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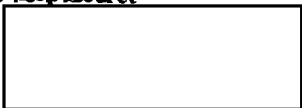
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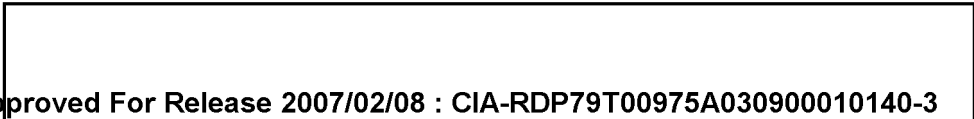
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BOLIVIA: Problems for Padilla

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NICARAGUA: National Plebiscite

//Nicaraguan President Somoza has rejected significant portions of the latest proposal by international mediators for a national plebiscite and transitional regime; his action raises serious doubt that continuation of the mediation effort is possible. Somoza has left open the possibility of further talks, but he is apparently now more confident of his ability to retain power and will yield ground only to buy more time to cement his position. A collapse of the mediation effort will enhance the prospects for concerted guerrilla action and civil unrest.// [REDACTED]

//Somoza's representatives advised that they would be making counterproposals in due time, but this is probably a maneuver to avoid bearing the onus of having undermined the mediation. Their objections to the latest proposal--questioning the basic concept of an internationally supervised plebiscite on Somoza's continuation in office--represent a step backward.// [REDACTED]

//The Nicaraguan President's dilatory tactics in the mediation have added to the strains on the unity of the Broad Opposition Front. He has meanwhile significantly increased the size of the National Guard, which now has about 10,000 men, and acquired more munitions. The Guard, moreover, has been successful against the Sandinista guerrillas in recent clashes, and the guerrillas appear for the present to have abandoned plans for an all-out offensive. Venezuela, Panama, and Costa Rica have reduced their pressures on Somoza, and completion of coffee and cotton harvests in the next few months will help ease Nicaragua's critical financial squeeze.// [REDACTED]

//Collapse of the hope for peaceful change through mediation, however, will probably help galvanize those who oppose Somoza inside Nicaragua and abroad. Public and foreign support will likely increase for the Sandinista guerrillas since many regard the guerrillas as the only means remaining to oust Somoza. The guerrillas will not resolve their ideological, tactical, and personal differences overnight, but over time Nicaragua should experience even greater polarization and spiraling violence. [REDACTED]

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CHINA: Central Committee Plenum

//The plenary session of the Chinese Communist Party's central committee that ended Friday endorsed a range of personnel and policy decisions that on balance further strengthen the position of Vice Premier Teng Hsiao-ping. Teng, however, apparently had to settle for less than he wanted on some issues important to him. The plenum failed to come to grips with some of the same controversial political issues that had reportedly sparked "violent" clashes during the month-long preparatory meetings for the plenum.//

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//The plenum's decision to "shift" the nation's attention away from the mass political campaign of the past two years and toward the economic modernization program was linked to party Chairman Hua Kuo-feng and probably did not have Teng's whole-hearted support. Teng has successfully used the criticism of the ousted Gang of Four to rid himself of some lower level opponents and to undermine the position of some political enemies at the top. Although Teng is as eager for economic progress as Hua, he seems to believe that the best way to ensure such progress is with a thorough housecleaning of politically suspect individuals. Several such people remain on the party politburo, although they apparently were criticized during the session and probably lost much of their actual power during the plenum. Teng may press for their formal removal at a later date.//

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New appointments to the politburo and the rehabilitation of formerly disgraced officials seemed to reflect compromises. Several younger officials close to Teng who were rumored to be in line for politburo posts did not get them. The four new members, however, are all close to Teng. Among these, the most significant is Hu Yao-pang. Hu controls party promotions, demotions, purges and recruitments and, at 63, is in a position to ensure that future leadership groups contain many pragmatic officials like himself and Teng.

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Hu's inclusion on the newly established party discipline committee gives Teng a watchdog on the entity that probably will monitor the implementation of policies at lower levels to make sure that local officials do not ignore or alter them. The committee's head is economic

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specialist Chen Yun, who has been restored to the party vice chairmanship he lost in the 1960s, leapfrogging Wang Tung-hsing, an opponent of the effort to desanctify Mao Tse-tung. [Redacted]

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Of the four officials who were politically rehabilitated, neither of the two still living was named to either the politburo or the central committee. The former party boss of Peking, whose return seemed in the offing, did not appear a possible rebuff for Teng. [Redacted]

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The complexion of the central committee is more decidedly "Tengist" than earlier. Nine new members were named, all of them in the Teng camp. The number of members who attended the plenum was a sharp drop from the number elected in August 1977, indicating a high rate of casualties from the Teng-inspired political purge. [Redacted]

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The plenum's announcement on the legacy of Mao did not explore this question at length but did acknowledge Mao's fallibility and urged that his work be evaluated from an historical and scientific perspective. This issue was apparently one of the most controversial, along with the closely related subject of assessing the Mao-inspired Cultural Revolution. The plenum completely sidestepped that issue, indefinitely postponing an evaluation of that event until "an appropriate time." [Redacted]

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Teng is likely to continue his push for removal of political opponents and correction of historical mistakes and this will keep him at odds with those in the leadership eager to paper over their differences in the interests of steady economic progress. Conflict within the leadership over such issues is not likely to adversely affect the implementation of policy, but Peking's failure even after the plenum to publish a list of politburo members in order of their political importance attests to continued behind-the-scenes disagreements. [Redacted]

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SPAIN: Political Maneuvering

Political parties in Spain are maneuvering in anticipation of Prime Minister Suarez' decision on whether to opt for a vote of investiture or a general election.

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Suarez' term of office does not expire until 1981, but the constitution ratified on 6 December requires him to seek a new mandate for his government, and he must make his decision within 30 days of the charter's promulgation--now scheduled for Thursday.

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A general election could give Suarez the additional 11 seats he needs to achieve a majority in parliament, but he might equally well lose ground to his rivals, the Socialists. A parliamentary vote of investiture--which requires only a simple majority--would be a safer bet, but it would leave Suarez dependent on other parties in the difficult times ahead.

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Rumors increasingly point to a third alternative: investiture now and an election in the near future when Suarez feels that the odds are more in his favor. In any case, he is not likely to announce his decision until next month.

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In keeping with his tactic of throwing the opposition off balance, Suarez has reportedly offered the Communists a chance to enter the "governing majority." Communist leader Carrillo boasted of the offer to the Socialists but would not elaborate on the terms of the alleged proposal or reveal whether Suarez meant participation in the government as opposed to the parliamentary majority.

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Suarez may be angling for the support of the 20 Communist delegates, but he would probably stop short of a formal pact tying the party to his government. In any case, it is highly unlikely--given the current restiveness of the viscerally anti-Communist military--that Suarez would allow Communists into the government.

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It seems more likely that Suarez' approach to the Communists was designed to worry the Socialists who have been concerned for some time by signs of "Italian-style" cooperation between the government and Communists. Suarez has used Communist support before as a lever to pry the Socialists into line.

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In the short term, Suarez may be seeking to resolve differences that have bogged down talks on renewing the pact concluded last year under which the major parties cooperate on economic issues; the pact expires this month. More generally, he may hope to extend the period of political consensus that has characterized the past two years. In the absence of a strong government, however, the very real problems ahead--stepped up Basque terrorism, autonomy demands, unrest in the military, and persistent economic difficulties--all argue for continued cooperation between the major parties.

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IRAQ-SYRIA: Rapprochement

The developing political rapprochement between Iraq and Syria has been accompanied by a vigorous expansion of bilateral economic relations. In late November, a Syrian delegation signed agreements to export \$18 million in consumer goods to Iraq--Syrian exports to Iraq in 1977 totaled \$10 million. In the past few days, Iraq announced reciprocal contracts were signed for the export of \$12.5 million worth of household products to Syria. Although no settlement has been reached on the reopening of the Iraqi-Syrian pipeline, Iraqi Oil Minister Taveh Abdul Karim recently declared that oil will soon begin to flow.

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[REDACTED]

Since early December, Iraq and Syria have exchanged at least three commercial and trade delegations and have established a joint economic committee and subcommittees on trade, oil, and water. The Iraqi Planning Minister has stated that these committees will study joint development of the two countries, which will coordinate their planning periods. [REDACTED]

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While there are limits to the amount of trade the two countries can generate between themselves, the Iraqi market could prove valuable to some Syrian public sector industries that produce more than the domestic market can absorb. Syria's small private manufacturers, hamstrung by legal and regulatory restrictions in their domestic market, may also find a ready market in Iraq. For its part, Iraq's major export will undoubtedly continue to be light crude oils. [REDACTED]

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Reopening the Iraqi-Syrian pipeline--which has been shut down since April 1976--rests on resolving questions of fees and pipeline utilization and the prices Syria will have to pay for Iraqi oil. Once these issues are resolved, it will take several months to put the line in operation. Reopening of the line would provide Syria with \$150 to \$200 million in transit fees each year. Iraq's gains from a reopening of the pipeline would be mostly political; Baghdad would gain flexibility to deal with changing oil market conditions and would be less vulnerable to pressure from Turkey, which now controls a section of Iraq's only operating pipeline to the Mediterranean. [REDACTED]

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TURKEY: Martial Law Declared

The Turkish Government's declaration of martial law early this morning in 13 provinces, including Ankara and Istanbul, is a significant departure from Prime Minister Ecevit's long-held policy of not using the military to control violence. Ecevit has been under increasing pressure to control the continuing religious and political clashes, which have claimed over 600 lives this year, and he may fear defections from his government if he fails to push for strong measures. [redacted]

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The latest rioting began Friday, when a clash between rival religious groups was followed by widespread looting and burning. Nearly 100 persons were killed in the rioting, and when troops sent in to quell the violence were attacked by the rioters, Ecevit finally agreed to declare martial law. [redacted]

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Ecevit has been able to resist pressures for using the military because most of the violence has involved competing religious and political groups, who have directed their efforts at each other and not at the government. The Turkish military has supported Ecevit's avoidance of repressive tactics because it has been badly stung by previous experiences with martial law. [redacted]

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Now, however, Ecevit is being pressed by members of his Republican People's Party, as well as the opposition, to take a firm stand. Despite his personal distaste for repressive measures, Ecevit may have little choice if he wants to avoid a further weakening of his position. [redacted]

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SOUTH YEMEN: Security Problems

//South Yemeni-sponsored subversion and tribal feuding are worsening security conditions in North Yemen. An early improvement in the situation is unlikely. Over the long term the government in Sana faces the prospect of a gradual lessening of its control over outlying areas, particularly those adjacent to the border with South Yemen.// [Redacted]

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According to a recent US Embassy assessment, South Yemeni - sponsored subversion against North Yemen poses a serious threat to the internal security. Several "terrorist-type" incidents have been reported in recent weeks, particularly in areas near Taizz. Incidents have included the assassination of local officials, planting of land mines, attacks on road construction crews, and truck hijackings. Stories are also circulating that terrorists have attacked the bodyguards of the Vice President and the Minister of Interior. [Redacted]

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Inhabitants of the affected areas are pressing the government to act forcefully to control the situation. North Yemeni President Salih reportedly has sent two of his most reliable military commanders to the trouble spots to reassert the central government's authority, but these and other countermeasures have not proven effective so far. [Redacted]

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//North Yemeni officials have been pressing for the early delivery of Saudi Arabian - financed US arms and have some reason to emphasize to US officials the threat they face from South Yemen.// [Redacted]

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China

China's economy continued to recover strongly this year from the political turmoil of 1976. Based on projected year-end figures announced by Peking, GNP has grown by about 10 to 11 percent with industrial output up sharply, perhaps by 13 to 15 percent, and agricultural output up moderately, by nearly 4 percent. [] 25X1

The growth rate in industry exceeded the "over 10-percent" average annual rate the Chinese leadership hopes to achieve between 1978 and 1985. Steel spearheaded the industrial advance; output increased by 29 percent, or by 7 million tons. Production of coal, cement, and chemical fertilizer also rose substantially. [] 25X1

The estimated production of 295 million tons of food grains--9 million tons above the 1977 level--is a record high. Peking put the early grain harvest at 10 million tons above last year's; a severe drought in some rice-producing areas, however, has probably kept the late harvest at or below last year's level. The growth in agricultural production as a whole was slightly less than the 4-percent to 5-percent annual rate stipulated for the period between 1978 and 1985. [] 25X1

China-Vietnam

After the border incident on Saturday in which nine Chinese and three Vietnamese apparently were killed, Peking stepped up the level of its warnings to Hanoi with a "strong protest" through diplomatic channels on Saturday and a lengthy *People's Daily* editorial yesterday. Details of the fighting are murky, but it apparently involved armed militia and border guards, not regular forces. Hanoi announced after the incident that rail service between the two countries had been suspended, apparently indefinitely. [] 25X1

The Chinese editorial recounted a long list of complaints against Vietnam, connected these "anti-China" activities with Hanoi's efforts to subjugate Kampuchea, and concluded with the warning that the Vietnamese will

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receive "the punishment they deserve" if the provocations continue. It is the clearest public sign to date that Peking hopes to deflect Vietnamese pressures on Phnom Penh by maintaining a high level of tension on the Sino-Vietnamese border. [redacted]

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USSR

The USSR is giving high priority to the development of nuclear and hydroelectric power in order to reduce its reliance on oil and gas. The Minister of Power and Electrification recently announced a long-range plan to increase the production of electric power at nuclear and hydroelectric plants to one trillion kilowatt hours--about 45 percent of total electricity output--in the next 10 to 12 years. [redacted]

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In view of past problems and an inadequate industrial base to supply the nuclear construction program, the goal for nuclear power--about two-thirds of the planned increase--is probably well beyond reach without assistance from Western countries. The Soviets will need 100,000 megawatts of nuclear generating capacity to reach the 1990 output goal. Their total capacity now is only about 7,200 megawatts, and an additional 3,000 megawatts is scheduled to go into operation by the end of this year. [redacted]

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Most new hydroelectric stations will be located in the eastern USSR, away from the most populated areas. The 1990 goals for hydroelectric power stations--about one-third of the overall one trillion kilowatt hour goal--may be attainable, although these hydroelectric stations have a much lower operation cycle than nuclear plants. [redacted]

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FEATURE ARTICLE

BOLIVIA: Problems for Padilla

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After less than a month in office, Bolivia's conservative President Padilla faces serious labor unrest and growing disaffection within the highly politicized military establishment. So far, he has not asserted authority over his administration, which is dominated by a loosely knit group of junior officers pushing for national elections by next July. Padilla will probably not last as President until then. He has not shown that he has the skills to cope with deepening economic problems and the highly conspiratorial political environment. Rumors of coup plotting are already widespread and a move against the government could come at any time.

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Late last month, the government reached a wage agreement with the state-owned mining confederation, but mineowners' claims that they cannot afford to grant major salary increases have complicated negotiations with unions in the private sector. If a general accord is not reached in the near future, the mining confederation threatens to initiate an industry-wide strike. The mining industry is Bolivia's major source of foreign exchange earnings.

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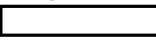
Transportation, telephone, and public utility workers last week called a general strike to force the government to grant salary increases and more union autonomy and to meet its financial obligations to the national railway enterprise. Padilla has not indicated how he intends to deal with labor's demands, but the nation cannot afford to lose its rail service to key mining areas for any length of time.

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//To try to shore up his political position Padilla may eschew unpopular economic austerity measures recommended by the International Monetary Fund to ease Bolivia's balance-of-payments difficulties. According to several reports, the government was prepared to raise prices of petroleum products and was seriously considering a devaluation of the Bolivian peso. Now, however, the President has reportedly decided against such moves. He

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undoubtedly reasons that the austerity measures would play into the hands of his civilian and military foes and undermine the business community's already shaky confidence.// [Redacted]

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//Military opposition to Padilla's government is also keeping the situation unstable. Conservative officers fear that a rush to elections will allow former President Siles Zuazo; who has extensive leftist connections, to gain power--an intolerable development for them.// [Redacted]

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Officers of the Bolivian armed forces are deeply divided between those who believe that they should revitalize their professionalism by retiring from politics and those who fear that elections will breed more political instability by bringing a leftist or Marxist government to power. These tensions worked to undermine President Pereda's government, and Padilla's seizure of power has not calmed the officers. [Redacted]

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The situation has been further complicated by the Padilla government's shoddy treatment of former President Banzer, who provided Bolivia with the longest period of political and economic stability the country has known. Late last month, for example, the government reconfirmed Banzer as Ambassador to Argentina only to dismiss him abruptly two days later. [Redacted]

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Banzer exiled several of the junior officers who now wield power. Their anti-Banzer sentiment is not at all pervasive in the armed forces, however, and efforts to discredit the former president could backfire. [Redacted]

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The US defense attache in La Paz believes that Army Commander General Azero is the most likely to lead a coup against Padilla. Although Azero appears to be loyal to Padilla's government and is publicly supporting elections, he shows signs of being an opportunist and could betray Padilla as he did Banzer and Pereda. [Redacted]

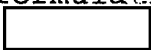
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With all these factors in play, the situation is highly unstable. The fragile military unity that Banzer was able to sustain during his lengthy tenure is rapidly disintegrating as both active-duty and retired officers maneuver behind the scenes. Bolivia once again appears to be sliding toward the political chaos that has inhibited policy formulation and economic growth for most of its history. 

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