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TURKEY: Interior Minister Resigns

The resignation yesterday of Turkish Minister of Interior Ozaydinli and the appointment of Deputy Prime Minister Eyuboglu as acting Interior Minister do not present an imminent danger to the stability of the government. Eyuboglu, however, is a political rival of Prime Minister Ecevit, whose political base is further weakened. Other resignations are possible, but no defections from the government's parliamentary majority are foreseen. The country is relatively calm, and martial law apparently continues to work. [redacted] 25X1

Many in Turkey expected Ozaydinli to resign following the religious and political riots in late December that forced the government to impose martial law in 13 provinces and weakened Ecevit's control of the Republican People's Party. Earlier, party factions had frequently criticized Ozaydinli because he refused to be bound by considerations of political patronage when making personnel changes, but Ecevit had usually defended him. At the Republican People's Party caucus yesterday, Ecevit apparently deemed Ozaydinli to be expendable. [redacted] 25X1

Eyuboglu has strong support in the Republican People's Party, and Ecevit probably did not want him to be acting Interior Minister. The Prime Minister probably agreed to Eyuboglu's appointment to assure the support of the party's right wing in a coming vote on an opposition-sponsored censure motion. [redacted] 25X1

Ecevit should win this vote. Ozaydinli has stated that he will continue to support the government as a parliamentary deputy, and there is no indication that any member of Ecevit's two-vote majority will vote for censure. [redacted] 25X1

Other government ministers, however, may resign. Minister of Justice Can, Minister of Youth and Sports Cakmur, and Minister of Tourism Coskun are reportedly under pressure to resign their posts. Both Cakmur and Coskun strongly support Ecevit. [redacted] 25X1

The first week of martial law has passed without major incidents but a major test occurs today when students return to the campuses following a week-long vacation. [redacted] 25X1

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RHODESIA: New Constitution

The proposed Rhodesian constitution published in Salisbury yesterday gives more control to whites than envisioned in the internal settlement agreement reached last March. By further entrenching the whites' position, the new constitution offers a strong inducement for whites to stay in the country, at least through the constitutional referendum scheduled for 30 January. [redacted] 25X1

The constitution perpetuates the existing political structure with a ceremonial president, a strong prime minister, a weak senate, and a strong house of assembly. The whites already have been guaranteed 28 out of 100 seats in the assembly and a number of cabinet posts. They also will hold 10 seats in the 30-member senate. The name of the new state is to be Zimbabwe Rhodesia. [redacted]

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The proposed constitution establishes specific criteria that would ensure continued white domination of the defense forces, police, judiciary, prisons, and public services. It requires, for example, that:

-- The commissioner of police, all branch commanders in the defense forces, and all members of the police and defense force commissions possess senior rank and longevity in their appropriate field. [redacted]

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-- Posts in the prison or public service be given only to "the most efficient and suitable" candidates. [redacted]

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-- The legal system remain unchanged and judges be required to have practiced under it for at least 10 years. [redacted]

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All important provisions in the constitution are to remain in force for 10 years. A five-member commission on which the blacks are guaranteed only two seats will, for example, review the guarantee to the whites of 28 seats in the lower house 10 years after the change of government. [redacted]

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NICARAGUA: Demonstrations

//Nicaraguan opposition forces today begin a week of antigovernment demonstrations in observance of the assassination of opposition leader Pedro Joaquin Chamorro last January. Civil violence and guerrilla strikes are expected, but they probably will not imperil Nicaraguan President Somoza's government.// [redacted] 25X1

//Nicaragua's past year of political turmoil was touched off by Chamorro's assassination. The country has been comparatively calm since international mediators arrived in early October, but the future of that mediation effort is now in question.// [redacted] 25X1

//Moderate opposition leaders who participated in the negotiations with the government may be anxious to reaffirm their anti-Somoza credentials by organizing demonstrations and perhaps work stoppages. The highly emotional anniversary observances will give the opposi-
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25X1 it has had in some time.// [redacted]

[redacted]

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BRIEFS

Jamaica

The seven heads of Western and Third World governments who met in Jamaica last Thursday and Friday exchanged views on a broad range of issues involved in the North-South dialogue. As planned, there were no decisions made at the informal gathering. [redacted]

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At the Jamaica summit with Schmidt and Jamaican Prime Minister Manley were the heads of government of Australia, Canada, Nigeria, Norway, and Venezuela. [redacted]

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EC

//France blocked the scheduled start-up of the European Monetary System yesterday until other EC members agree to change the Community's agricultural pricing policy. Unless France, which now holds the EC presidency, calls an early meeting of the EC's Agricultural Council to deal with the problem, the monetary system is unlikely to start up officially until after the next regular meeting of the Council on 15 January.// [redacted] 25X1

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FEATURE ARTICLE

ITALY: Current Account Gains

[redacted] 25X1

The Italian current account balance has improved dramatically since 1976. The $7.5 billion in 1977 and 1978 surpluses has been used to repay debts and build reserves to a near-record level. Italian Government economists view the strong performance as a cyclical phenomenon and are pushing a proposed three-year economic stabilization program designed to slow inflation. Critics contend that the surplus results from a permanent decline in the propensity to import and argue for a more expansionary policy. Although tourism should make another strong contribution to the current account showing in 1979, higher prices for imported oil, rising labor costs, stockbuilding, and Italian participation in the European Monetary System will be pressing in the opposite direction. [redacted] 25X1

A number of factors contributed to last year's unprecedented current account surplus--some fortuitous, others policy induced. Low GNP growth and slack import prices for some raw materials helped hold down the import bill, while exports were up about 15 percent. Italy's competitive exchange rate policy has helped Italian manufacturers maintain their world market share near its all-time high. Flocks of tourists from northern Europe, encouraged by a bargain lira, pushed tourist spending up nearly 50 percent in 1978. [redacted] 25X1

Italy has been saddled with heavy medium- and long-term debt, much of it official borrowing to cover balance-of-payments deficits in 1974 through 1976. A year ago, Italy's gross medium- and long-term hard currency debt--public and private--totaled $20.8 billion. Although the debt service burden rose substantially in 1978, the current account surplus has permitted punctual repayments, thereby boosting Italy's international credit standing. Official reserves in the past 12 months grew 28 percent and now stand at a comfortable $9.6 billion. [redacted]

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With the current account improving, Italy launched a series of moves to ease exchange controls on exporters and importers as well as Italian tourist spendings overseas. Peeved with the Italian penchant for slapping on exchange controls whenever the lira is threatened, Italy's EC partners have greeted the easing of restrictions with relief. [redacted] 25X1

Government planners contend that austerity measures have slowed import growth and that a firmer lira and higher interest rates have discouraged speculative stockpiling of imports. From this perspective, the surpluses appear transitory; as soon as the government releases the financial brakes, an import buying spree would swing the trade account once again into the red. Wage and public finance reform are needed, government economists contend, before Italy can attain stable growth. [redacted] 25X1

Critics argue that the turnaround in Italian foreign accounts has been too sharp and too prolonged to be explained by cyclical forces. They maintain that a structural shift has occurred, a permanent lowering of the propensity to import. According to this line of reasoning, business firms have developed import substitution measures and have switched to energy-saving production techniques. Backers of the second theory contend that Italy has been more successful than other major industrial countries in this adaptation process because of its greater reliance on small, flexible firms. Because the improvement in foreign accounts is here to stay--these dissenters argue--the government has ample freedom to reflate. [redacted] 25X1

Industrialists are advocating a return to fast growth by diverting foreign exchange from rapid debt repayment to finance imports of capital goods and industrial material. Similarly, the unions are insisting that Italy not follow the West German practice of accumulating exchange reserves. They especially favor more spending to finance job-creating investment and economic development in the *Mezzogiorno* underdeveloped south. [redacted] 25X1

The Italian current account should make another strong showing in 1979. Slippage on trade almost certainly will be offset by gains on invisibles, with tourist receipts continuing to rise. [redacted] 25X1

As the economy picks up, import volume is likely to register a sizable increase. New labor contracts slated to be negotiated this winter for more than 5.5 million workers will bring higher wages and probably shorter hours. In the short run, as negotiations become more heated, strikes and worker rallies are likely to multiply, causing a reduction in output and exports. 25X1

The government's continued inability to stem increases in transfer payments to state enterprises, local governments, and welfare groups will add fuel to inflation. In short, some erosion of Italian export competitiveness appears unavoidable in the absence of lira depreciation.

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Participation in the proposed European Monetary System, which will tie the lira to other EC currencies, could also have a negative effect on this year's current account performance. In recent years, Italy has been able to preserve export competitiveness by allowing the lira to depreciate against the currencies of most trading rivals.

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