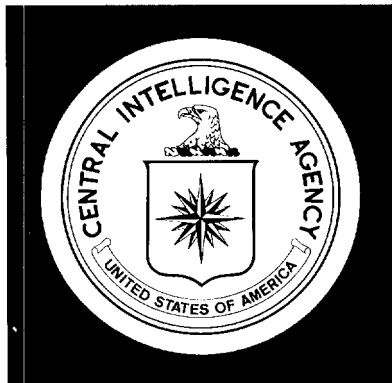


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Weekly Summary

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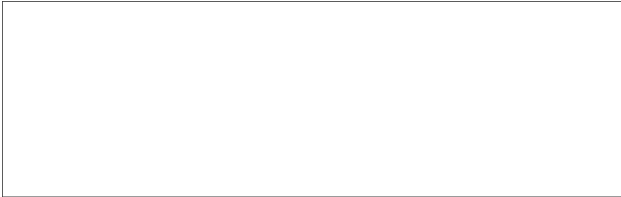


June 24, 1977

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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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Menahem Begin speaks at opening of Knesset (parliament) this month while other members listen

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territorial withdrawals. The principal constituents of the new government—immigrants from North Africa and eastern Arab states and the orthodox religious community—are likely to rally enthusiastically behind Begin's personal leadership.

Although the issues and to some extent the electorate were different in the Labor Federation election than in the national election last month, the victory was important to the Labor Party and its ally, Mapam. In addition to representing all but a small percentage of Israel's salaried employees, the Federation controls many businesses, industries, and social welfare programs, and its views must be taken into account by any Israeli government.

Labor Party leaders are likely to point to their party's strong showing as evidence that Likud's upset victory in the national election represented a one-time protest vote against Labor rather than a fundamental shift to the right. Labor may use its domination of the Federation to enhance its image with the electorate by presenting alternatives to possible efforts by Likud to decentralize the Federation and to undertake free enterprise reforms in the Israeli economy.

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Middle East

ISRAEL

1-9

The transition to the first government not dominated by the Labor Party since Israel's independence in 1948 was completed early this week when the Israeli parliament formally approved a narrow-based right-wing coalition government headed by Likud leader Menahem Begin. The following day, however, the Labor Party demonstrated that it remains a strong national force by apparently maintaining its long-standing control of Israel's large and important Labor Federation.

Prime Minister Begin's cabinet at this point is composed of nine Likud members, three from the National Religious Party, and Moshe Dayan, now an independent. Two small religious parties that support the coalition declined to

join the cabinet, but they have pledged to vote with the government. Three portfolios are being held open temporarily as an inducement to the Democratic Movement for Change to participate in the government—on Begin's terms.

Begin probably will deal with his government in the same autocratic manner that he has long ruled his own party. After Begin, the most influential members of the new cabinet will be Defense Minister Weizman, who is the number-two man in Likud, Foreign Minister Dayan, Agriculture Minister Sharon, and probably Education Minister Hammer, the outspoken head of the National Religious Party's dominant youth wing. All five men appear to share generally similar hard-line views on crucial foreign policy issues.

Many Israelis welcome indications that Begin will provide strong and unyielding leadership on peace issues, which they see as essential to deal with growing Arab sophistication in negotiating tactics and to meet anticipated US pressure for

Western Hemisphere

PERU

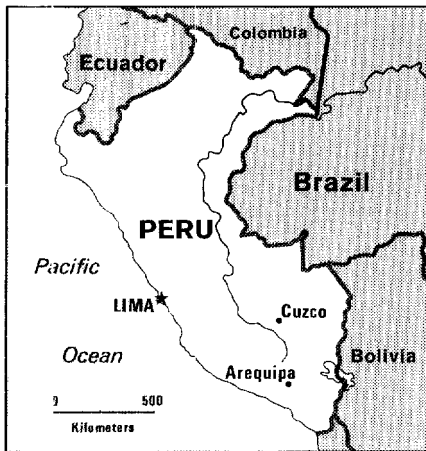
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Reaction has been growing in Peru to the tough austerity program recently announced by the government to meet International Monetary Fund requirements for providing the aid Peru needs to meet debt-service obligations.

The program includes a 50-percent increase in gasoline prices, a one-third hike in public transportation fares, and a \$200-million cut in imports this year. Central government expenditures, in-

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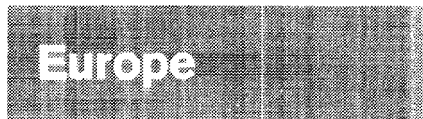


cluding those of the military, will be reduced by 8 percent, or \$160 million. The Peruvian sol is to be devalued by about 20 percent in a series of steps to be completed by the end of the year.

The program failed to provoke the strong, spontaneous public protest initially expected by the government. Last week, however, violent demonstrations by leftist students in Cuzco prompted officials to clamp a dusk-to-dawn curfew on that ancient city. The student demonstrations since have spread to Lima and Arequipa. No large-scale worker protests have as yet materialized.

The stringent internal security measures in effect and Finance Minister Piazza's sketchy description of the program may have helped dampen initial reaction. The announcement of modest wage increases probably also contributed. Mass demonstrations could still occur once Peruvians feel the pinch of higher prices for food, gasoline, and transportation, for which government subsidies were removed.

Piazza's program meets many, but not all, of the conditions set last March by the IMF for a \$100-million standby loan badly needed by Peru. Successful negotiation of the loan is a prerequisite for another \$300 million in balance-of-payments support loans from foreign banks. It is not clear whether the IMF will be satisfied with the measures.



SPAIN *9-13*

King Juan Carlos and Prime Minister Suarez won a clear endorsement of their moderate, evolutionary political reform program last week in Spain's first free parliamentary election in over 40 years. The result has strengthened their hand in dealing with the country's pressing economic problems and mounting demands for regional autonomy.

Suarez' Union of the Democratic Center—an alliance of numerous small centrist groups—took almost 35 percent of the vote and fell just 11 seats short of a majority in the 350-member lower house of the Cortes. He has a working majority in the upper house, where his party won 106 of 207 contested seats; most of the 41 additional senators appointed by the King are likely to support Suarez. The Socialist Workers Party ran a strong second, with about 28 percent of the vote. The Communists and the Francoist Popular Alliance came next but trailed far behind with 9 and 8 percent of the vote, respectively.

Since the election Suarez has been



Prime Minister Suarez

Piazza's Parade

engrossed in consultations looking toward the formation of a new government. He may forgo a formal majority coalition and rely instead on ad hoc alliances with different opposition moderates to give him a majority on key pieces of legislation. The absence of a no-confidence procedure in Spanish law and the blurring of responsibility between the executive and the legislature make a minority government quite feasible.

In any event, a coalition between the Democratic Center and the Socialists is unlikely. Socialist leader Felipe Gonzalez has indicated that his party prefers to remain in opposition and has set conditions for the party's participation in the government—including fiscal reforms and immediate autonomy for the Basque and Catalan regions—that would be extremely difficult for Suarez to accept.

Nonetheless, Suarez will have to take Socialist views into account in formulating his legislative program and in drafting the new constitution that the Cortes is implicitly charged with preparing. Austerity measures that will be necessary in dealing with Spain's economic problems will be particularly difficult to enforce without the cooperation of organized labor, which is dominated by the Socialists and Communists.

The Communists have professed to be satisfied with their small share of the vote, citing the party's long period underground, the long years of anticommunist propaganda, and the short time for campaigning. Party leader Carrillo did come a long way toward gaining respectability, and the party now plans to concentrate on the municipal elections that may be held this fall. The Communists in fact are likely to do better at that level.

Newly elected Basque and Catalan legislators clearly intend to press quickly on the regional autonomy issue that has long plagued Spanish politics. Major parties in the two regions have already made pacts with the Socialists to push for substantial and immediate autonomy for the two regions.

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Jack Lynch votes

traditional voting patterns may cause the coalition parties—at least the Fine Gael—to overhaul their structures to improve campaign tactics before the next election.

Government-sponsored emergency legislation aimed at curbing activities of the Irish Republican Army and other terrorists was not universally popular and may have contributed to the opposition's victory. Some critics charged that the legislation pre-empted civil liberties and the press scored the government for censorship based on the new laws. Furthermore, coalition efforts to "modernize" Ireland through the provision of birth-control information and the abolition of compulsory Gaelic-language teaching in schools may have been an unwelcome break with tradition for many voters.

Callaghan has probably chosen the best available option for threading his way between anti-EC Laborites and pro-EC Liberals on the issue of direct elections to the European Parliament. He has decided initially to permit both cabinet members and Labor backbenchers a free vote on the principle of direct elections as well as on the type of electoral system to be used.

This suspension of collective cabinet responsibility is limited; government members will be required to support all aspects of the implementing legislation after the second parliamentary reading of the bill. To stress this point, Callaghan declared that ministers who wish to speak or campaign against direct elections would have to resign. The US embassy in London believes this course should prevent any key cabinet resignations and avoid a critical split among Labor MPs.

Liberal Party leaders will criticize Callaghan's failure to support a proportional representation system for the European parliamentary election, but the Liberals are unlikely to withdraw their support from the government.

The government plans to introduce legislation for direct elections soon, although it stands no chance of passage before the end of this parliamentary session. This procedure, however, will reduce the time needed to obtain final passage in the session that begins in November. Callaghan's plans would allow him to demonstrate to his colleagues at the EC summit late this month that he is endeavoring to fulfill his pledge to them on direct elections.

On another matter of interest to the Liberals, the government formally announced last week that legislation granting greater autonomy to Scotland is dead for this session. A new bill will be introduced late this year or early next, but its chances are not much brighter. Callaghan's dilemma is that for every move he makes to satisfy the desires of Liberals and Scottish Nationalists for devolution legislation, he risks the anger of the anti-devolutionists in Parliament, many of whom belong to his Labor Party.

IRELAND

14-17

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Jack Lynch's opposition Fianna Fail party overwhelmed the government coalition of Prime Minister Liam Cosgrave in last week's election for the Irish Dail, or lower house of parliament. The result was not hailed in London, where the Fianna Fail victory was seen as a threat to the current bilateral cooperation aimed at achieving a political settlement in Northern Ireland.

Fianna Fail won an unprecedented 84 seats in the 148-seat Dail. Cosgrave's Fine Gael took only 43 seats, down 10, and his Labor Party colleagues won 17, a loss of 2. Independent candidates won 4 seats and are expected to split their votes between the Fianna Fail and the old coalition.

Although the government was in economic trouble during most of its four years in office—inflation and unemployment are still the highest in the EC—the large margin of the opposition's victory may be due to other factors as well. The Fianna Fail ran a modern saturation-style campaign based on promoting a single personality—Jack Lynch. The opposition's success in breaking down



UK

18-21

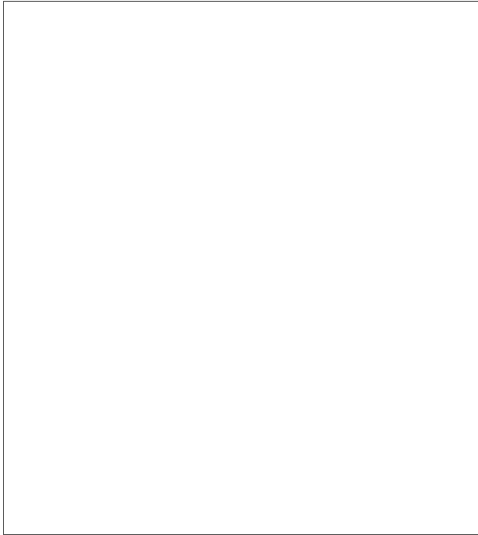
British Prime Minister Callaghan's minority Labor government faces a difficult period before Parliament recesses in late July. Callaghan must grapple with the task of keeping the Labor Party from dividing along pro- and anti-EC lines while attempting at the same time to maintain vital Liberal Party support for his government. If he fails to fashion an effective compromise, an election this fall will be inevitable.

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and elsewhere. The two countries also signed another economic and technical cooperation agreement, and the Chinese agreed to provide limited new military grant aid. The Chinese reportedly will provide enough small arms and supplies to equip a 10,000-man Sudanese infantry force and enough spare parts for Chinese-made equipment already in the Sudanese military inventory.

Sudanese are also exploring the possibility of acquiring attack helicopters from France, West Germany, and other Western sources.

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The Chinese aid is estimated to be worth about \$7 million; in its only other arms deal with Sudan, China provided in 1972 \$8 million worth of equipment that included 60 light tanks and a squadron of MIG-17 jet fighters.

The Chinese weapons and, especially, the spare parts will help to alleviate Sudan's current severe arms deficiencies. Sudan's largely Soviet-equipped armed forces have experienced a severe resupply problem since a coup attempt against Numayri last July; charges by Sudan that the Soviets were involved resulted in a Soviet cutback in delivery of spare parts. A shipload of military spare parts from China reportedly is now en route to Sudan.

Sudan, with large financial backing from Saudi Arabia, is actively seeking major arms contracts with Western suppliers and especially with the US. The

Africa

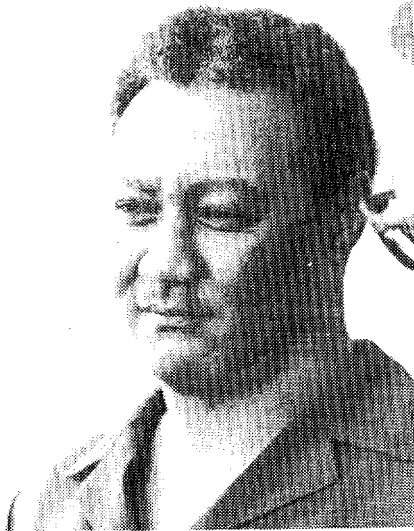
SUDAN-CHINA

29-31

Sudanese President Numayri succeeded during his visit to China in early June both in obtaining additional economic and military aid and in putting the Soviet Union on notice that his government has alternate sources of assistance. The warm reception he received in Peking will also help maintain his credentials among the nonaligned countries by balancing Sudan's growing ties with the West, especially the US.

Numayri used the occasion to criticize publicly Soviet policy toward Africa. His statements closely resembled Peking's own attacks on Moscow and doubtless pleased the Chinese. In recent months, Sudanese-Soviet relations have become increasingly strained because of Soviet backing for Ethiopia and Libya, both of which provide support to Sudanese dissidents.

China and Sudan agreed to coordinate efforts to counter Soviet influence in Africa



President Numayri

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Vietnamese soldiers help farmers gather rice

war. The USSR and China covered war-time food needs of the north; the US supplied the south an average of over 300,000 tons annually. US deliveries have ceased and China apparently has been slow to offer Vietnam the same support as during the war.

Vietnam has reportedly been able to obtain promises of substantial amounts of grain this year. Grants and loans are probably elements of most transactions because of Vietnam's low level of foreign exchange earnings.

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PAKISTAN

The possibility of renewed violence in Pakistan has increased as a result of new difficulties that have arisen in talks between Prime Minister Bhutto's government and the opposition.

A compromise agreement reached a week ago called for new elections to be held later this year and allowed Bhutto to remain in office until then. Some important details of the agreement, however, were left to be worked out in meetings between opposition representatives and one of Bhutto's ministers.

These meetings have exposed differences that could cause the agreement to come apart. The most serious disagreements are apparently related to finding a way to ensure that Bhutto goes through with his promise to hold an honest election.

Another disagreement, according to the opposition's chief negotiator, is over a date for dissolving the National Assembly. Bhutto presumably hopes to put this off as long as possible; under the constitution, he would have to hold an election within 90 days of the Assembly's dissolution.

Opposition leaders—including those who have been most inclined to negotiate—are once again threatening to take to the streets if Bhutto does not give up what they see as delaying tactics.

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Asia

VIETNAM

Severe weather has worsened Vietnam's chronic rice shortage, prompting the government to increase imports and take steps to control consumption. Thus far, there is no evidence of widespread famine or popular reaction against the government because of food shortages.

Late last year, cold weather cut yields of the main autumn rice crop and hindered planting of the 1977 spring crop. During much of this year, drought has affected up to one-third of the spring crop area in the north. Dry weather now threatens subsequent planting for the autumn crop in the north and possibly also in the south.

The Vietnamese estimate that this year's yield of rice will fall short of domestic need by 1.2 million tons. Such a shortfall would be one of the worst in re-

cent years, although below the 1.5-million-ton deficit of 1974. Rice production in Vietnam historically has been from 500,000 to 1 million tons under domestic requirements. The 11 million people who live in central Vietnam, which is remote from food-producing areas, are hardest hit by shortages.

Hanoi has taken several measures to ease the effects of this year's shortfall. The congested port of Haiphong has been temporarily reserved for food grain carriers. As in previous periods of unusual rice shortages, rations of some army units have been cut and civilian rations stretched with non-rice grains, flours, and vegetables. Electric power is being diverted from urban areas for irrigation.

The spring harvest nearing completion will provide some immediate relief if properly distributed, even though the crop is smaller than usual. Officials will use imports to cope with the seasonal shortage expected just prior to the autumn harvest.

Vietnam relies on a large volume of imports of rice, wheat, and flour to maintain basic food needs. It has had to broaden its search for food grains since the end of the

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Although the West Europeans share US concern about nuclear proliferation, they express doubt that the new constraints proposed by the US would effectively halt proliferation and they fear the constraints would sabotage their own nuclear energy programs.

69-76

Western Europe: Reaction to US Nuclear Policy

West Europeans are reacting strongly to US nuclear energy policy statements. They are particularly opposed to US proposals to delay the development of fast-breeder reactors and to seek extensive new safeguards on nuclear energy programs abroad—including the right to veto the transfer of US-origin uranium from one country to another for reprocessing.

Officials in many West European countries agree that the proliferation of nuclear weapons is a serious danger, but they argue that the technology needed to produce nuclear explosives is already widely available and that technical constraints on fast breeders and reprocessing will not stop proliferation.

In any case, according to the West Europeans, the possible effect of such constraints on proliferation must be weighed against worldwide energy needs. British Foreign Secretary Owen has stressed that the Non-Proliferation Treaty includes a commitment to the peaceful uses of nuclear energy that is just as important as the commitment against proliferation. West Europeans believe nuclear energy is essential, and because they have very little natural uranium, they also view as essential the nuclear fuel reprocessing and fast-breeder cycle that they say would allow them to multiply the energy obtained from uranium by a factor of 50.

West Europeans are uneasy about their dependence on foreign sources of energy,

whether Arab oil or US, Canadian, and South African uranium. Besides pursuing techniques that use uranium more efficiently, they are also actively seeking alternative sources of uranium.

West Germany's nuclear deal with Brazil was aimed partly at gaining access to potential Brazilian uranium reserves. French officials have argued that Western Europe should promote relations with uranium producers not under US "domination"—like Gabon and Niger—in order to avoid the risk of a blockade by the US, Canada, and Australia, all of which the French expect to pursue highly restrictive uranium export policies.

The West Europeans note that, although the US, with its large uranium supplies, may be able to forgo reprocessing and fast breeders, such a "throw-away" nuclear fuel cycle would cause the US to consume a large portion of world uranium production. This would mean, they say, that there would be less uranium available for others and that the others would become even less willing to depend on the US for supplies and even more eager to develop reprocessing and fast breeders themselves.

West Europeans also note that the Canadians, despite their large uranium reserves, are considering abandoning their "throw-away" fuel cycle in favor of reprocessing as a conservation measure.

Enrichment

The West Europeans are also seeking greater self-sufficiency in uranium enrich-

ment capacity. Largely through cooperative enterprises like Urenco, Eurodif, and Coredif, the West Europeans hope to meet their own needs for low enrichment of uranium by the early 1980s.

In fact, the slowdown in reactor construction in the developed countries may mean that there will soon be excess enrichment capacity globally. France has proposed that the US and Western Europe cooperate in planning the development of enrichment capacity and in investing in enrichment enterprises—thereby avoiding competition to sell enrichment services.

The prospect of competition between the US and Western Europe underlies the angry reaction by French officials to US plans to focus on centrifuge enrichment technology rather than the gaseous diffusion process the French favor. The French say that the US, in choosing the centrifuge because it requires less energy, contradicts its own policy of subordinating energy concerns to nonproliferation, because centrifuge operations are more difficult to safeguard effectively. France probably fears that a US preference for the centrifuge technology will discredit French advances in nuclear research in the eyes of others and could undercut French sales of diffusion services.

The French announcement last month that France has developed a "new" enrichment technique that cannot be used to produce fuel for nuclear explosives was intended to bolster French nonprolifera-

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tion credentials and to emphasize France's intention to export nuclear reactors with supporting enrichment capacity. More broadly, the French were reiterating their intention to pursue an independent nuclear policy.

The West Europeans' need to supply enriched uranium for reactors they sell abroad has created tension between the Netherlands and West Germany, partners with the UK in the prospective Urenco sale of fuel for the reactors West Germany sold to Brazil.

The Dutch would like new safeguards on Brazil's nuclear activities as a condition for supplying Brazil with Urenco enrichment services, but they maintain that strong US opposition to the Urenco deal may lead West Germany to try to circumvent Urenco by constructing an independent enrichment facility in West Germany. The Dutch have implied that they fear that West Germany might some day develop its own nuclear weapons.

Reprocessing and Fast Breeders

Most West Europeans believe it is essential for them to reprocess spent nuclear fuel, both because they must conserve uranium and because storing nuclear waste is a serious problem in such a densely populated region. Even Sweden, which is willing to forgo the fast breeder, still wants its waste reprocessed. The Swedes fear that US restrictions on transferring spent fuel for reprocessing unless spent fuel storage capacity is critically limited will simply penalize them for having had the forethought to develop large storage facilities.

Nearly all other West European countries have reprocessing plants and fast breeders or plan to build them. Most doubt there is any real alternative to a "plutonium economy." France and West Germany have agreed to cooperate in developing breeder technology.

Reprocessing for foreign clients is especially important for the UK. In a joint enterprise with France, it plans to build a major new reprocessing facility. These countries have been negotiating with Japan for a long-term contract to reprocess Japanese fuel of US origin,

partly in exchange for Japanese financing of an enlargement to the UK's Windscale reprocessing plant. The British and Japanese fear that a US policy requiring case-by-case decisions on reprocessing would ultimately sabotage the contract and make long-range plans for their nuclear programs impossible.

Technology Transfer

Many West Europeans still argue that US nuclear policy is aimed largely at gaining a commercial and technological advantage over other nuclear suppliers. US efforts to play down the fast breeder, according to a West European official, amount to "a new Concorde affair" because the US is trying to prevent Western Europe from cashing in on the technological lead in breeder technology the West Europeans claim they have.

The West Europeans fear, moreover, that the US may gain access to their technology in the course of implementing safeguards. Thus, France opposes US inspection of the French-designed Tokaimura reprocessing plant in Japan, and West Germany dislikes passing information to the US to permit the evaluation of licenses for nuclear sales to Brazil.

Their desire to maintain good relations with the developing countries leads many West Europeans to warn that major constraints on exports of nuclear technology would intensify North-South conflicts. The West Europeans believe that countries that have not yet acquired such technology would view those constraints as a new form of discrimination.

West Europeans believe that a restrictive policy could split the International Atomic Energy Agency and lead to defections from the Non-Proliferation Treaty, which promised nondiscrimination regarding peaceful uses of nuclear energy. Thus, West Germany in particular has urged that the London Suppliers' Group be enlarged soon to include purchasers as well as sellers of nuclear materials.

Within Western Europe, some are concerned that the US may discriminate in favor of the UK and France, the two nuclear weapons states, and deny West

Germany the right to develop advanced peaceful nuclear technology. West German officials say this would be intolerable. The Italians are especially sensitive as well to any US policy that would restrict Italy's potential exports of fast-breeder and reprocessing technology and thereby compromise its ability to compete in technologically advanced activities.

European Community officials view US policy as jeopardizing the EC's commitment in the Euratom treaty to the free movement of nuclear materials within the Community. The EC members are especially concerned that, in renegotiating its treaty with Euratom, the US may insist on the right to veto transfers of spent fuel for reprocessing within the EC.

Fuel Cycle Evaluation Program

Most West European states have emphasized that they intend to go ahead with nuclear energy plans. They view the International Nuclear Fuel Cycle Evaluation Program, for which preparatory talks were held on June 8 and 9 in Paris, largely as a way to stave off immediate US pressures against their programs. For example, a West German official said he was happy about the prospective evaluation program because, until a decision emerges, his country and others would have freedom of action. A British official observed with satisfaction that the program would take a very long time.

EC officials intend to press hard for participation in the program, perhaps as a "multinational fuel cycle grouping," although the British and French argue that the EC has no competence in external nonproliferation policy. Belgium, the Netherlands and West Germany are the strongest supporters of an EC role in nuclear policy.

France is willing to take part in the program only if many bilateral differences with the US and Canada are first resolved and if the participants agree to "respect each other's choices and decisions in this field"—a commitment supported by the UK and West Germany. Disagreements on this part of the program report will probably require another preparatory meeting.

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Both economic and political considerations motivate the French government's keen interest in promoting foreign sales of the products of France's wide-ranging arms industry.

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France: Arms Production and Foreign Sales


The French arms industry produces a complete line of sophisticated weaponry, ranging from rifles to strategic missiles. Essentially all materiel for the country's armed forces is produced at home, and substantial quantities are available for export. This output has made France the world's third-largest arms supplier after the US and the USSR.

A reliable French business weekly projects the total value of 1977 arms output at \$7.2 billion; less than a quarter of this will be for nuclear forces. The arms and aircraft industries contribute about 2 percent to gross national product and directly employ just under 1.5 percent of the French labor force.

In the past five years, foreign military sales have totaled \$6.1 billion, exclusive of those to the US, about 13 percent of the global total. The lion's share of these sales has gone to Middle Eastern and North African customers, notably Saudi Arabia and Libya. Altogether, arms sales in 1975 accounted for about 5 percent of total French exports and 10 percent of finished industrial exports. Orders now on hand could keep the arms industry producing at current levels for the next five years.

The French government maintains strict control over all aspects of arms production and sales. The government directly produces a quarter of the industry's output, and nationalized industries account for another quarter. The rest originates in the private sector, which has about a dozen major arms or aircraft producers. All three sectors tend to share arms production ventures, testing sites, and research and development facilities.

Exports must be authorized by a special interministerial committee, whose chief is responsible directly to the prime minister. The committee meets at least monthly to review export requests. Financing details are kept secret, but Paris is believed to offer flexible pricing policies and credit terms. Cash generally is demanded for guns and missiles, but credits for up to eight years are often extended for equipment such as aircraft and tanks.

Arms Industry Components

The largest and best-known component of the French defense industry is the one that manufactures **aerospace equipment**. This branch employs 106,000 persons and produces high-quality fighters, helicopters, and missiles. It ranks third behind the US and the UK among Western aerospace industries.

About 70 percent of aerospace production is for military purposes. Paris has sought for years to increase the civilian share but has experienced repeated failures, most notably with the Concorde. Nearly half of the aerospace industry's production is exported; the industry accounts for 60 percent of France's total military exports.

The **ground materiel** industry follows aerospace in terms of the value of its production and exports. France has long offered a sophisticated, comprehensive line of ground items—including tanks, armored vehicles, and a full range of missiles—which is promoted abroad by the semipublic export organization, SOFMA.

Several items, including the Roland surface-to-air missile, are joint projects with other West European countries. Much of the actual production is in the hands of private companies, such as

Creusot-Loire and Berliet-Saviem. For most companies, military items constitute a fairly small share of total output.

Naval equipment for the French navy is produced almost entirely by four government-operated shipyards that employ about 35,000 workers. Equipment for export is constructed primarily at commercial shipyards. Foreign sales in the past have been small but now are being pushed because of the slump in private shipbuilding. In 1975, the naval equipment share of arms exports apparently rose to almost 10 percent.

Export Policies

The French have relatively few political inhibitions about exporting arms. France became a principal supplier to South Africa after the British arms embargo in 1964, although extensive restrictions have since been imposed. Paris also sold aircraft and submarines to Pakistan after the US cut off arms sales in 1965 because of the conflict between India and Pakistan.

France did refuse for several years to sell arms to active belligerents in the Arab-Israeli conflict. In 1970, however, 110 Mirage fighters were sold to Libya, despite possible Libyan participation in future hostilities.

There is little domestic opposition to French arms export policy; leftist political parties and the Church hierarchy criticize the policy occasionally. Opposition by the leftists, with their strong labor constituency, is muted by fear of reduced employment if arms sales are cut.

The government's accommodating attitude toward arms exports in part reflects a desire to hold down unit costs of arms for the French military by extending production runs. This factor has become

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progressively more important in recent years as the cost of developing new weapons has increased dramatically.

Although employment in the arms industry is a relatively small part of the overall economy, it is nonetheless another

important consideration motivating arms sales because of France's severe unemployment problems. Many of the arms facilities are in less-developed regions, where there are few other industries to absorb displaced workers. Arms exports are

also considered to be crucial to the goal of re-establishing a trade surplus and also to be an effective means of extending French political influence abroad, particularly in the less-developed countries.

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Soviet defense policies, as recommended by the Defense Council and approved by the Politburo, are implemented under the supervision of the General Staff of the armed forces. The General Staff plays a pervasive role in strategic arms limitation matters.

USSR: Military High Command

The Soviet military high command is a highly centralized structure that meshes the party and the military leaderships of the USSR. The primary executive organ of the high command, the General Staff of the armed forces, provides the apparatus through which the leadership exercises its control over the armed forces.

Several significant personnel changes have occurred in the Soviet high command during the past year as a result of the deaths of Minister of Defense Grechko and Commander in Chief of the Warsaw Pact Yakubovsky.

- Dmitry Ustinov, Politburo member and former party secretary for defense industries, was appointed defense minister in April 1976 with the rank of army general; he was promoted to marshal of the Soviet Union the following month.
- Viktor Kulikov, first deputy minister of defense and former chief of the General Staff, was appointed commander in chief of the Warsaw Pact forces and promoted to marshal of the Soviet Union last January.
- Nikolay Ogarkov, former deputy

minister of defense, was appointed chief of the General Staff, first deputy minister of defense, and promoted to marshal of the Soviet Union last January.

Ultimate responsibility for defense policy resides with the Politburo, which currently receives recommendations from its defense-related arm, the Defense Council. The Defense Council is the link between the national political authority and the military high command. General Secretary and President Brezhnev and Premier Kosygin are senior Council members. Former president Podgorny was a member until his recent ouster from the Soviet hierarchy.

The defense minister is a full member of the Defense Council; the chief of the General Staff is believed to attend its meetings. In addition, Foreign Minister Gromyko, KGB Chief Andropov, Military Industrial Commission Chairman Smirnov, and possibly Ustinov's successor as party secretary may be members. In wartime, the Council would be expanded to direct all political, economic, and military aspects of the total defense effort.

The senior leaders in the Ministry of Defense form the core of the military high

command. Of these, the defense minister, his three first deputies, the chief of the Main Political Administration, and the other deputy ministers make up the Collegium of the Ministry of Defense. The chief of the Main Personnel Directorate is also a member of this body.

The Collegium functions under the chairmanship of the defense minister to debate questions and make recommendations on defense policy. In the event of war, most of these officials would probably become members of the Supreme High Command and would be led by the general secretary of the Communist Party.

Ustinov has a party and managerial background and is the first minister of defense since 1955 who is not a professional military officer. As a civilian with extensive background in defense industries, Ustinov is a valuable link between the political and military authorities at a critical time for strategic arms negotiations and force structure decisions.

First Deputy Minister and Chief of the General Staff Ogarkov is responsible for implementing the decisions of the high command. First Deputy Minister Kulikov, as Commander in Chief of the

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Warsaw Pact forces, is the senior Soviet field commander. First Deputy Minister Sokolov is apparently responsible for administrative matters.

The chief of the Main Political Administration, Army General Aleksey Yepishev, is the senior party official in the armed forces structure. He provides direct party access to the military at all levels via the Central Committee.

General Staff

The military high command implements the decisions of the Politburo and Defense Council through its executive arm—the General Staff. According to Marshal Kulikov, its former chief, the General Staff is “the main organ for the control of the armed forces of the state in peace and war.”

The General Staff chief also has the statutory authority to report directly to the political leadership in matters critical to the defense of the state. Given his relationship to the Defense Council and high command, the chief of the General Staff combines considerable influence in policymaking with the responsibility of policy executor, thereby occupying a pivotal position within the military apparatus.

The responsibilities of the General Staff can be grouped into three categories: control, planning, and force preparation. Through a diversified and redundant command and communications system, the General Staff exercises operational control over the armed forces, both via the headquarters of the service branches as well as directly down to the army and fleet levels.

All aspects of military planning fall under the purview of the General Staff. It is responsible for collecting and producing military intelligence, analyzing Soviet force structure and posture, developing military doctrine, and supporting state meetings and international conferences. Military assistance programs, as well as recommendations and proposals for force reductions, strategic arms limitations, law of the sea, and the prevention of incidents at sea, are examples of the General Staff's responsibilities.

In fulfilling its force preparation duties, the General Staff sets and reviews training goals and standards. It also coordinates and supervises the procurement of weapons and equipment and administers the mobilization of human and material resources.

Because of the primacy of the General Staff, the background and experience of its chief can have a critical impact on the Soviet defense establishment. From 1968 to 1974, Ogarkov was first deputy chief of the General Staff and subsequently held the position of deputy minister of defense, reportedly with responsibility for resource allocations.

Ogarkov also was the senior Soviet military representative at SALT I in 1969

and 1970. His appointment as General Staff chief under Ustinov, whose background is in weapons development and production, indicates growing high-level concern about resource allocation, defense management, and perhaps the impact of arms limitation on defense programs.

Formulation of SALT Policy

Soviet strategic arms limitations policy is formulated by the party and military leadership, subject to the review and approval of the Politburo. The leading personalities involved have had many years of experience working together, both on SALT matters and in the development of Soviet strategic systems.

A Soviet Foreign Ministry official

Soviet Military High Command

Politburo

Defense Council

General Secretary and President Leonid I. Brezhnev
Premier Aleksey N. Kosygin
Defense Minister Dmitry F. Ustinov
First Deputy Minister Nikolay V. Ogarkov

Ministry of Defense

*Defense Minister Marshal Dmitry F. Ustinov
*First Deputy Minister Marshal Nikolay V. Ogarkov
*First Deputy Minister Marshal Viktor G. Kulikov
First Deputy Minister Army General Sergey L. Sokolov
Deputy Ministers for the Branches of Service and the Administrative and Support Services

Combined Armed Forces
of the Warsaw Pact Nations

*Commander in Chief: Marshal
Viktor G. Kulikov

General Staff of the Soviet Armed Forces

*Chief: Marshal Nikolay V. Ogarkov

Administrative Services

Main Inspectorate
*Chief: Marshal Kiril S. Moskalenko
Deputy Minister
Armaments
Chief: Col. Gen. Nikolay N. Alekseyev
Deputy Minister
Main Personnel Directorate
Chief: Army Gen. I. N. Shkadov

Branches of Armed Forces

Air Defense Forces
*Chief: Marshal Pavel F. Batitsky
Deputy Minister
Ground Forces
Chief: Army Gen. Ivan G. Pavlovsky
Deputy Minister
Air Forces
Chief: Marshal of Avn.
Pavel S. Kutakhov
Deputy Minister
Naval Forces
Chief: Flt. Adm. of Soviet Union
Sergey G. Gorshkov
Deputy Minister
Strategic Rocket Forces
Chief: Army Gen. Vladimir F. Tolubko
Deputy Minister

Support Services

Civil Defense
Chief: Army Gen. Aleksandr T. Altunin
Deputy Minister
Rear Services
Chief: Army Gen. Semen K. Kurkotkin
Deputy Minister
Construction and Billeting
Chief: Col. Gen. Archil V. Gelovani
Deputy Minister

*Marshal of the Soviet Union.

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recently reported that only five individuals other than Brezhnev have a voice in SALT policy formulation at the highest level: Defense Minister Ustinov, Chief of the General Staff Ogarkov, Military Industrial Commission Chairman Smirnov, Foreign Minister Gromyko, and KGB Chief Andropov. The Foreign Ministry official, who was once a member of the Soviet delegation in early SALT talks, neglected to mention the important roles that Premier Kosygin and—until his recent ouster from the Politburo—former president Podgorny have played in SALT policy decisions.

The official gave a personal judgment that Ustinov, Ogarkov, and the latter's immediate subordinates make the strongest military team the Soviets have ever had in this field.

Ultimate authority for all SALT policy formulation and key decisions resides with the Politburo. Since 1973, Politburo membership has included the leaders of the national security apparatus—defense minister, foreign minister, and KGB chief—who are directly involved in SALT policy decisions.

The Defense Council, currently under the Politburo, handles national security matters involving military programs and decisions. It is responsible for deliberating on and reviewing SALT policies in anticipation of Politburo approval. The General Staff plays the leading substantive role for SALT affairs in the Defense Council, with detailed technical and diplomatic support from the Military Industrial Commission and the Ministry of Foreign Affairs respectively.

The two most important leaders in the Ministry of Defense—Ustinov and Ogarkov—have each had nearly a decade of experience in SALT affairs and in the development of strategic weapons systems. Ustinov's lack of a professional military background is offset by his key role since the mid-1950s in directing the development of Soviet strategic forces, first as chairman of the Military Industrial Commission and then as party secretary for defense affairs. He became a non-voting candidate member of the

Politburo in March 1965 and a voting member in March 1976

Ogarkov, whose General Staff acts as the focal point for substantive SALT matters, brings to the Defense Council deliberations the professional military's voice as well as his own experience as senior military representative to SALT negotiations and as first deputy chief of the General Staff, where he had responsibility for SALT matters.

The General Staff's work on arms limitation proposals is carried out under the overall supervision of the first deputy chief of the General Staff, Colonel General Kozlov. The Main Operations Directorate appears to formulate proposals, while the Main Intelligence Directorate (GRU) apparently analyzes US deployments and developments.

The General Staff also provides military-technical experts to the Military Industrial Commission, the Ministry of Foreign Affairs, and the party to support defense-related matters, including SALT activities. In addition, the two senior military members of the Soviet SALT delegation at Geneva are General Staff officers—colonel generals Beletsky and Trusov. Beletsky apparently reports directly to Kozlov.

The defense-industrial establishment contributes to SALT policy through the Military Industrial Commission of the Council of Ministers. The Commission, which is charged with managing the nine defense-industrial ministries, apparently coordinates SALT matters with the General Staff, which provides representatives to serve on the Commission. Chairman of the Military Industrial Commission Smirnov, who reports to the party secretary for defense affairs and sometimes attends Defense Council meetings, played a key role in the 1972 Moscow SALT talks and was present in the recent SALT negotiations in Moscow. Deputy Chairman Shchukin represents the Commission on the SALT delegation in Geneva.

Although the Ministry of Foreign Affairs has the most visible role in SALT matters, only a few of its key personalities

exercise real influence. Foreign Minister Gromyko has been increasingly concerned with SALT in his meetings with US officials since 1974 and appears to have enhanced his own political standing steadily over the same period. In addition, Deputy Foreign Minister Semenov, who is head of the Soviet SALT delegation at Geneva, Soviet Ambassador to the US Dobrynin, and Deputy Foreign Minister Korniyenko, who is head of the USA department of the Foreign Ministry, reportedly are all centrally involved with SALT.

SALT matters are handled in the Foreign Ministry by the International Organization Department and Disarmament Staff, which includes representatives of the General Staff. Soviet SALT initiatives are drafted in the General Staff; the Foreign Ministry comments only on the political aspects of these proposals. Both the General Staff and the Foreign Ministry draft responses to US initiatives but, even here, the Foreign Ministry must rely on General Staff representatives for military-technical information and guidance.

The principal intelligence agencies, the KGB and the GRU, share responsibilities for monitoring US compliance with arms control agreements and for collecting information on US policy and technical developments. Although they coordinate their activities to some degree, they generally tend to operate separately.

The party secretary for defense affairs exercised a strong influence in SALT matters between 1965 and 1976, when Ustinov held the position. The influence of this office is likely to decline in the near term, especially since Ustinov, with his experience in this area, is now defense minister.

The secretary for defense affairs is one of 10 party secretaries who assure the implementation of all policy through the Central Committee Secretariat headed by Brezhnev. Most of them are full or candidate-members of the Politburo and act as independent channels of information to the Politburo.

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The next Turkish government will have to come to grips early with the foreign exchange problem raised by the financing over the past two years of the country's large current-account deficit.

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Turkey: A Shaky Economic Situation

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The Turkish government that finally emerges from the current post-election negotiations will face a critical foreign exchange shortage within the next six months unless it obtains outside help. The timing of the shortage will depend on how long Ankara can hold up payments for imports and how long foreign bankers are willing to maintain deposits of foreign currency in Turkish banks.

Turkey has financed nearly half of its cumulative \$4.2-billion current-account deficit in 1975-1976 through so-called convertible lira deposits. Deposits totaling \$600 million must be repaid or renewed before September; Turkey currently has only \$650 million in foreign exchange reserves. The country narrowly avoided a balance-of-payments crisis a few weeks before the June 5 parliamentary election, largely because of a credit from West Germany.

Turkey now has exhausted readily available sources of financing. Creditors and potential creditors are telling Turkish officials that Ankara will first have to begin negotiations for assistance from the International Monetary Fund. With a much larger share of its foreign debt in private hands than ever before, the Turks are beginning to recognize that conditions for renewing this debt may be stringent.

Discussions with the IMF will take time. For more than a year, the old government headed by Suleyman Demirel did not permit IMF representatives in the country, fearing their policy recommendations would be politically unworkable

for the shaky four-party coalition.

The inconclusive election results have left open the question of who will head the new government, although opposition leader Bulent Ecevit is getting the first try at assembling a cabinet. This week, Ecevit gained President Koruturk's approval for a minority government limited to his party, but it is by no means certain that he can win the necessary vote of confidence in parliament. His party is 12 votes short of a working majority in the National Assembly.

Whether Ecevit or Demirel is the new prime minister probably is less crucial to the shape of economic policy than whether National Salvation Party leader

Erbakan, who has been serving as deputy prime minister, is once again in the government. Erbakan is an autarkist and obstructionist.

Erbakan resents even more than most Turks outside "interference" in the country's affairs and would probably resist going to the IMF. Both Ecevit and Demirel would attempt to minimize possible conditions for aid; Erbakan's presence in a cabinet headed by either one of them would permit that government even less leeway for negotiating.

Turkey's decision to finance its current-account deficit, rather than reduce it, reflects the political circumstances faced by weak coalition and caretaker



Suleyman Demirel

UPI



Bulent Ecevit

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governments during the last four years. All parties have been bent on pushing rapid economic growth and building up Turkish military forces despite the steep rise in oil prices and the world recession.

None of the political parties was willing to jeopardize its position by dampening import demand. Retail petroleum prices, for example, are still at 1973 levels. The US arms embargo put further strain on the balance of payments as the Turks began shopping for weapons in Western Europe where they cannot get as favorable terms.

Turkish leaders apparently have done little to prepare themselves or their people for the austerity measures the new government will have to adopt to restore the country's credit rating. At this stage, the leaders apparently only envisage con-

tinuing the past practice of frequent small currency devaluations.

Ankara probably would accept IMF recommendations for limits on the growth of domestic credit and the money supply, but would strongly reject curbs on military spending. The government might accept limits on nonmilitary spending if they did not involve substantial cuts in politically sensitive programs such as price subsidies. Ecevit, who is strongly supported by labor, reportedly is considering a "social contract" in order to restrain wage hikes, but he has not spelled out any details.

Regardless of what steps Ankara takes, the country is in for a period of slower economic growth. Without additional foreign assistance, Turkey would have to slash imports—possibly by direct controls

on nonmilitary goods. With foreign assistance and a moderate austerity program, the cuts would be more gradual and less severe. Restoration of US military aid could partially ease the foreign exchange shortage but only if the Turks decided to cut back on purchases of West European arms.

Inflation and unemployment probably will increase. Devaluation of the Turkish lira would immediately raise the cost of imports and subsequently retail prices. In addition, wage pressures remain strong despite very high unemployment. The West European nations that have been outlets for surplus Turkish labor are themselves troubled by high unemployment and continue to send Turkish workers home.

Increasing mechanization, irrigation, and use of chemicals have enabled China to boost food production significantly since 1960, but meeting food needs will become increasingly difficult unless the population growth rate is reduced.

China: Agrotechnology Boosts Food Production

Since the early 1960s, when China shifted priorities to favor agricultural technology, about 30 percent of its cultivated land has been transformed from traditional to substantially modernized agriculture. The result has been progressively higher grain harvests, which have enabled China to reach near self-sufficiency in food production, to reduce malnutrition, and at least to keep pace with the needs of a population of perhaps 900 million people.

Modernization of agriculture will continue to be given highest priority during

the current five-year plan (1976-1980) and for the foreseeable future. Although no breakthroughs are in sight and some overly ambitious goals appear out of reach, China's agricultural production will continue to grow with the application of additional modern techniques, which are essential for raising yields per unit of land. It will be a continuing problem, however, to supply food for China's growing population, which is increasing at the rate of about 2 percent a year.

Technological developments in China's agriculture have been in three main areas: agricultural chemicals, irrigation, and mechanization. Much of the increase in

China's grain production since 1960, well over 100 million tons, can be attributed to an increase in the use of chemical fertilizers and to fertilizer-responsive varieties of rice and wheat. China's many small fertilizer factories, which are located near the agricultural areas, have played a significant role in these increases.

Further fertilizer-induced increases are dependent, however, on the output of a number of imported ammonia-urea plants, which will not be fully operational until next year. These plants will double nitrogen production capability and will be vital to the rapid increases in grain production that China is looking for.

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Although complementary additions of water, improved seed, and a balance of nutrients may not be sufficient initially for optimum results, grain production could reach 300 million tons by 1980, a 10 to 12 percent increase over the 1976 harvest.

Pest Control

The Chinese appear to provide good crop protection, although in ways that require a great deal of manpower. They know what compounds to use, how to apply them, and how to regulate the dosage. Their pest control measures save about 10 to 15 percent of China's total food crop production. Further refinements, such as more sophisticated pesticides, modern application equipment, tractors for deep plowing, and the expansion of these measures to include all of China's agricultural areas, could probably increase crop yields an additional 10 percent.

The widespread use of toxic chemicals against pests, however, has brought the Chinese the same problems of chemical residues and insect resistance found in the US and other major agricultural countries. One basic weakness in China's pest control program is its poor capability for developing new types of agricultural chemicals, even though the need for such compounds will grow in the coming decade as Chinese agriculture becomes more modernized. Increased demand is likely to make the Chinese more dependent on the West for technology to produce pesticides.

Irrigation

The Chinese assert that their agricultural self-sufficiency is largely the result of an intensive program started in 1958 that emphasized the leveling and grading of the Yangtze Delta and the North China Plain and the establishment of irrigation systems. The expansion of irrigation during this period was due more to China's massive labor force than to advances in technology.

Certain mechanical improvements, however, did contribute significantly to food production. One important technological advance was the introduction of power pumps that made it possible



A demonstration of new irrigation equipment

to use ground water on a large scale. By 1974, there were 1.3 million powered wells in China, mostly in the northern regions, providing a source of irrigation water that was virtually nonexistent in the early 1960s. The pumps also assist in the movement of water to the fields and in the drainage of the fields.

High agricultural productivity in much of northern China still depends on finding adequate supplies of water. Even so, the irrigation improvements in the North China Plain in the early 1970s have created a great potential for increases in the yields of wheat and corn in the next decade.

Mechanization

To date, farm machines have had only a small effect on food production in China. This effect has not been reflected directly in higher crop yields per hectare, but in-

directly in the form of a higher multiple cropping index.

Unlike the situation in the US and the USSR, where mechanization is designed to save labor, China's farm machines are basically time-saving devices that speed planting and harvesting and permit better use of the land. The resulting ability to extend cultivation from one crop per year to double cropping or to nearly continuous cropping serves to increase output.

The government is now stressing mechanization, and the amount and variety of agricultural machinery produced in China are likely to rise rapidly over the next five years. This will continue to have a small positive effect on food production to the extent that multiple cropping is expanded and farm labor is freed for other work related to producing food.

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