeli standards. It will continue to provide only a small portion of Egypt's defense requirements for many years even with Western assistance.

Financing Problems

The conversion from Soviet to Western equipment will be delayed by financing problems caused by the high cost of the equipment, Egypt's reliance on wealthy Arab states for monetary assistance, and competition with the civilian sector for

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limited funds.

The conversion also will severely tax the country's technical and maintenance capabilities. Egypt will be hard pressed to maintain and operate sophisticated Western military equipment without extensive retraining of personnel and reorganization of the logistic system to accommodate the new types of equipment and parts.

Substantial deliveries of Western arms are still a long way off because of Europe's lack of large arms inventories available for immediate export and the

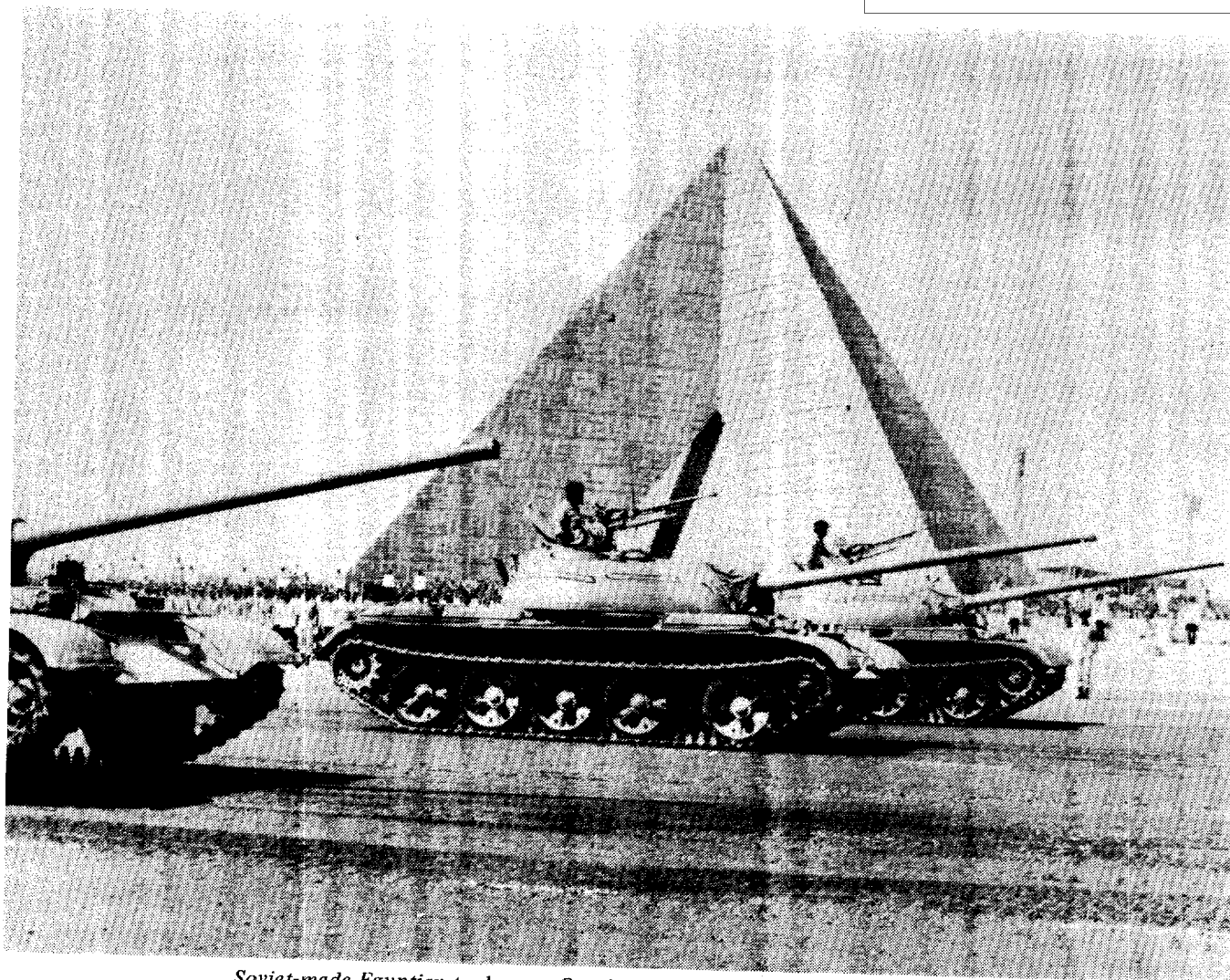
long lead times required for increasing weapons production. New acquisitions almost certainly will not keep up with the attrition of older equipment over the next year or so. Even if production were not a constraint, Egypt will require several years to equip and to train Egyptian forces in the effective use of the new equipment.

Egypt, meanwhile, will be forced to continue to seek assistance to maintain its Soviet equipment. Unless such relief is found, Egypt's armed forces will experience increasing shortages over the

next year that will further degrade its capabilities and widen the military imbalance between Egypt and Israel.

Egypt's potential for waging war, however, will not be completely eroded even if the supply and maintenance situation becomes worse. Under peacetime conditions, Egypt probably will be able to maintain a viable defensive posture and at least a limited offensive capability by reducing the use of equipment, increasing cannibalization, and obtaining some spare parts from other countries.

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Soviet-made Egyptian tanks pass October War monument during military parade

GAMMA

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The Labor government faces some tough tests in the course of the legislative session that began last week. Chances are reasonably good, however, that it can hold on at least until spring without being forced to an early election.

68, 69

Britain: New Parliamentary Session

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Britain's Labor government began a new legislative term on November 24 with the traditional throne speech outlining objectives for the coming year. The government pledged to give top priority to attacking inflation and to promoting an industrial revival.

The establishment of regional legislative assemblies for Scotland and Wales will be the government's major legislative initiative for the new session. Labor will also reintroduce its controversial bill to nationalize the aircraft and shipbuilding industries that was blocked in the last legislative session.

Although the government succeeded in turning back—only by narrow margins—most opposition challenges in the session that ended on November 22, serious political and economic problems lie ahead. Labor, nevertheless, still stands a reasonable chance of avoiding an early election at least until next spring and perhaps longer.

One immediate problem is the lagging economic recovery, which in turn will contribute to social and political discontent. The trade union rank and file, who have been prevailed upon to restrain wage demands, are certain to grow more restless as real wages decline, inflation continues, and unemployment remains high. The middle classes are also pressed by high rates of taxation.

Many of these problems will remain and some will grow worse if the Callaghan government is forced to accept massive cuts in public spending as a condition for

the \$3.9-billion loan it is seeking from the International Monetary Fund. Britain's recovery has stalled and additional deflationary measures would only worsen the situation. The gross national product will grow by about 1 percent this year and by about 2 percent next year, far short of the Labor government's earlier optimistic forecasts of 4.5-percent growth through the end of 1977.

The Labor government must reduce the public sector borrowing requirement to help restore foreign confidence in sterling and strengthen industrial recovery. In order to achieve this goal, Prime Minister Callaghan must maintain the government's alliance with the trade unions, the key to sustaining Labor Party unity in Parliament. Thus far, the leadership of the Trades Union Congress remains committed to the government, although the strains are becoming more evident as the unions are asked to accept

more sacrifice while relief remains a distant hope.

A Bright Spot on the Horizon

The one bright spot on the economic horizon is North Sea oil. Oil revenues will help reduce Britain's current-account deficit, which reached \$2.8 billion in 1975 and is expected to rise to \$3 billion this year. According to government estimates published last summer, North Sea oil production will reduce the current-account deficit by about \$1.7 billion next year.

Talks with IMF officials on the terms for a loan are nearing a conclusion. The British cabinet has reportedly agreed in principle that it will have to reduce the budget deficit in order to get an IMF credit and increase the possibility of an international guarantee for official sterling balances.

The remaining dilemma for the Labor government centers on the size of the cuts

HOUSE OF COMMONS			
Government		Opposition	
Labor	312	Conservative	278
Social Democratic and Labor	1	Liberal	13
Scottish Labor	2	Scottish Nationalist	11
Independent Republican	1	Welsh Nationalist	3
		Ulster Unionist	9
		Vanguard Unionist	1
	316		315

(The above figures exclude the speaker, who only votes on ties, and his three non-voting deputies.)

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Central Press



Jack Jones, a key government ally in the trade unions

and their domestic political acceptability. There is considerable ministerial resistance to heavy cuts in public spending that would result in an immediate rise in the high unemployment level. Those cabinet ministers arguing against harsh deflationary measures have received powerful backing in recent days from the Trades Union Congress and two unex-

pected sources, the prestigious National Institute for Social and Economic Research and the Confederation of British Industry.

In anticipation of IMF conditions, the government in recent weeks has taken a number of steps to limit the growth in money supply and domestic credit expansion. It has raised the minimum lending rate to a record high, increased special deposits with the Bank of England, and imposed new restrictions on bank expansion of interest-bearing deposits. The Callaghan government has also announced a reduction in the level of central government financial support for local government spending.

To help secure Labor Party and trade union acceptance of what may be a "deflationary" IMF package, Callaghan wants an international guarantee for official sterling balances. The Prime Minister probably thinks a guarantee would signal international support for his economic recovery strategy and provide a much-needed political boost at a time when Labor's fortunes are sagging.

Any budgetary adjustments required by the IMF would probably have to be accompanied by concessions to Labor left-

tists. These could include import restrictions and further reductions in defense spending as part of any overall budget cuts.

If the Labor government is able to secure domestic acceptance of the tough measures that are expected to accompany an IMF loan, Callaghan's prospects for hanging on to power would improve considerably in spite of his vulnerable position in Parliament.

End of Labor Majority

Labor lost its absolute majority in the House of Commons on November 4 following the loss of two of three normally "safe" seats in by-elections. From that point until the end of the parliamentary session on November 22, the government struggled against a Conservative opposition determined to cause Callaghan maximum embarrassment.

The opposition parties, in an unusual display of unity—and aided by right-wing Labor defections—were able to gut a bill in Commons important to Jack Jones, one of the government's key trade union allies.

In addition, persistent upper house opposition to nationalization of the aircraft and shipbuilding industries resulted in the failure to secure full parliamentary approval of the bill before the end of the session. The government intends to reintroduce the bill in the new session under procedures that would bypass the House of Lords. Labor's one-vote working majority in Commons, plus the possibility of further by-election losses, means that the government will have a difficult time getting its way on the nationalization measure.

Aside from nationalization, the Labor leadership can assert that over the past two years it has fulfilled the bulk of its election promises. This should leave the new parliamentary session largely free of ideologically divisive legislative proposals. The main issues will be home rule for Scotland and Wales, and direct elections to the European Parliament. Both questions are controversial, but the arguments cut across party lines and could easily end up with "free" votes in



Prime Minister Callaghan

Camera Press London

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which parliamentary discipline would not be enforced.

Tough Tests Ahead

The really tough tests for Labor will come on economic issues, chiefly the budget next spring or any mini-budget Chancellor of the Exchequer Healey might introduce in relation to the IMF credit. On such votes there would be a danger of leftist defections. Potential left-wing dissidents, however, will be kept in line by the knowledge that their disloyalty could risk an early election and the coming to power of the Thatcher-led Tories—a prospect most leftists and trade unionists fear. Moreover, the Conser-

vatives themselves would be hard pressed to vote against the kind of austerity measures they have been recommending.

On the other issues, however, the Conservatives will be able to take advantage of Labor's precarious parliamentary situation. The government's slim overall edge will mean that the Tories and their potential allies among the minor opposition parties will occasionally unite to deal Callaghan a heavy blow on important legislation and will be able to score tactical victories on a variety of issues.

Confidence votes are another matter. Dissident Laborites who may have strayed on earlier votes can probably be

relied upon to return to the fold when the government's life is at stake. Furthermore, the Conservatives are likely to find many of the members of Parliament representing minor parties to be fickle allies in any serious effort to topple the government.

The Liberals in particular would be heavy losers in an early election and for that reason would probably balk at voting against the government on a confidence motion. Labor has also apparently struck a deal with the Welsh nationalists for their support on confidence votes in return for concessions on home rule for Wales.

[Redacted]

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Political liberalization in Spain now depends in part on the willingness of the democratic opposition parties to play a positive role in the process—on terms set largely by the government.

N.S.

Spain: A Role for the Opposition

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With the Spanish reform bill safely through the Cortes, Prime Minister Suarez must now try to get the noncommunist opposition to participate in the democratic processes established by the new law.

The government has two immediate goals: to persuade as many opposition parties as possible to signify their endorsement of the reforms by applying for legalization, and to head off an opposition campaign for abstentions in the referendum scheduled for December 15.

The broad lines of the government's position were laid down on November 23 by Interior Minister Martin Villa, who told a press conference that only officially approved parties will be allowed to participate fully in the referendum campaign and that proscribed political parties—Communists and left-wing extremists—will be denied any role.

The Socialists, Christian Democrats, and other left-of-center parties, which have not yet applied for legalization, will be restricted to holding indoor meetings and denied access to television and other government-controlled media.

A Gesture of Leftist Solidarity

Failure of the left-of-center parties to apply for legalization is partly a gesture of solidarity with the Communists, who are likely to remain banned at least until after the legislative election next spring. It is also an expression of the parties' displeasure at not being fully consulted on the reforms and their reservations about the government's commitment to free and fair elections.

The leftist parties will probably seek to use the question of their full legal participation as a bargaining chip when they try to persuade the government to negotiate with them on the law governing parliamentary elections.

The government's hard line on restricting the freedom of nonlegalized parties in the referendum campaign may be a negotiating ploy. If, on the other hand, the government is serious about stifling the leftist abstention drive, it may find the approach counterproductive; heavy-handed action by security forces could unite the opposition at a time when it is showing signs of splintering. The government may also be vulnerable to accusations of manipulating the referendum.

The Moderate Opposition

There are signs that the more moderate opposition groups are uncomfortable with the move—led by the Communists and the Socialist Workers Party—to campaign aggressively for abstention unless various demands, including legalization of the Communist Party, are met.

Representatives of national and regional opposition groups ranging from Communists to center-left Liberals and

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Prime Minister Suarez (bottom right) chats with Interior Minister Martin Villa

Social Democrats held a meeting in Madrid on November 27 and called on the government to open negotiations with them. The groups agreed to various conditions—again including legalization of the Communist Party—which they consider necessary to give democratic legitimacy to the referendum and election, but they did not threaten to abstain if these conditions were not met.

Two leaders of the small Popular Socialist Party recently told the US ambassador that they believe it is unwise to expend resources opposing the referendum when the government is certain to win anyway.

In any case, the Popular Socialist leaders said they believe the election next year is far more important than the referendum. They believe the more

moderate groups will probably concentrate on efforts to ensure a fair legislative election, leaving participation in the referendum up to each party member.

Opposition leaders may now push for the appointment of three or four "wise men" as ministers without portfolio to act as intermediaries for negotiations on the election law and to supervise the election process itself. This theme was recently touched on in a press interview by Christian Democrat Ruiz Gimenez, who suggested that the "wise men" need not be leaders of the opposition—they could be eminent jurists and experts on election law who have the confidence of the opposition.

Consultation with Opposition

Suarez met on November 29 with Christian Democratic leaders in what may be the first step toward broader formal consultations with the opposition. The government probably hopes to persuade noncommunist opposition groups that they should not be so adamant in their support for legalization of the Communist Party that they jeopardize not only their own political futures but the country's progress toward democracy as well.

The major socialist group, the Socialist Workers Party, is in a particularly awkward position. Because it is competing with the Communists for workers' votes, it is vulnerable to accusations of selling out to the government. This is probably the main reason it is pushing for abstention in the referendum.

Government officials recognize the party's dilemma. Because they see the party as a key factor in the struggle to involve the noncommunist opposition in the reform program, they have privately expressed a willingness to lean over backward to win its cooperation.

A Socialist Workers Party congress, now scheduled for December 5 to 8, has received government authorization. In addition, the government is reportedly considering a modification of the law that would allow the Socialists to become^{25X1} legalized without having to swear allegiance to Francoist institutions.

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The outcome of the Japanese election on December 5 is not likely to have much impact on the balance of political forces in the country. It will have an effect on the leadership battle within the ruling party.

N.S.

Japan: The National Election

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The ruling Liberal Democratic Party in Japan will retain a Diet majority and control of the government after the national election on December 5.

Despite almost ten months of pervasive national attention to the Lockheed scandal, the unprecedented indictment of a former prime minister, and an intense power struggle within the ruling party, the Liberal Democrats will be able to end up controlling at least 271 of the 511 seats at stake—enough to give them full control of the legislative process in the lower house.

The margin of the party's victory will play a major role in former deputy prime minister Fukuda's challenge to Prime Minister Miki, which is likely to resume shortly after the election.

The Conservative Edge

Since the formation of the Liberal Democratic Party in 1955, urbanization in Japan has produced a gradual decline in the party's share of the popular vote—from 63.2 percent in 1955 to 46.9 percent in the most recent lower house election in 1972.

The party has maintained a relatively comfortable Diet majority in part because of firm support from rural constituencies. There, traditional ties, an effective political organization, and attention to agricultural interests in the Diet have enabled the Liberal Democrats to win close to two thirds of all rural and semi-rural Diet seats.

More important, the value of the rural vote to the party has increased because with few exceptions Diet seats have not been reapportioned to reflect the declining rural population. When reapportionment pressures have arisen, the ruling party has

increased the size of the Diet; last year, it added 20 new urban and suburban seats. Even so, malapportionment remains extreme.

The population shift has also given the party some opportunities for political gains. Since the late 1960s in particular, the growth of small- and medium-sized cities has outpaced growth in metropolitan areas. The Liberal Democratic Party has done reasonably well in the smaller urban centers, winning 53 percent of these races in 1972, compared to only 30 percent of the contests in the larger metropolitan districts.



Prime Minister Miki

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The ruling party this year has limited the number of its official candidates to avoid excessive competition among its own candidates, which could fragment the vote. Under the Japanese system, Diet members are elected from multimember—three to five men—districts, where the voter casts only one ballot.

Controlling the endorsement process is always difficult for the party. Each of its internal faction leaders tries to get as many endorsements as he can for his own candidates to increase his faction's relative strength. The problem was clearly evident in 1972, when the party ran a total of 339 candidates; this helped cause it to lose 11 seats. The Liberal Democrats this year have endorsed only 319 candidates.

The party will also benefit from the addition to its ranks of some of the "independents" who will be elected next week. Indeed, the party will probably need the addition of victorious independents to achieve the necessary 271 seats.

Most of these candidates—generally conservatives who failed to gain the party's official endorsement—are unsuccessful; only 14 out of 134 "independents" were elected in 1972. This time, about the same number will probably be elected, and most will subsequently affiliate with the Liberal Democrats.

One of the best known "independents" running this year—former prime minister Tanaka—is likely to win re-election easily. Although Tanaka is portrayed as the villain of Lockheed, his election prospects clearly indicate that even such highly publicized national issues can have only a limited impact on local election contests.

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Deputy Prime Minister Fukuda (l) and Finance Minister Ohira

Whatever the Liberal Democratic Party's final election totals, the results are certain to play a major role in the internal battle for leadership of the ruling party. Miki's opponents have tried throughout the summer and fall to force his resignation. Miki's refusal to step down, however, and sentiment in the party that the leadership issue should be resolved after the election, forced Miki's opponents—former deputy prime minister Fukuda and Finance Minister Ohira—to put off their challenge.

Post-Election Battle

Fukuda and Ohira have now set the stage for a post-election battle with Miki. In late October, nearly two thirds of the Liberal Democrats in the Diet publicly endorsed Miki's removal and Fukuda's installation as party president and prime minister. Fukuda moved into more open opposition by resigning his cabinet post in early November. Since then he and other anti-Miki leaders have made a change in party leadership a primary issue in their campaign.

Miki, in turn, has emphasized his

stewardship of the party throughout the Lockheed affair and his success in promoting Japan's economic recovery.

The factional balance within the party is not likely to be directly affected by the leadership battle. In the anti-Miki camp, the Tanaka faction is the most vulnerable. The Fukuda faction may also lose some incumbencies, but neither Miki nor his party ally, former party secretary general Nakasone, seems likely to make major gains at their rivals' expense.

Miki has already asserted that the election of 271 officially endorsed party candidates—the minimum number permitting the party to control the lower house—will represent a personal "victory." His opponents suggest that unless the party wins more than 280 seats, its election performance will constitute grounds for Miki's replacement.

In any event, Miki is certain to face a serious challenge to his leadership after December 5 when the party deliberates on its new slate of cabinet officers. Then, by law, the entire cabinet must resign and a new prime minister must be elected by the

Diet. In view of the forces arrayed against him, Miki could well step down voluntarily and arrange a peaceful succession. In so doing, he could make a graceful exit while perhaps preserving some influence in the next administration.

The balance in the party remains against Miki. A recent poll of 345 Liberal Democratic and conservative independent candidates indicated that only 19 percent would support Miki's re-election as prime minister, while over 55 percent were inclined toward Fukuda. Neither Miki's self-styled image as a political reformer nor the party's more general concern about voter reaction to the party's widely criticized operating style has improved his chances.

The Opposition

The Japan Socialist Party and the Japan Communist Party are not likely to make major gains in the election. The large number of undecided voters at this point in the campaign suggests that there may well be some increase in the strength of the Clean Government Party, the Democratic Socialist Party, and the new Liberal Club—a group of dissident conservatives who split from the ruling party earlier this year.

The battle between the Clean Government Party and the Japan Communist Party has been particularly heated this year because of the Clean Government Party's effort to win back the seats it lost in 1972. The representation of both parties is heavily concentrated in metropolitan districts.

The Communists made dramatic gains in 1972 when they increased their membership in the lower house from 14 to 39, and again in 1974 when they raised their upper house contingent from 11 to 20.

Still, the Communist Party finds itself somewhat on the defensive this year, which will complicate its efforts to attract the kind of antigovernment protest vote it garnered in 1972. Communist attempts to advance the party's "peaceful and democratic" image have come under heavy attack from the other opposition parties.

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The Japan Socialist Party, the largest opposition party, also faces problems. Its difficulties stem in part from a gradual decline in support from the younger ranks of the party's traditional labor union allies, the party's weak organization, and competing ideological strains within the party.

The Democratic Socialist Party is likely to do little better than hold its own at the polls. The party's popular vote, which has fallen to about 7 percent, reflects the limits of its traditional support from the labor unions as well as its inability to attract promising young candidates. Even so, party leaders hope that the trend

toward more moderate policy positions by the leftists this year will give the party a boost; they have clearly tried to identify their party as the one most likely to enter a coalition with the Liberal Democratic Party whenever the conservatives lose their majority.

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Skillful promotion of Japanese exports to the developed countries has helped double Japan's trade surplus since last year. It has also stimulated concerns in the other industrialized countries that could result in new trade barriers against Japanese goods.

70, 91

Japan's Trade Surplus Rising Rapidly

Since late 1975, Japan has engineered a successful export drive by pushing high-value items—cars, steel, and electronic products—into developed-country markets.

Data through October suggests that Japanese exports this year will exceed total 1975 overseas sales by 18 percent. The trade surplus is running at more than a \$10-billion annual rate, double last year's level. Exports have supplied roughly one half of gross national product growth in 1976.

Sales to developed countries have accounted for 86 percent of the rise in Japanese exports this year. Partly reflecting the export drive, Japan has rebuilt its share of key markets in the industrial countries to about the level of 1972, before the oil crisis and the appreciation of the yen raised prices of Japanese exports.

The EC Market

In the EC, Japan's market share has been at least stable; in traditional developed-country markets such as Australia and New Zealand, its share has risen moderately.

Japanese car sales in the US have increased at the expense of other foreign

suppliers; retail sales of Japanese cars are up 7 percent this year, while those of other foreign makes have declined 26 percent. As a result, Japan's share of the foreign car market has jumped from 52 percent to 61 percent. Helped by higher car shipments, Japan has pushed its share of total US imports of manufactures from 22.6 percent in 1975 to 24.5 percent in 1976.

Japan has also increased its share of total steel exports to the US from 50 percent in 1975 to 60 percent this year. Japanese firms hold one third of the total market for television sets in the US, up from only 11 percent in 1975.

Less dramatic inroads have been made in the EC market for cars, electronic products, and steel, but EC steelmakers are complaining that Japan is pushing them out of the market in smaller developed countries.

In late 1975, Japan was in the best position to boost sales to the US and other key developed countries because of its superior marketing system. While European automobile manufacturers—particularly Volkswagen—were cutting back outlets in 1974 and 1975, Toyota, Honda, and Nissan were increasing both the number of outlets and showroom space.

The Japanese auto firms also apparently benefited from US consumer resistance to the sharp rise in Volkswagen prices and to the new line of models replacing the Beetle.

Japanese electronics firms have concentrated on the lucrative 19-inch color TV market. To increase sales of televisions, Japanese firms teamed up with leading US retailers—Sears, JC Penney, and Montgomery Ward—and now produce 80 percent of the portable color TVs marketed under these labels. Japanese firms also supply sets and components to brand-name producers such as Magnavox.

Trading Firm Subsidiaries

Japanese producers—particularly of steel, textiles, and machinery—have made extensive use of rapidly expanding Japanese trading firm subsidiaries both in the US and Europe. Since 1970, nearly 500 subsidiaries have been established in the US, mainly wholesale distributorships. Many of these outlets accept lower profit markups to increase sales.

In response to the recent world economic downturn, Japanese firms were first to cut export prices to key markets well below their competitors. Export

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prices, for example, dropped 21 percent in dollar terms from early 1975 until early 1976. Japanese steelmakers cut prices roughly \$80 per ton for the US market.

Japanese traders have not taken advantage of economic recovery by rapidly increasing export prices. In September, yen prices were still 5 percent below what they were at the peak in the fourth quarter of 1974. In contrast, West German export prices (in national currency) increased 6 percent over the same period. A depreciating yen exchange rate also contributed to Japan's market competitiveness in late 1975.

Japanese traders are concerned that they are approaching their peak share of present consumption for key exports. Assuming US consumer tastes continue to lean toward the medium-sized car, the Japanese car industry would have to cut further into other foreign sales just to hold its current share of US consumption.

US Production Facilities

Partly to avoid trade barriers and counter rising production costs at home, Japanese firms have been acquiring production facilities in the US. The Japanese have already shifted some production of ball bearings, steel items, and textiles. Toyota is considering a plant in the US, but will probably delay a decision at least until 1978.

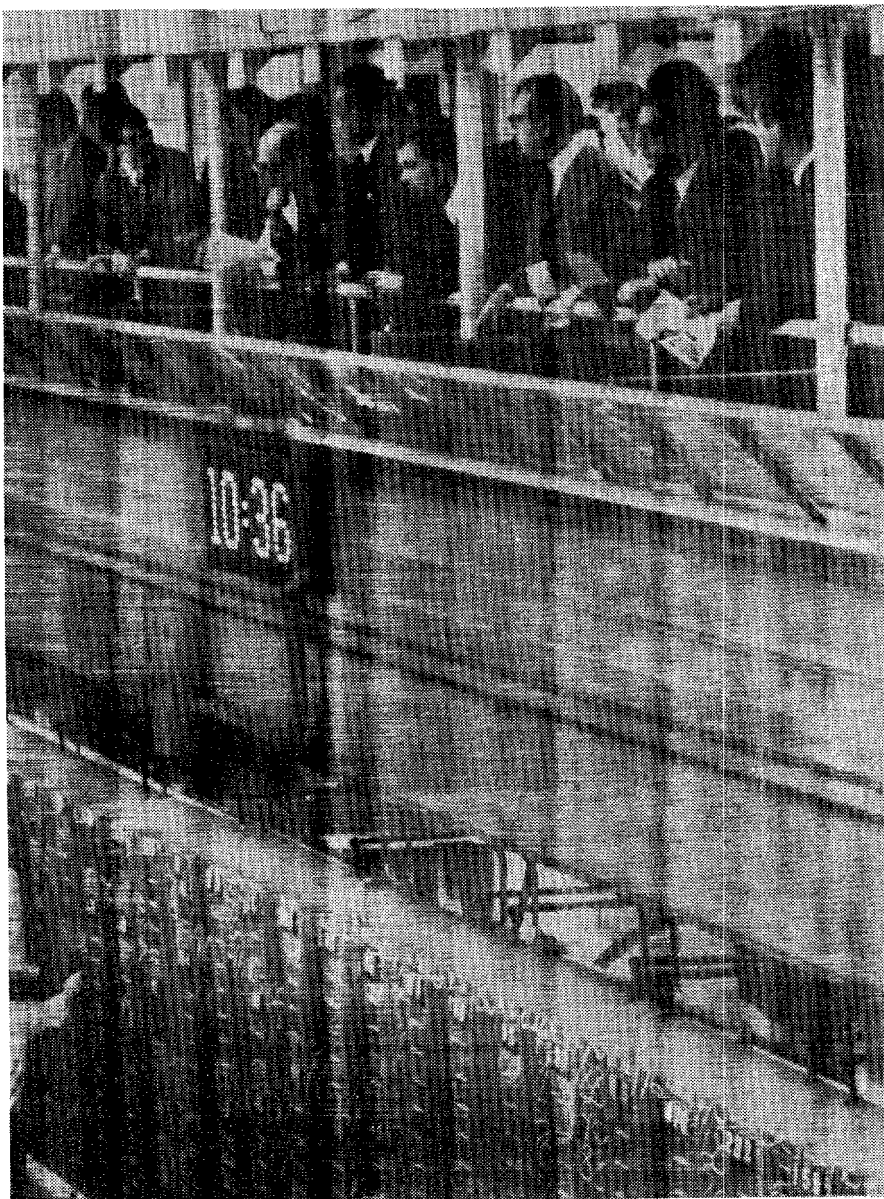
Japan will face new trade barriers if it continues to make inroads in industrial country markets. Formal and informal studies are under way in the US covering Japanese sales of steel, television sets, and other products. The EC has been putting pressure on Japan to reduce its trade surplus with Western Europe, and some members have threatened unilateral action against Japanese exports. The EC will issue a declaration this week simply noting some progress on EC-Japanese trade problems.

If foreign pressure continues to mount, we expect Japan to try to secure orderly marketing agreements that will allow its industry to hold on to as much of its expanded markets as possible. Tokyo may impose selected unilateral restraints on its key exporters, as it has done in the past.

Electronics firms already have restrictions on sales of many individual items in the UK; the steel industry recently agreed to extend limits on shipments to the EC through 1977.

The government has agreed to stimulate imports of processed food and tobacco products from the EC. Most businessmen, however, are openly skep-

tical about the long-run success of a plan to boost purchases from the Community because EC manufactured goods are heavily weighted toward capital equipment, which Japan now imports mainly from the US. So far, Tokyo has given only limited ground on nontariff barriers, and those mainly in the auto trade area.



Foreign analysts visiting Japanese stock exchange

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