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# Weekly Summary

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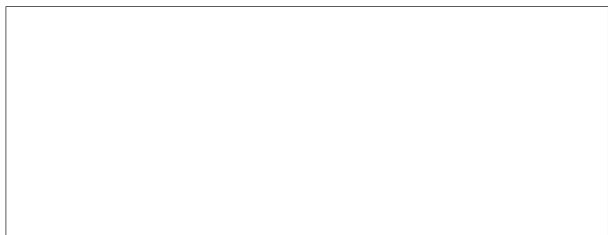
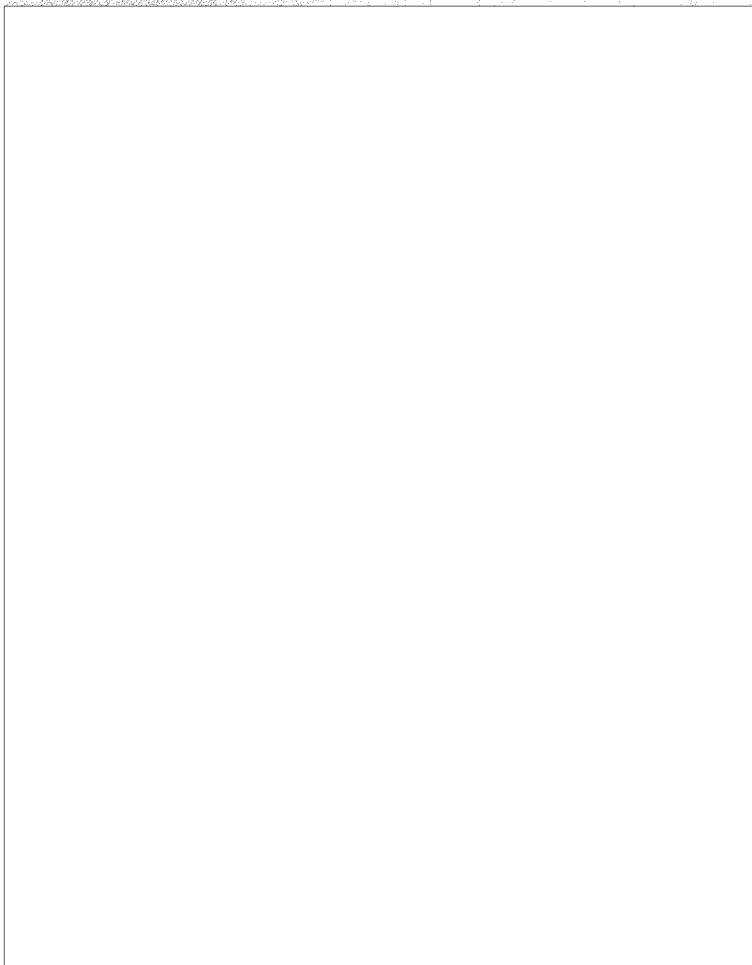


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March 18, 1977

The WEEKLY SUMMARY, issued every Friday morning by the Current Reporting Group, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Regional and Political Analysis, the Office of Economic Research, the Office of Strategic Research, the Office of Scientific Intelligence, the Office of Weapons Intelligence, and the Office of Geographic and Cartographic Research.

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Western Europe

FRANCE

1-2

The alliance of Socialists and Communists made major overall gains against the governing coalition of center-right parties in the first round of France's nationwide municipal elections last weekend. In Paris, won by the conservatives, the outcome gives Gaullist leader Jacques Chirac a significant boost in his bid to replace President Giscard as leader of the conservative forces.

In the more than 200 cities with a population of over 30,000, the left obtained some 52 percent of the vote while the conservatives won 46 percent. The left gained control of about 32 townships that had been held by the conservatives, including Brest, Chartres, and Reims. Pro-government political forces were able to take only three towns from the Socialist-Communist alliance. Although many contests remain to be settled in the run-off election on March 20, the left is expected to continue to make a strong showing in the larger cities.

The municipal campaign has been fought mainly over local issues and personalities. Nevertheless, the outcome appears to confirm recent polls indicating a nationwide trend to the left. If it continues, the Socialist-Communist alliance formed in 1972 is likely to present a strong challenge to the conservatives in the national parliamentary election next year. Much will depend on whether the center-right parties can bury their differences and work together effectively.

Although the Gaullist Party did not do well outside the capital, Chirac's victory there has given it a psychological lift. Municipal council candidates on the list headed by Chirac led those on the list headed by Ministry of Industry d'Ornano—Giscard's personal choice for the



Jacques Chirac

AP

important new post of mayor of Paris—in 11 of the 17 districts in which they competed. On March 15, d'Ornano and Chirac each agreed to withdraw from the second round those of his candidates who finished second to the other's last weekend. The joint move, made to prevent the left parties from winning the run-off, virtually assures Chirac's election as mayor by the Paris councilors following the run-off.

ITALY

3-4

Clashes between students and police in Italy last weekend were the most serious and widespread so far in the country's current wave of student unrest. The incidents are symptomatic of the growing

political violence in the country, which has begun to rival economic problems as a matter of concern for Italian government and party leaders.

The climate of violence on Italian campuses stems in part from shrinking job opportunities for graduates and a distrust of the government's motives in its recent university reform proposals. The immediate cause of the events last weekend, however, was the killing of a leftist student leader by police in Communist-run Bologna, where students had barricaded the university in a protest action. The incident triggered violent student demonstrations in Rome, Naples, Florence, Turin, and Milan.

Student-related violence is posing a particular problem for the Communist Party, which is increasingly regarded by students as part of the establishment because of its tacit support for the minority Christian Democratic government. Last month, students drove the head of the Communist-dominated labor union from the campus of Rome University.

The Communists are doubtless especially embarrassed by the outbreak of student violence in Bologna, which the party always holds up as a model of efficient municipal administration. The youth vote made a major contribution to the Communists' sharp gains in recent elections, and the party is likely to mount a major campaign in the coming weeks to improve its image with students.

Other political violence has also been increasing since last fall. Many of the incidents are the work of left- and right-wing extremist groups not associated with the regular political parties. The attacks are increasingly focused on public institutions as well as on business offices and industrial plants.

The government has issued new laws making it easier for the authorities to move against extremists. Prime Minister Andreotti may use the violence last weekend to speed up consideration of police, judicial, and educational reform legislation.

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Basque demonstrators demand total amnesty

three Basques were killed and Basque terrorists retaliated by killing a member of the Civil Guard.

The cycle of recurrent violence in the Basque provinces is likely to continue until the government can find a means to dampen or obviate the bitter hatred between the native population and the Civil Guard. The new head of the Civil Guard is considering moving his command posts out of the major population centers in a possible effort to reduce conflict situations.

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## Eastern Europe

USSR 9-10;12

The USSR's determination to muffle the Soviet dissidents before further damage is done to its foreign and domestic policies suggests that Soviet authorities may soon take some tough actions.

Although the Soviets are concerned that harsher measures could inflame Western public opinion, they nevertheless recognize that they must move quickly in order to avoid embarrassment at this summer's conference in Belgrade to review progress on the 1975 Helsinki accords, which included provisions on human rights.

On March 15, the KGB detained Anatoly Shcharansky, one of several Jewish activists accused by *Izvestia* on March 4 of being espionage agents for the US. Shcharansky is a colleague of human rights activists Aleksandr Ginzburg and Yury Orlov, who were arrested last month.

One day earlier, two dissident artists accused of painting anti-Soviet slogans on buildings and buses last year went on trial in Leningrad. There are some signs that the authorities are preparing criminal charges against other dissidents, with expulsion from the USSR as a possible alternative.

## SPAIN 5-8

Prime Minister Suarez continues to implement his program for giving Spain a democratic system despite the hostility of political extremists and continuing unrest in the northern Basque country. During the past week, he took important new steps to prepare the way for a free parliamentary election this spring.

A decree approved by the cabinet on March 15 setting out the ground rules for the election appears in several respects to be a tactical victory for the parties of the left. The decree provides for equal access to the media, which the left had been demanding, and in effect stipulates a minimum of three deputies from each province. Right-wing parties had been seeking a minimum of five deputies to offset anticipated leftist strength in the cities. The Communists in particular gain from the new law, which appears to allow them to run as independents if the Supreme Court should rule against the party's petition for legalization, now under court review.

The law also prohibits senior government officials from participation in the

election without first resigning their posts. Because some ministers are likely to run, the decree will probably trigger at least a minor cabinet shuffle.

The government also announced late last week the long-awaited broadening of the amnesty for political prisoners that was originally extended last summer. All those convicted of crimes not posing a threat to human life—about 100 people—are to be pardoned shortly. The sentences of the remaining 70 or so prisoners will be reviewed with the aim of shortening or canceling them.

The amnesty applies only to offenses committed prior to December 15 of last year. It thus excludes those left- and right-wing extremists arrested in connection with the extensive political violence of the past three months.

Most of the remaining political prisoners are Basques, and the government undoubtedly hopes that the widened amnesty will reduce tensions in that volatile region. The initial response of Basque politicians has been favorable, but the positive impact of the amnesty has been undercut by a new wave of demonstrations and violence in which

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[redacted] charges of anti-Soviet activity have been brought against Ginzburg. There are rumors in Moscow that both Ginzburg and Orlov might be allowed to leave the country.

The Soviets may ultimately put the choice of prosecution or expulsion to leading dissident spokesman Andrey Sakharov. In recent weeks Moscow has not only protested US embassy contacts with Sakharov, but has also been building in Soviet and Western media a legal case against his activities.

So far, Sakharov's domestic and international prestige has constrained the authorities from taking harsh steps against him. Now, however, they could use the legal pretense that 10 years have elapsed since his last access to classified material and that he is thus eligible to leave. Although such action would be accompanied by an outpouring of unfavorable publicity in the West, Moscow might well decide that was not too high a price to pay for the damage that would probably be inflicted on the remnants of the human rights movement in the USSR by Sakharov's departure.

At present, the regime and the dissidents are on something of a collision course. As the Belgrade meeting approaches, both may feel impelled to use more dramatic means of asserting their respective positions, thus increasing the risk of serious confrontation.

#### US Relations

During the past several weeks the Soviets—obviously smarting over US contacts with Sakharov—have warned in private and in public that continued support of human rights in the USSR would hamper some aspects of bilateral relations. Last weekend, *Pravda* carried the first public reference to the adverse effect that the human rights debate could have on Secretary Vance's trip to Moscow later this month. The party newspaper indirectly warned that US criticism could interfere with detente, including talks on limiting strategic weapons.

There have been other recent Soviet efforts to link human rights and the arms

talks. For example, an article in the army newspaper *Red Star* alleged that "anti-Soviet hysteria" in the US could "poison" the arms limitation talks. The article said the talks cannot be conducted successfully while a campaign against the USSR is under way. [redacted]

## ROMANIA *N.S.*

Earthquake-related problems are likely to add to existing popular dissatisfaction in Romania.

President Ceausescu has taken a highly personal role in the direction of rescue work, which has not set well in some quarters according to the US embassy. Local officials in charge of rescue operations have been antagonized by the President's open criticism of their work, and housing authorities have been intimidated by his promise to investigate the builders of houses that collapsed during

the quake.

Private citizens tend to be cynical about Ceausescu's appointment of his wife to a committee in charge of coordinating aid donations and also about the President's own efforts to make political capital out of the disaster. The possibility that the regime will use the earthquake damage as an excuse to squeeze more work out of people is widely discussed, and the party's decision to postpone implementation of the promised five-day work week appears to have fueled those fears.

Romania's communist neighbors have begun to pledge economic assistance to repair earthquake damage. The Soviets have offered \$13 million worth of the kind of construction materials and transportation equipment Romania has said are needed for reconstruction. The size of the donation contrasts with Moscow's token assistance during the floods of 1970 and 1975 and reflects the improvement in bilateral relations that has resulted from Ceausescu's efforts to mend his fences with the USSR. [redacted]



President and Mrs. Ceausescu

*Reistfoto*

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**Africa**

**ZAIRE** 14-15; 18-21

The incursion launched into southern Zaire last week by former Katangan soldiers long exiled in Angola has made headway against ineffective resistance by President Mobutu's forces. The success of the attackers, who are operating in their home area, is causing tension to rise in Kinshasa, where Mobutu's political position appears to be deteriorating.

The size of the invading force is still not known, but estimates range up to 2,000; about 4,000 former Katangan troops are believed to have been living in Angola since the suppression in the early 1960s of their attempt, led by Moise Tshombe, to make their home area—now Zaire's Shaba Region—an independent state.

Probably more important than the number of attackers is the success they are apparently having enlisting new recruits from the local population. They have been welcomed in many places.

This week the Katangans consolidated their hold over the three or four towns they initially occupied and have moved into others, including Kasaji—a key transportation center. Their forces in the southern part of the region are said to be moving east toward Mutshatsha. So far, the Katangans have been cautious, apparently reflecting concern for establishing a firm base area and for securing supply lines from Angola.

In any event, they have not encountered effective opposition from the Zairian armed forces. Although the government has sent reinforcements to Shaba, its commanders have not been able to get a counteroffensive going and the troops seem to be deliberately avoiding battle.

Ground units are short of ammunition, transportation, communications equip-

ment, and field rations; most of the air force is not operational. Fuel and spare-parts shortages are hamstringing both services, and they also have serious morale problems.

The progress being made by the exiles and the poor performance of the Zairian troops are beginning to have serious domestic consequences. Economic activity in Shaba, where Zaire's important copper mines and most of its other industries are located, has reportedly slowed to a near standstill. In Kinshasa, there is said to be noticeable tension in government circles; if the situation in Shaba continues to deteriorate, serious opposition to Mobutu could develop quickly.

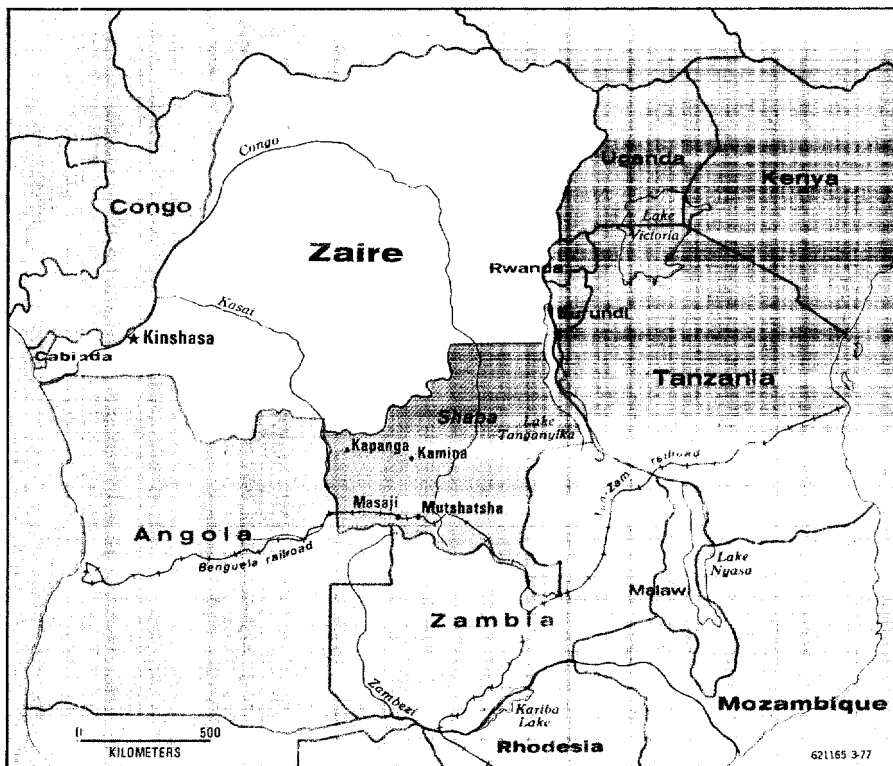
Mobutu has not made a formal complaint either to the UN or the Organization of African Unity, probably in part because he does not want to admit the seriousness of the incursion. He is, however, apparently prepared to do so if any major towns are taken by the Katangans. He has appealed openly to other African states for political support; so far, his approaches seem to have generated only a wait-and-see response.

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**NAMIBIA** 22-26

White and nonwhite delegates to the South African - sponsored multiracial constitutional conference on Namibia that began in September 1975 have apparently agreed on bases for an interim government to lead the territory to independence in cooperation with Pretoria.

After some vigorous arguments that seemed at times to threaten the continuation of the conference, the one white and ten nonwhite delegations reportedly approved a draft document. Its provisions reflect some concessions to the nonwhites but will enable the whites to retain control over the disputed territory's rich mineral resources—their primary concern—and will also give them an important veto authority in the proposed interim regime. Whites make up about 14 percent of



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Namibia's 900,000 people.

Under the draft constitution, a central government is to have nominal jurisdiction over such matters as industry, labor, social services, and justice. Its prescribed composition, however, leaves the "second-tier" units—the governing bodies of each of the 11 separate ethnic areas—with power to block actions by the central government. The nonwhite groups had pushed for a system giving stronger powers to the central authority.

Each ethnic group is to select one



Prime Minister Vorster

UPI

member for a council of ministers, and decisions of the council are to be by consensus. Its chairman must be approved unanimously by the delegations of all 11 ethnic groups in the National Assembly.

The draft constitution incorporates a "bill of rights" including guarantees of free speech and association and provisions against racial discrimination. The rights section, however, is not legally enforceable, another of the numerous defeats suffered by the nonwhites.

A formal proposal for the establishment of an interim government based on the conference's draft is likely to go to Pretoria shortly. Prime Minister Vorster is likely to push the necessary enabling legislation through the South African parliament quickly.

The South-West Africa People's

Organization, which is recognized by the UN and the Organization of African Unity as the sole Namibian nationalist group, has consistently denounced the constitutional conference from which it was excluded. It is sure to make the proposed interim regime a major propaganda target in coming months. SWAPO demands direct negotiations on independence with Vorster's government, to be held under UN auspices and outside South Africa.

[Redacted]



PAKISTAN 33-39

Prime Minister Bhutto's opponents are pushing their post-election effort to turn the people against him, but by late this week it was not clear whether they would be able to develop enough popular support to seriously threaten his leadership.

Opposition leaders have charged Bhutto with rigging the National Assembly election last week and have been organizing demonstrations to support their demand that he resign and a new election be held. The US embassy believes Bhutto's commanding majority in the new assembly was in fact due to electoral fraud but says his party might have emerged with a majority, although smaller, in an honest vote.

Opposition strategy appears to be aimed at bringing about a gradual erosion of Bhutto's position by continuing the demonstrations, in the hope that the military will intervene and remove him. The defeated parties apparently will concentrate for now on the cities, where they know they have strength, but they presumably hope eventually to organize a nationwide mass movement that would include rural areas, where Bhutto piled up his majority.

At this time, the security situation, although apparently growing worse, does not yet appear to have deteriorated to the point that the military would be prompted

to move. Bhutto probably can count on the loyalty of the security forces as long as they believe he has the support of a majority of Pakistanis.

Bhutto, for his part, made some conciliatory gestures toward his opponents in a speech on March 12. Although he said the National Assembly election would stand, he implied that the opposition might be able to double its representation by challenging the results before the election commission. Bhutto offered to hold talks with opposition leaders without preconditions and implied that the provincial assembly elections held on March 10—which the opposition boycotted—could be held a second time.

The Prime Minister is also trying to avoid giving the opposition any new issues. Most opposition leaders were arrested early this week when they created a situation that left the police with little choice, but they were quickly released. Bhutto is having some success in dividing the opposition. Its leaders could not agree, for example, on whether to negotiate with him on his offer to hold the provincial elections again.

[Redacted]

PHILIPPINES 40-41

President Marcos backed down this week in the negotiations with the Philippine Muslim rebels that have been going on intermittently for several months under the sponsorship of Libyan leader Qadhafi.

The talks, which are being held in Libya, are currently stalemated over the issue of a plebiscite in the autonomous zone promised to the Muslims in a cease-fire agreement they signed with Marcos' government last December. The Muslims insist that the agreement does not include a plebiscite; Marcos insists it does and recently set the date for March 17. He also planned to reduce the size of the proposed region by leaving out several Christian-dominated provinces.

As the date for the vote approached, the exchanges between Qadhafi and Marcos,

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both public and private, became increasingly acrimonious. On March 15, Marcos finessed the issue by postponing the plebiscite until April 21. He has also sent his wife Imelda to Libya to try to break the impasse. Mrs. Marcos participated in the first round of the negotiations and has claimed partial credit for the December agreement.

The President may hope that his concession and his wife's persuasiveness will put some pressure on the Muslims to back down on their extreme demands for control of the local administration in the autonomous zone and their own armed forces

CHINA 44-48

A purchase by China from Australia of 2 million tons of wheat, announced last week, raises the total amount of wheat scheduled for delivery to China this year to 5.1 million tons; this could cost Peking more than \$500 million. Reduced harvests last year made the imports necessary.

Chinese wheat imports declined in 1975 and 1976. Thus far this year, the Chinese have purchased 2.5 million tons from Australia, 2.3 million tons from Canada, and 300,000 tons from Argentina.

The Chinese also recently asked Canada to deliver wheat purchased in December as soon as possible and to begin deliveries on new contracts in February rather than March. The two countries plan to meet again this spring to discuss a long-term wheat contract.

China's grain output has increased only about 2 to 3 percent since 1974, mainly because of weather problems. The pattern has been for early crops to be retarded by cool, damp, overcast weather, causing the planting of the more important crops harvested in the fall to be in turn delayed. Then, the wind, frost, and increased rain that occur as the season wears on reduce harvests.

Total grain production last year probably was 280 million tons, about the same as in 1975. The government claimed

the 1976 crop set an all-time record and that production in most of the 29 provinces, municipalities, and autonomous regions exceeded or reached 1975 levels. It appears, however, that locales claiming increases for the year did so on the strength of a good yield of early-harvested grains, whereas output of the more important fall-harvested grains was down. Coarse grains were particularly hard hit.

China probably will not make further grain purchases until late spring or summer when the outcome of this year's early harvest is known. Thus far, winter wheat—accounting for about 16 percent of national grain output—appears to be suffering from drought. Although timely rains could alleviate the problem, additional wheat imports are still a possibility.

If the weather is bad and buying resumes, China would likely purchase at least another 1 million tons from Canada before considering purchases from the U.S.

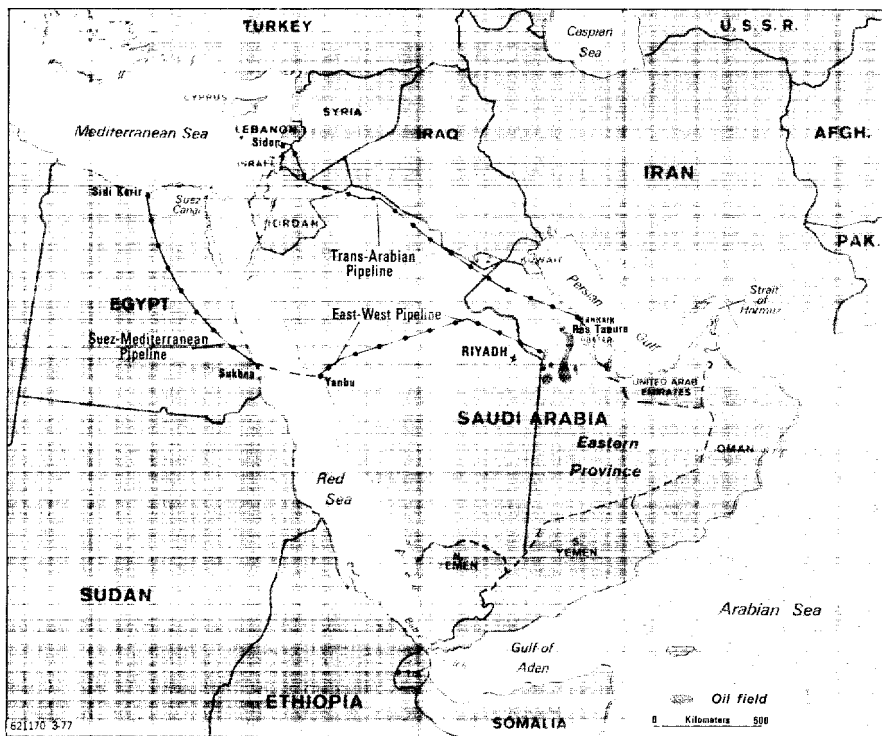
Middle East

SAUDI ARABIA 50-55

Saudi Arabia is moving ahead with its plan for the construction of a 1,270-kilometer crude oil pipeline linking the country's oil fields with the Red Sea. The new line will provide a second oil export route that avoids the Persian Gulf and the vulnerable Strait of Hormuz; the Trans-Arabian Pipeline now leads to the Mediterranean, but it has been closed to exports for more than two years.

The Saudis' state oil company last month awarded Mobil Overseas Pipeline Company a contract to manage the design and construction of the new pipeline, the projected cost of which is \$1.6 billion. Construction will be handled by a Japanese firm.

The pipeline will carry crude oil from the Khurais and Ghawar fields to Yanbu on the Red Sea. Three additional



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fields—Mazalij, Abu Jifan, and Qirdi —may be developed to feed the new line. The Saudis expect the pipeline to be completed in late 1981. It will eventually have a capacity of between 2 million and 2.3 million barrels per day.

A terminal capable of berthing the largest tankers now in operation will be built at Yanbu. Most of the oil will be shipped to the Mediterranean, through the Suez-Mediterranean pipeline or the Suez Canal, which Egypt is planning to expand to accommodate larger tankers by 1982. Some oil will also be used to supply a refinery and petrochemical complex at Yanbu.

Saudi Arabia is a part owner of the Suez-Mediterranean line and probably will set transit fees for its new pipeline at a level that will make the transport operation to the Mediterranean—including shuttling oil across the Red Sea by tanker—economically competitive.

fighting had been reported, although Jumblatt's followers had apparently attempted some reprisals against Christian residents of Shuf Province, where Jumblatt lived and was killed.

Jumblatt was the hereditary chieftain of Lebanon's Druze sect—an early offshoot from Islam—to which about 10 percent of the population belongs. He was active in Lebanese politics since the 1940s and a major power broker for over two decades. Jumblatt was unique in being both the feudal leader of a conservative religious community and an avowed socialist with a strong following among the working class of Beirut.

Because of his stature and his determination to destroy the old confessional political system that favored the Maronite Christians and major Muslim sects, Jumblatt became the rallying point and recognized leader of the disparate group of Muslim leftists and other radicals that, in alliance with the Palestinians, took on the Christians in the recent civil war. The Druze leader strongly opposed, at all stages of the Lebanese crisis, the involvement of Syria, and at least some of his followers are now sure to conclude that the Syrians had a hand in his death.

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LEBANON

49

The assassination on March 16 of Progressive Socialist Party leader Kamal Jumblatt leaves the political left in Lebanon significantly weaker. Provided the murder does not lead to a renewal of major fighting between Christians and their Muslim-leftist adversaries, Jumblatt's departure from the scene should facilitate the efforts of President Sarkis and his Syrian backers to work out an eventual political settlement for the country.

The identity of the assassins, who escaped in a car, is still unknown. The killing triggered widespread concern among Lebanese that the fragile cease-fire in their country might collapse in a new outbreak of large-scale violence. Lebanese government leaders and at least one major Christian leader immediately issued statements designed to head off trouble, as did Syrian President Asad, and the predominantly Syrian peacekeeping force has been put on alert.

As of noon on March 17, no serious



IRAQ-FRANCE 67;69

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Iraq will apparently soon acquire some F-1 aircraft from France. The Iraqis, who have long obtained most of their military equipment from the USSR, have recently been trying to diversify their sources.

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Iraqi pilots and mechanics have arrived in France for training on the F-1, according to the US defense attache in Paris. Their arrival suggests that a sales contract either has been or is about to be signed. The number of aircraft involved may be about 70.

At present, all of Iraq's fighters are Soviet-made planes, except for a few British-built Hawker Hunters.

The F-1 will provide Iraq with an interceptor generally superior to their Soviet-built MIG-23s. The F-1 has more advanced electronic equipment. The Iraqis probably also hope to get training of a higher quality than they have had from the Soviets and a better arrangement for logistic support.

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*President Banzer's success in staying in office for over five years is a notable achievement in a country that has been known for frequent leadership changes—usually forced. Bolivia has made modest economic and social progress under his rule.*

77-86



When President Hugo Banzer seized power five and a half years ago, there was no reason to believe he would stand out among the 187 men who have passed through the executive office in the 152 years of Bolivian independence. Given the turbulent record of the presidency, Banzer's tenure alone assures him a place in history. The Bolivian leader also has implemented policies that have improved the country's social and economic conditions.

Banzer's security is not assured. He must continue to deal with a possible resurgence of political activity in the country's tin mines, demands by the military to increase its strength, and Bolivia's long-standing desire for an outlet to the sea, along with economic difficulties. As in the past, Banzer will handle problems by isolating, eliminating, or coopting his opponents, using political exile, cabinet shakeups, and purges of dissident military officers.

#### His Political Start

The disruptive nature of Bolivian politics has inhibited the emergence of strong political institutions. Instead, the country has relied on, and been disappointed by, strong individual leaders whose accession to office inevitably has been followed by turbulence and eventual overthrow.

Banzer came to power after directing a coup against General Juan Jose Torres in August 1971. He maintained his position for a time by balancing the factions of the two important civilian parties, the military, and some prominent private citizens. Following a coup attempt in

## Bolivia: A President with Tenure

1974, Banzer outlawed the political parties and trade unions and announced that the country would be run by the armed forces until 1980.

The President had promised a national election in 1975, but even before the coup attempt there were signs that he was looking for a way out. Banzer probably could have won the presidency in a free election, but the campaign would have been costly and risky; by tradition, an incumbent president steps down from office six months prior to an election. Banzer believed he could not afford even a temporary ceding of executive power to a potential rival.

Instead, he convinced enough military officers that any attempt to constitutionalize the regime would jeopardize Bolivia's recent progress and expose the military to infighting and internal decay.

#### Banzer as a Leader

Since the coup that brought him to power, Banzer and his senior military colleagues have sought little help in governing Bolivia. A personally unimpressive figure, the President lost much of the shaky civilian support he had prior to 1974 when he banned political activity. The established families of Santa Cruz, Banzer's home town and the only wealthy region in Bolivia, are about the only members of the President's civilian constituency.

Banzer has managed thus far to avoid the pitfalls that have toppled other presidents. He has skillfully outmaneuvered coup attempts and occasionally used them to his advantage. Much of Bolivia's economic progress, in fact, is related to the stability the Banzer regime has provided and some forceful



President Banzer

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economic and political policies that may have a favorable long-term impact on Bolivia.

Banzer has dealt with the protest groups—primarily university students and miners—by neutralizing their leadership. For example, when miners in the leftist-led National Mineworkers Federation last summer staged a series of strikes for higher wages, Banzer ordered the military to occupy the mines and exiled or imprisoned the union's leaders. The government created a new union for the workers, leaving the miners little choice but to accept the government's offer of moderate wage increases and social welfare benefits.

Despite his early career as minister of education, Banzer considers the continued neutralization of the universities a main tenet of his political strategy. Whenever there is a sign of resistance, the educational system is purged and reorganized, thereby eliminating potential opposition.

#### An Improved Economy

Banzer continually extols his regime's economic progress and its contribution to domestic political tranquility. Major reasons for Bolivia's economic growth under Banzer include high world prices for its minerals and hydrocarbons, diversification and expansion of its exports, and a recent influx of foreign loans. The inflation rate is comparatively low—10 percent in 1976—and the gross national product is growing at an annual rate between 6 and 7 percent.

The benefits of the new prosperity, however, have been spread unequally. The middle class has enjoyed a boost in consuming powers, but the Altiplano peasants have felt little or no change. Bolivia is still one of the poorest countries in South America; half of its citizens are illiterate, and the country has one of the highest infant mortality rates in the world.

#### Foreign Policy

With the domestic scene relatively calm and the economic outlook promising, the Banzer government is devoting more attention to foreign policy.

The President is anxious to maintain good relations with the US. US aid during

the Banzer administration has ranged from direct financial assistance and help with loans to military training and security assistance. Banzer has moved recently to spruce up Bolivia's international image by making promises to restore democratic institutions.

Another major foreign policy goal is access to the sea, which Bolivia lost to Chile in the War of the Pacific (1879-1883). Two years ago the Bolivian leader renewed relations with Chile—suspended for 13 years—and initiated negotiations with it and Peru for an outlet to the Pacific. The talks are now deadlocked, however, and Banzer may have some difficulty in dealing with the strong nationalistic sentiment attached to the issue that he helped to inflate.

Banzer has said that Bolivia will follow a policy of active neutrality in the event of war between Peru and Chile, which are hostile to one another. He is reportedly pessimistic about the chance for peace and fears both Peruvian and Chilean incursions into Bolivian territory. Despite his declarations of neutrality, the President is under pressure from the military to authorize major arms purchases from various countries.

#### Relations with the Military

Banzer, who promoted himself to major general last year, appears to have consolidated his control over the military. He has exiled, retired, and reassigned potential rivals and rewarded his supporters.

The scope for military opposition to Banzer has decreased since the country began to make economic progress. In addition, many senior military officers are apolitical or unwilling to risk their position by dabbling in politics. Rumors of dissatisfaction among middle-level officers still exist, but Banzer is likely to continue to outwit potential plotters, at least for the short term.

The President continues to rely heavily on the officer corps for support and is attentive to their requests. Although he prefers to commit much of Bolivia's meager resources to economic and social development, Banzer has acquiesced in expanding and modernizing the armed



forces. The "Plan for a New Bolivia," a rationale for continued military rule issued last October, in part deals with acquiring more equipment for the military and increasing its numbers.

#### Outlook

At present, Banzer's position seems relatively secure; a continued strong economy will enhance his chances for remaining in power. He has promised to return the country to civilian rule by the end of the decade. He also recently promised an early resumption of political and trade union activities.

Such promises probably do not signal any real change. Banzer confers with his military advisers about ways to democratize the government but has not yet come up with a firm plan.

Banzer is an adept politician and a master at neutralizing real or potential opposition, but he offers no strong political or ideological basis for legitimizing his rule. His strength lies in his ability to cope with problems on an incident-by-incident basis, but should he make a serious tactical error, military officers could begin jockeying for power again. His major challenge is the institutionalization of Bolivian political stability to serve as a basis for economic development.

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*The five African front-line presidents recognize that a military solution in Rhodesia would be a long and costly process and still hope for a negotiated settlement.*

*N.S.*  
**Rhodesia:**

## **The Front-Line Presidents and the War**

For the moment, diplomatic efforts to resolve the Rhodesian problem seem to be in abeyance. Pursuit of the military option, however, raises serious problems for the front-line African presidents, who have been actively involved in trying to bring about a Rhodesian settlement since 1974. It is doubtful that a consensus exists among them to take the war route. Instead, the presidents will continue to give priority to a negotiated settlement, hoping that the US and the UK can help bring about a solution before all-out war becomes a reality.

Most if not all the front-line presidents—the group now includes the leaders of Zambia, Tanzania, Mozambique, Botswana, and Angola—recognize that exclusive reliance on military action to bring down the Smith regime would not mean a quick or an easy solution.

- It would be a long struggle; the presidents themselves are reported to have estimated early this year that a military solution could not be achieved in less than four years.

- It would be costly in human lives; there is growing evidence that, although the number of insurgents inside Rhodesia has grown, many are poorly trained and casualties are high. The Rhodesian security and military forces are confident they can contain the current level of insurgent operations for the short term.

- It would be costly in scarce money and goods; the front-line countries have limited resources, and their efforts and those of other Africans are not likely significantly to improve the capability of the insurgents any time soon.

- It would increase the opportunities for communist countries to become involved; the USSR and Cuba would be the most willing sources outside Africa of new arms and advisers needed to support a prolonged insurgency. The Zambian and

Tanzanian presidents are particularly wary of communist involvement in the Rhodesian fighting.

- It would complicate and prolong the difficulty the presidents already have in maintaining some control over the insurgent leaders. One of the presidents' major disappointments last year was their failure to create a new political leadership from the insurgent ranks to replace the old-line politicians whose rivalries had kept black Rhodesians divided for years.



Zambian President Kaunda



Tanzanian President Nyerere

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The insurgent leaders have proven as unable as the politicians to put aside political and tribal differences.

#### Differences Among the Presidents

For the public record, the five front-line presidents are unanimous now on the need to strengthen the Rhodesian insurgency for a long struggle. Privately, they all would probably prefer a negotiated settlement if it appeared to them that there was some way to achieve their goals peacefully. They differ among themselves, however, on how much they would be willing to compromise to reach a settlement.

Zambia's President Kaunda, although ready to support total armed struggle against the Smith regime as a last resort, clearly prefers a negotiated settlement. He fears that widespread and prolonged violence in southern Africa would be detrimental to Zambia, which already has serious economic problems.

Botswanan President Khama, who has been a follower rather than a leader in the group, is close to Kaunda in his thinking. He is already concerned that Botswana is being dragged into an activist role and that further involvement will bring about Rhodesian retaliation that his meager

security forces could not handle.

The views of Angolan President Neto, who joined the front-line group last fall, are not widely known. He strongly supports the Patriotic Front—he has been a firm backer of Joshua Nkomo—and has pledged military aid to his old friend President Machel to defend Mozambique against Rhodesian incursions. He probably would back a decision to step up the war, but, since Angola does not border Rhodesia, it would be less involved than some of the other states.

Tanzanian President Nyerere's views are sometimes hard to pin down. He gives the impression of being an idea man and seems to be the focal point in presidential gatherings. Some observers refer to him as the "chairman" of the front-line group.

Over the past year, two themes apparently have influenced Nyerere's thinking on Rhodesia. He, along with the other presidents, believes that negotiations and the military effort against Smith must go hand in hand, and he seems equally committed to preventing the kind of great-power involvement that occurred in Angola.

Nyerere's effort to bolster Machel by

sending Tanzanian troops to Mozambique can be interpreted partly as an attempt to keep the problem in African hands. He has recently floated new ideas about resuming negotiations, suggesting that he still attaches high priority to a political solution.

Mozambique's President Machel appears at times to be the most militant of the five. He has consistently pushed the armed struggle in meetings of the presidents and has been willing to expose his country both to Rhodesian strikes and economic hardships by opening Mozambique to the insurgents for their operations.

From the outset, Machel was pessimistic about the British-chaired settlement talks held in Geneva last fall; but in an effort to maintain front-line unity he seems to have deferred to Nyerere's and Kaunda's insistence on the importance of negotiations. Despite his preference for a revolutionary leadership in Rhodesia, his country's severe economic and other domestic problems could push him toward support of a negotiated Rhodesian settlement.

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*Botswanan President Khama*



*Angolan President Neto*



*Mozambican President Machel*

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*Canadian authorities appear to be taking a second look at the nationalist policies of the past several years that have discouraged foreign investment.*

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## Canada: Climate for Foreign Investment



The climate for foreign investment in Canada has become less attractive over the past three years. Sharply increased labor costs, continued labor unrest, uncertainty over ending wage and price controls, and the fear of further government takeover of foreign buildings have undermined investor confidence. The election of the separatist Parti Quebecois last November has heightened investor concern about Quebec Province and raised questions about the stability of the Canadian confederation as a whole.

Traditionally a net recipient of investment funds, Canada has experienced a movement of funds out of the country since 1972. This movement accelerated rapidly in 1976, reaching a record 800 million Canadian dollars.

In that year, foreign direct investment in Canada, which exceeded \$900 million annually in the early 1970s, gave way to a deficit totaling about \$300 million. The decline reflects cuts in US, Japanese, and European investment, and increases in Canadian purchases of foreign-owned firms—mainly US subsidiaries—in Canada.

Canadian funds, meanwhile, have left the country at near-record levels. Direct investment in other countries averaged \$700 million between 1973 and 1975, about triple the long-term average.

US investment funds recently have ac-

counted for about 80 to 90 percent of investment in Canada, but this is changing. US investment is being increasingly offset by Canadian purchases of foreign-owned firms in Canada as the national government seeks to reduce the influence of US firms particularly in Canadian resources and manufacturing industries.

Canadian purchases of foreign assets jumped from about \$130 million in 1975 to more than \$530 million in 1976. Additional purchases are likely this year.

These takeovers are by private Canadian companies and provincial governments, as well as by the national government. The Canadian Development Corporation was established by the national government in 1971 to expand Canadian ownership of domestic industries. To date, the corporation's largest deal has been the purchase of a one-third interest in the US-based Texas-Gulf mining corporation. Canada's new national oil company, Petrocan, shows every sign of becoming a major presence in the domestic oil industry, which is now 90-percent foreign-controlled.

Paralleling the decline of US investment in Canada are continuing large Canadian outlays in the US. These two trends first moved Canada into a net deficit position with the US in late 1975; the deficit continued last year. Canadians put their funds mainly into manufacturing. They also have been increasing an already sizable stake in financial and in-

urance activities and are investing heavily in real estate.

### Canadian Investors Look Abroad

Many of the same economic and political factors behind foreign hesitancy to invest in Canada are behind the recent large Canadian investment in the US and elsewhere. Investments in US manufactures, for example, are being made to escape Canada's deteriorating competitive position.

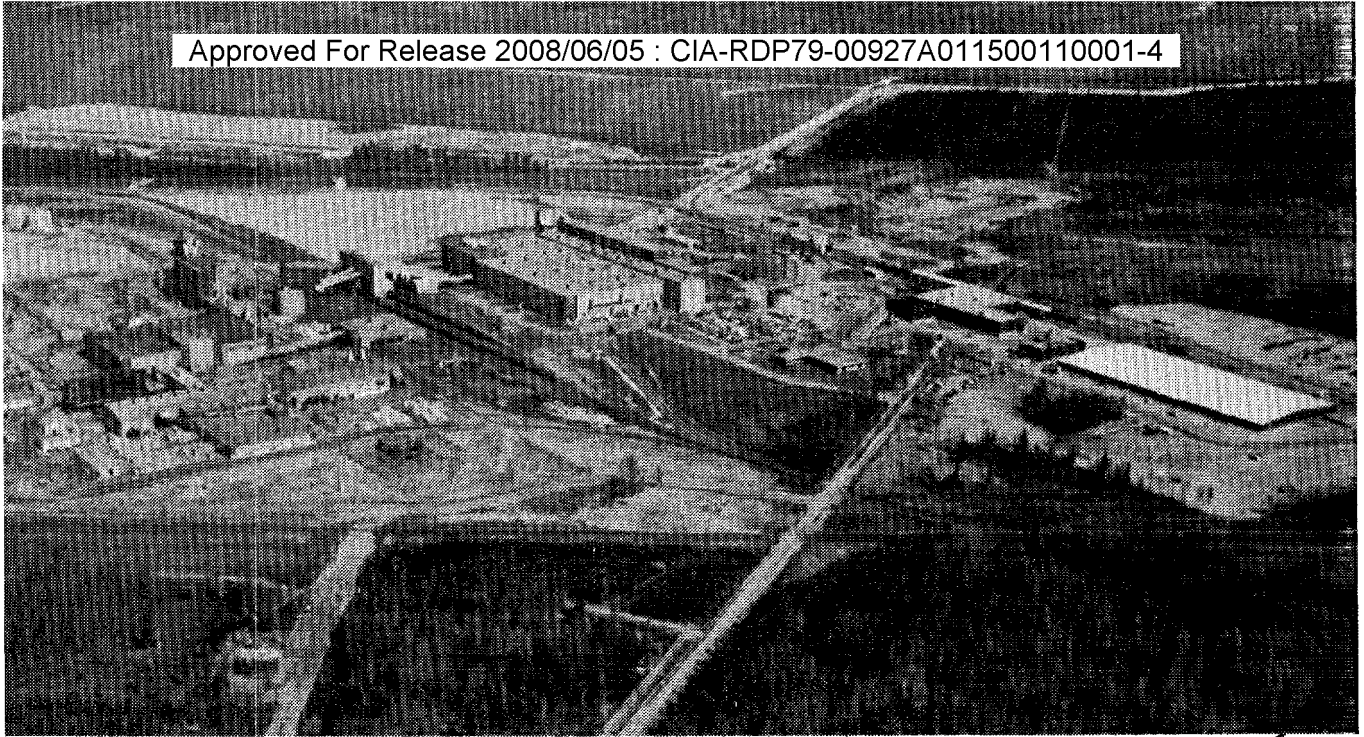
One large Canadian textile firm asserts that operating costs in its 10 US plants are now 10 to 15 percent lower than in Canada—a reverse of the situation in the early 1970s. Another firm in prefabricated housing estimates that production costs in its US manufacturing facilities are as much as 25 percent lower than in Canada. According to a recent survey of Canadian industrial firms, expenditures to build new facilities are 30 to 50 percent lower in the US.

Canadian investment in US resources industries is also being spurred by the Canadian federal and provincial tax structure. Canada's three leading steel companies, for example, are looking to US iron ore reserves rather than domestic sources to meet much of their future need.

Canadian investment elsewhere is essentially the same. Canadian firms have been increasing their manufacturing activities in Western Europe to bypass EC tariff barriers. They are continuing to increase their stake in North Sea oil development.

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US-based Texas-Gulf mining complex at Kidd Creek, Canada *Texas-Gulf Report*

#### Provincial Reactions

Several provinces are far more concerned about the drop in foreign investment in Canada than is the national government. The maritime provinces, which face the threat of being isolated from the rest of Canada if Quebec becomes independent, depend almost entirely on foreign investment to fund major industrial projects. Ontario is actively courting foreign investors. Premier Davis visited several European countries last October and made an especially strong pitch in West Germany for Volkswagen to consider building an assembly plant in the province.

In western Canada, Alberta is actively encouraging foreign participation in joint ventures in the petrochemical industry, which needs technical expertise. British Columbia is looking for foreign investors to help develop its abundant mineral resources, especially coal.

The new government in Quebec is conducting an extensive campaign to reassure foreign investors about the pace and direction of its economic policies. Quebec is the second largest recipient, after Ontario, of foreign investment.

Foreign investors in Quebec are especially apprehensive about the socialist image of the Parti Quebecois and the party's announced goal of increasing provin-

cial control in key economic areas. They are taking a "wait-and-see" attitude. In the asbestos industry, which the party has already singled out for greater local control, the leading producer—US-owned Johns Manville Ltd.—recently announced it is deferring a \$77-million expansion program until the government clarifies its policy.

#### Ottawa's View

Until recently, the Canadian government publicly has shown little concern about the turnaround of investment flows. The large direct investment deficit thus far has created no balance-of-payments problem. Long-term borrowing abroad provided more than enough to cover the net investment outflow last year as well as the estimated \$4.1-billion current-account deficit and should be sufficient to cover large deficits again this year.

The Trudeau government almost certainly welcomed the slackened pace of US investment. The drop in investment from other countries, on the other hand, is almost certainly troubling Ottawa, as it underscores Canada's lack of success in encouraging non-US investment as a counterweight to the US presence.

The movement of Canadian capital out of the country in the light of the decline in real domestic capital spending on plant and equipment is also a problem. The

government is well aware that the economy needs substantial growth in investment in machinery and equipment to improve on the poor productivity performances of recent years.

Already in a shaky political position, the government is coming under further attack over continuing high unemployment. Critics of the current government's economic policy are calling for a more effective attack on the problems of unemployment and lagging investment.

Given the sluggish state of the economy, the government is taking a closer look at the economic costs of its nationalist policies on foreign investment and is showing a more receptive attitude toward foreign investment than it has in several years. Minister of Industry, Trade, and Commerce Chretien has been conducting a public relations campaign for several months. His theme that foreign investment is welcome in Canada was echoed by Prime Minister Trudeau when he visited Washington in late February.

Chretien is making good on a promise to speed up processing of applications by the Foreign Investment Review Agency. In several cases, he has even given foreign investors prior assurances that their applications would be favorably received.

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*Cuba's new five year plan emphasizes increases in sugar production in an effort to earn more hard currency.*

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## **The Cuban Economy and Trade with the West**

Cuba is staking its future economic development on another concerted effort to expand sugar production and exports. Influenced partly by the 1974-75 sugar boom, Havana hopes to boost hard-currency sugar sales to finance greater imports from the West. Cuba can be expected to seek a relationship with the US that would provide a large new market for its sugar.

### **A Sugar Economy**

Cuba's one-crop economy is highly dependent on foreign trade. Sugar harvesting and milling account for 20 percent of gross national product, and sugar sales provide about 85 percent of export earnings. Annual production has averaged about 6 million tons both before and since Castro came to power; the new plan calls for production to rise to more than 8 million tons a year by 1980.

Cuba, in fact, has the resources to increase annual output to about 7.5 million tons by the target date without seriously straining other economic sectors. If things go well, sugar available for hard-currency export will increase to 3.5 million tons from the current 2 million. The Cubans will have difficulty getting acceptable prices for this much sugar on the free market, however, without access to the large US sugar market.

Demand for sugar on the world free market—the US accounts for 25-30 percent of the demand—is not expected to increase much beyond the current 14 to 15

million-ton level because of continued growth of sugar substitutes in the major importing countries. Moreover, intense competition is expected from other exporters, such as Brazil, that are also expanding output.

Even if markets are found, Cuba will face a hard-currency shortage for several years because world sugar prices will probably not go much above 15 cents per pound. As a result, imports from the West through 1979 are unlikely to exceed the 1976 level of \$1.25 billion—some 15-20 percent below the 1974-75 average in real terms.

### **Need for Hard Currency**

Cuba needs these Western goods for economic development. Cuba must import all of its capital goods and petroleum and a substantial share of its other raw materials, intermediate goods, and foodstuffs.

Although Havana remains heavily dependent on Soviet trade and economic assistance, rising world sugar prices between 1970 and 1975 enabled Cuba to sharply step up purchases from the West. Despite a doubling of Cuban-Soviet trade in this same period, the share of imports from the West rose from 31 percent in 1970 to 48 percent in 1975. Havana considers many Western capital goods to be of higher quality than Soviet counterparts and has sought for some time to diversify its import sources.

In 1975, Cuban imports from the West reached \$1.8 billion as a result of the sharp jump in hard-currency earnings

from sugar sales, some \$3.2 billion in trade credits, and \$385 million in Eurocurrency loans. Increased purchases of capital goods and transportation equipment from Argentina, Japan, West Germany, and Spain accounted for most of the 1975 hard-currency imports. Cuban purchases from US subsidiaries abroad have also been substantial since the lifting of US restrictions in August 1975. They reached \$213 million in 1976, some 17 percent of estimated Cuban imports from the West.

### **Setbacks in 1976**

Stagnating Cuban sugar production, declining world sugar prices, and rapidly rising hard-currency debt led to a sharp cutback in Cuban imports from the West last year. Hard-currency earnings fell by approximately half, as the world free market price for sugar plummeted from 14 cents per pound at the beginning of the year to 7 or 8 cents per pound at the end of the year.

At the same time, Havana was forced to restrict additional borrowing because of its mounting hard-currency debt, estimated at \$1.3 billion, and the bleak prospects for a significant rebound in world free market sugar prices. An estimated 30 percent of deliveries from the noncommunist world were held up at Cuba's request.

### **Prospects for 1977**

Continued low world sugar prices will limit Havana's hard-currency earnings in 1977 to about \$800 million—close to the 1976 level. Sugar prices are currently

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hovering around 8 or 9 cents per pound and will probably not average above 12 cents for the year. Moreover, Soviet hard-currency payments for sugar will not exceed last year's level.

Exports of nonsugar items—nickel, tobacco, and seafood—will increase only moderately at best. Fish exports, in fact, could decrease. Fish account for about 10 percent of exports to the West, and Cuban fishing operations are threatened by the new 200-mile economic zones being imposed by countries throughout the world.

Cuba takes about 10 percent of its catch from US waters and is planning to ask for continued fishing rights. The Cubans have already stopped fishing in the claimed limit of some of their South American neighbors and are worried about important fishing operations in waters off Namibia and South Africa.

Cuba's stagnant hard-currency earnings and its continued reluctance to expand significantly its noncommunist debt are likely to induce Havana to cut imports from the West another 35 percent this year, to between \$750 and \$850 million. Further large increases in debt during

1977 would aggravate an already burdensome long-term repayment schedule, and hard-currency exchange reserves are low.

#### Impact on the Economy

The decline in imports from the West is adversely affecting the Cuban capital investment program and will continue to do so. Total Cuban imports of capital goods are likely to decline some 20 percent this year, after falling about 18 percent last year.

Although the anticipated decline will mainly affect the investment program, some reduction in Western-supplied raw materials will probably hold Cuban economic growth in 1977 to about half the 6-percent annual rate envisioned in the five year plan.

Growth of agricultural production will be hampered by last year's drought and by reduced availability of fertilizers and other materials, as well as by delays in modernizing the sugar harvesting and milling industry. Construction activity will be affected by the probable reduction in the availability of construction materials and by the postponement and cancellation of several development pro-

jects. Gains in industrial output, particularly textiles, will be affected by reduced supplies of some raw materials.

Cuban import reductions may require cancellations of some outstanding contracts and thus aggravate Havana's already strained commercial relations with noncommunist countries. Cuba has contract commitments for nearly \$700 million in Western capital equipment for delivery in 1977, including \$300 million in backlogged goods. Havana realizes it cannot make these purchases and also buy essential Western commodities, such as medicines and agricultural chemicals.

Negotiations are under way to delay shipment of the backlogged goods up to another 15 months with only limited compensation to exporters for interest and warehousing costs. The Cubans hope such hard-line tactics will encourage Western firms to abrogate at least \$50 million worth of contracts on their own. Such Cuban actions are unpopular with several Western countries and may make it harder for Cuba to negotiate bilateral commercial agreements in the future.

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Cuban sugar cane harvest

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