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TRANSLATIONS ON WESTERN EUROPE

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INTERNATIONAL AFFAIRS

LDC DEBTS POSE PROBLEM FOR NORTH-SOUTH RELATIONS

Bonn EUROPA ARCHIV in German 10 Nov 78 pp 693-702

[Article by Hans J. Petersen: "The Indebtedness of the Developing Countries as a Problem of North-South Relations"]

[Text] Background

Besides the problem areas of "trade" and "transfer of resources,"<sup>1</sup> the indebtedness of the developing countries is a main issue in the North-South dialogue. Although an independent topic, it is very closely connected with the two other main topics of the "dialog." Indeed, the uncertainty about indebtedness exists only because there are problems in the two other areas.

Indebtedness is nothing but the reflection of capital influx, the most important component of the international transfer of resources to the developing countries. Unless it is a gift, each mark that is transferred increases the indebtedness of the recipient; and the demand for larger capital transfers to the developing countries implies by definition readiness to accept greater indebtedness.<sup>2</sup>

But, to be sure, increasing international indebtedness is not a problem as long as its conditions--i.e., its interest rates and repayment terms--correspond to the ability of the indebted countries to meet its debt-service obligations. But in the past few years, this has become more difficult for an increasing number of countries, since their export proceeds rose more slowly than their debt-service obligations. Thus the ratio between debt-service costs of public or publicly-guaranteed foreign debt, and the export of goods and services, the so-called debt-service costs/export quota, was in 1967 above 10 percent in the case of 16, but in 1976 already in the case of 23, developing countries, and in the case of 12 countries even above 15 percent;<sup>3</sup> and especially in recent years, it has risen drastically for some countries, although this is not sufficiently recognizable from official debt statistics.

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But the debt-service costs/export quota is absolutely not a reliable indicator of the actual burden imposed on a country by its foreign indebtedness, or, respectively, of its ability to cope with further indebtedness. For this purpose, a combination of other indicators<sup>4</sup> is of greater value, and there are examples of countries that have run into difficulties with statistically relatively low debt-service costs/export quotas, while other countries made good economic progress with high interest and repayment obligations. In this connection, it is by no means unimportant that continuous economic progress attracts additional foreign capital, so that large parts of debt service obligations actually do not have to be met out of export revenues at all, but can be refinanced from capital influx.<sup>5</sup>

But such a "rollover" is the less to be expected and the more difficult to achieve, the more backward a country is and the more slowly it develops. On the other hand, poor and insufficiently dynamic countries--and they still constitute the majority of the Third World--are particularly dependent on capital influx, but are at the same time the least able to mobilize export revenues to meet debt service obligations.

This problem can be solved by means of development aid, in other words transfer of goods, services, knowledge, etc at clearly more favorable conditions than exacted by the market. The scale of noncommercial conditions is wide. It reaches from services rendered free of charge (primarily technical aid), via commodity aid at token prices and financial aid at extremely easy credit conditions, to state subsidized export credits.<sup>6</sup>

Of course, even easy credit conditions do not necessarily give protection from indebtedness problems. India and Pakistan are outstanding examples that even under such conditions mountains of debts can accumulate over the years as repayment dates and interest payments come due that can hardly be met without additional aid. Just the same, indebtedness problems of developing countries would hardly play so important a role in North-South discussion, if the developing countries did not chronically and considerably lag behind international goal concepts. While most Western industrialized countries envision, as a rule-of-thumb, development aid under easy conditions of 0.7 percent of gross national product, an average rate of 0.35 percent has never been surpassed since 1970; and, measured by that norm, net contributions<sup>7</sup> of Western industrialized countries should in 1976 have amounted to US \$41.4 million, while they actually came to only \$13.7 million.<sup>8</sup>

Especially in recent years, however, would it have been more important than ever to bring development aid closer to the quantitative goals since, as a result of the oil crisis, the foreign-currency needs of many developing countries have expanded further. Their import needs have increased considerably, not only because of higher priced fuel imports but also indirectly because of price increases of finished goods brought about in part by the oil-price explosion; the cyclical recession in the industrialized countries has at the same time not only reduced the exports of developing countries because of weakened demand, but has also led to increased defensive measures by the industrialized countries, which do not want to enhance the problems

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of their precarious labor-market condition by import competition from the developing countries.

The "currency hole" of many developing countries, thus augmented by leaps and bounds, has been increasingly filled by commercial funds with accordingly short maturity dates and high interest rates. Such credits have not been difficult to obtain from banks and exporters in the industrialized countries; they were even in part virtually forced on the developing countries. For European financial markets--their inclinations to invest weakened as a result of the economic recession--were swamped with excess dollars from the oil-producing countries, and enterprises made strong efforts to compensate for reduced development of domestic sales at least partially by increased exports.

The resulting capital transfer did have the positive effect that in recent years the external difficulties of nonpetroleum-exporting developing countries were far from being as extensive as had first been feared in light of the critical development of the world economy. But as a negative consequence, a debt mountain formed whose structure of due dates and interest charges gave every reason for alarm. This does not manifest itself so dramatically in official statistics, especially since problematic debts are not included at all. The well-known indebtedness statistics overwhelmingly fail to take into consideration not only military credits but also credits with maturity dates of less than 1 year as well as those long-term credits which are not guaranteed by government agencies in the creditor or the debtor nations.<sup>9</sup> But particularly short-term and unofficial credits, above all from the Eurodollar market, have in recent years gained enormously in importance in a number of countries, so that actual debt-service obligations are much higher and are rising considerably more drastically than is revealed in the statistics.<sup>10</sup>

Hence, in spite of reassuring comments,<sup>11</sup> we cannot dismiss the danger that developing countries may in increasing numbers run into indebtedness problems.<sup>12</sup> But it is not merely the economic dimensions of this problem that have induced the developing countries to emphasize the indebtedness topic in the North-South discussion. Rather, beyond it, the indebtedness difficulties contain political aspects derived from the fact that the industrialized countries, apart from their already dominating international position as trading partner and sources for capital and technology, find further possibilities for economic-political dominance opened to them through the indebtedness mechanism. These could perhaps be in the form of levies which the International Monetary Fund ties in critical situations to assistance grants, or within the framework of creditor clubs in the case of multilateral funding operations which--apart from even considerably more numerous bilateral funding operations--occurred between 1956 and 1977 in 37 instances in the case of 12 countries.

#### Demands of Developing Countries

Under these circumstances, developing countries resist the traditional practice of treating indebtedness problems merely as exceptional situations,

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where steps have to be taken only if a crisis comes to a head, i.e., when a country has requested debt readjustments which then bring only short-term relief as a rule only after time-consuming and often humiliating dealings, and which, moreover with relatively high interest rates, develop quite differently from case to case.<sup>14</sup> They have, rather, for some time been emphasizing that when it comes to indebtedness uncertainties, it is a matter of development-policy scope, making it therefore necessary to proceed here on a broad front, and to institutionalize overlapping mechanisms so that as much as possible latent debt problems do not become acute at all, and yet indebtedness crises that do arise be solved according to uniform rules, rapidly, permanently, and in conformity with developmental-political criteria.<sup>15</sup>

The UN Conference for Trade and Development (UNCTAD) first of all, with its commissions and special global conferences, serves the Third World as a forum; apart from that, the developing countries articulate their demands also within the framework of other conferences where (as for instance as "nonaligned countries"<sup>16</sup> or as the "Group of 77")<sup>17</sup> they are primarily among themselves, or--as in the Conference for International Economic Cooperation [CIEC]<sup>18</sup>--are represented by a few members facing representatives of the industrialized countries.

In doing so, the developing countries emphasize completely different issues from case to case, and it is undeniable that during the past few years their positions have changed, and have in any case become more flexible, after they first pleaded for radical solutions in the confrontation mood of the world economic crisis. Thus, at the UN extraordinary general assemblies of 1974 and 1975, and also at the conferences of the "Group of 77" and of the "nonaligned" at that time, the convening of a world debt conference was discussed, where in a rather speculative manner, general--and not merely individual-case--measures for the disencumbrance or the alleviation of debts of developing countries respectively, was to be negotiated. As regards public indebtedness, two especially needy groups of countries were given priority from the outset. For the so-called MSAC group (they are those developing countries deemed particularly hard hit by the world economic crisis<sup>19</sup>) a 5-year debt moratorium was to be secured, and for the LLDC group (they are the particularly backward among the developing countries<sup>20</sup>) the cancellation of debts. As regards commercial debts, a 25-year payoff extension supported by a multilateral fund, was drafted.<sup>21</sup>

At the Fourth UN Conference for Trade and Development in Nairobi in 1976 (UNCTAD IV), these postulates were pushed into the background and they are now either not advocated at all (world debt conference, global extension of commercial debts) or merely in weakened form (relief for MSAC and LLDC groups). On the other hand, constant emphasis is put on the demand to institutionalize internationally uniform guidelines for the treatment of cases of indebtedness. These guidelines are to be applicable in reference to early recognition and avoidance of indebtedness problems,<sup>22</sup> as well as their solution in acute cases of crisis. The developing countries would like to replace arbitrary procedures determined by creditor nations with calculable and neutral mechanisms.<sup>23</sup>



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Basic Attitudes of Industrialized Countries

Now as much as ever, most industrialized countries find it difficult to recognize the indebtedness of developing countries as a general problem and an independent field for their development-policy activities. The socialist countries do not feel that this topic concerns them at all, but rather regard indebtedness phenomena as inherent characteristics of capitalist economic relations.<sup>24</sup> The Western industrialized countries which coordinate their development policy in the Development Aid Committee (DAC)<sup>25</sup> of the OECD continue to emphasize that indebtedness problems have constituted the exception rather than the rule, that they are by no means uniform, that they in each case have their specific causes and require correspondingly different therapies, and that the indebtedness problem could, as it were, implicitly be solved by an adequate development-aid policy, since all potential causes of indebtedness problems--namely inadequate capital formation and productivity, fiscal and foreign trade weaknesses--are in any case primary development-policy points of departure.<sup>26</sup>

So far as indebtedness problems have up to now become acute, they have grown out of inadequate commercial credit transactions which development-policy authorities of industrialized countries do not feel responsible for (although private and commercial capital flows into the developing countries are vigorously advocated by public authorities and also fostered by diverse measures). It is feared, rather, that expectations of rapid and generous aid in problem-situations would induce developing countries to follow unsound indebtedness policies and would undermine the fundamental principle of economic relations that obligations once undertaken, should be met as far as possible under all circumstance ("pacta sunt servanda").

The industrialized countries, by the same token, do not want to be pushed into assuming responsibility for early analysis and preventive therapy of indebtedness problems. They are willing, to be sure, to so coordinate their development-policy measures that the capacity of receiving countries to meet their debt obligations is not outstripped and also to see to it that they contribute to the strengthening of economic power and to the ability to meet debt-service obligations. But they consider debt management per se a job for the debtor countries alone, and beyond that any intervention on the part of the creditors in this area as harmful. If official authorities in the creditor countries were to deal in advance with possible indebtedness crises, there would be the danger of a signal effect that might well precipitate rather than prevent crises.

Most industrialized countries hold therefore strictly to the principle of dealing with indebtedness problems only as exceptions, and of then treating them in each case as individual actions.<sup>27</sup> There is extraordinary resistance against any kind of "automatism" both in the sense of institutionalizing uniform mechanisms to ward off threatening problems and also in the sense of generally valid guide lines for the solution of indebtedness crises which have already occurred.<sup>28</sup>

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This basic attitude is further reinforced by the argument that it would be extremely difficult to draw up and follow uniform guidelines for compromises necessary for the settlement of debts among creditor countries as well as in creditor-debtor relationships, since the types of credits to be funded and the structure of creditors changes from case to case. In this connection, all creditors should as a matter of principle make equivalent concessions so as to avoid that tougher conditions of some creditors are financed by greater concessions of others. This principle requires in most cases long-drawn-out negotiations, since so far no simple formula for "burden sharing," satisfactory to all, has been found.<sup>29</sup>

Finally, attention is called to a reshuffling effect of debt settlements, undesirable from a development-policy point of view: indebtedness problems occur primarily in the case of relatively advanced countries which have access to international capital markets and can cope with commercial indebtedness much more easily than backward countries which are less integrated into international financial relations.<sup>30</sup> If difficulties thus caused are then taken care of by public aid, funds are tied up that are to serve development-policy purposes and that should be employed with priority for backward countries.

Formation of Differentiated Positions within Groups of Countries and Points for Compromises

The antagonism among principal arguments in the North-South dialog does not mean that they are defended with equal vigor, and that they are not even partially ignored, within the camps that stand opposite to each other in this "dialog." Indeed, clearly differentiated positions in regard to indebtedness difficulties have emerged in the Third World as well as in Western industrialized countries, a situation that reduces fundamental counterpositions and in individual cases hold out prospects for compromises.

It is thus surely a unique fact that the oil-producing countries, which in the early '70s decisively mobilized the rest of the Third World with their aggressive raw-material policy, and which assumed a spokesman's role in the North-South dialog, have not only themselves largely caused or intensified the indebtedness problems of the developing countries, but are also in part building up massive creditor positions.<sup>31</sup> While their trade-policy contributions to the intensification of international trade problems of other developing countries has not diminished the solidarity of the Third World, it should be difficult for them as creditors to consistently take the side of the debtors in the framework of indebtedness discussions.

Nor do the more advanced developing countries in Latin America and Asia stand fully behind the postulates that are being raised in the name of the Third World. Even if, under the pressure of the world economic crisis, they may for the time being have kept less of a distance from the other developing countries, still, countries like Argentina, Brazil, South Korea or the Philippines, to name but a few especially important countries of this group, are in no way particularly interested in impairing their already widely dis-

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persed and much utilized credit connections on international capital markets, through a dramatization of their indebtedness position.

In the meantime, these countries have regained their distance from the global demands of the Third World at first so vehemently advanced and this surely contributes considerably to the fact that the North-South debate on debt alleviation is focusing at this time on the LLDC and MSAC groups. Here, sooner than anywhere else, can concessions by the industrialized countries be expected, for they recognize on the whole a development-policy priority of these groups of countries, and concessions in the indebtedness sector do not cost very much here. With the exception of India and Pakistan, it is a question only of smaller countries that share minimally in outstanding demands.<sup>32</sup>

Since the industrialized countries agreed some time ago to consider the neediest countries, especially the LLDC, not only quantitatively more in the distribution of funds, but to grant them thereby also particularly easy conditions, it would seem that the conditions of former credits to these countries, and hence their accumulated indebtedness, would be adjusted to the now prevailing easier conditions.<sup>33</sup> Thus, the industrialized countries have in the meantime also declared their readiness to accept in principle corresponding debt settlements. Tough negotiations at the ninth extraordinary session of the Council on Trade and Development of UNCTAD in March, 1978 led to a declaration of intent along these lines.<sup>34</sup>

But to be sure, all the industrialized countries do not react alike. Countries like Sweden, the Netherlands, and Canada which among the industrialized countries have for some time represented a development-policy line of relative readiness to grant concessions, have rather readily canceled the public debts of the poorest countries. Moreover, Great Britain, Switzerland, and now also the FRG, have agreed to the same measures. In the case of the FRG, this step comes as a complete surprise since until recently it could, together with the United States, Japan, and France, be counted among the strictest defenders of "orthodox" positions. But it certainly does not surrender therewith the principle of settling each case individually. Within a year (but retroactive to 1 Jan 1979) special agreements are to be worked out--albeit according to common guidelines.<sup>35</sup> The rest of the creditor countries, especially the United States and Japan, will take more time for the announced concessions, and they will in all probability also not be equally generous. They are also unlikely to relinquish selective debt settlements.

A further result of the ninth extraordinary UNCTAD session--certainly still less sensational than the above-mentioned "declaration of intent"--is the resolution to form a committee of government representatives to make further progress in the area of general guidelines for preventive and curative treatment of indebtedness problems. For the time being it remains unclear which compromises in particular will be reached here. Nevertheless, it is discernible here also that mechanistic and obligatory global formulas have no chance; but it appears achievable that on request of interested developing

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countries, reaction to indebtedness problems be more rapid, in some aspects more uniform, and under the chairmanship of neutral or even sympathetic authorities (for instance the World Bank or other developing countries) and that development-policy criteria play a greater role than before.<sup>36</sup>

Promising beginnings for it have, to be sure, already been made for some time for a number of countries within the framework of country-aid consortia and through advisory committees formed by grantors of development aid.<sup>37</sup> Especially in very recent times, "overt" indebtedness crises (i.e., requests for multilateral debt settlements) would presumably come about considerably more often than is actually the case, if potential indebtedness problems were not also analyzed within the framework of such committees in their investigation of development programs and if they were not taken into consideration in the coordination of international development aid.<sup>38</sup>

With all the search for rules and instruments for the avoidance and solution of indebtedness problems it must not be forgotten that it remains in any case more important to find satisfactory solutions for the body of problems connected with "trade" and "transfer of resources." With every advance there, indebtedness difficulties lose in importance.

FOOTNOTES

1. "Transfer of resources" is the collective term customarily used in development-policy discussion for the transfer of capital, technology, knowledge, etc from industrialized to developing countries.
2. Edgar Kroeller, "The Debt Problem of Developing Countries: A Challenge to the International Community," THE OECD OBSERVER, No 90, January 1978, pp 25 ff.
3. Cf WORLD BANK, ANNUAL REPORT, 1976, Washington, 1976, Statistical Appendix, Table 6, pp 104 ff; also WORLD DEVELOPMENT REPORT, 1978, Washington, 1978, Statistical Appendix, Table 9, pp 92 ff.
4. Hans J. Petersen, "Debt Problems of Developing Countries: A Pragmatic Approach to an Early Warning System," KONJUNKTURPOLITIK, Vol 23, No 2, 1977, pp 94 ff.
5. For the breakdown of debt service components and their varied theoretical dimensions and practical relevance, see OECD, DEBT PROBLEMS OF DEVELOPING COUNTRIES, Paris, 1974.
6. Subsidized export credits, to be sure, do not count as development aid in the narrower sense. For a definition of development aid performance and for computation of elements of differentially coordinated capital flows, see United Nations, THE CONCEPTS OF PRESENT AID AND FLOW TARGETS, New York, 1975.

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7. Gross contributions minus repayments. In 1976, repayments of bilateral public development aid amounted to 38 percent of the respective gross contributions. Cf OECD, "Development Cooperation, 1977," REVIEW, Paris, 1977, Table A 10, p 174.
8. Ibid, Table A 2, p 165.
9. For the understanding and demarcation of available indebtedness statistics, see Thomas M. Klein, "Foreign Indebtedness of Developing Countries," FINANZIERUNG UND ENTWICKLUNG, [Financing and Development] Vol 13, No 4, 1976, pp 21 ff.
10. The balance of payments statistics of 15 developing countries, published by the International Monetary Fund, show for 1976 a total of interest payments more than twice that of the indebtedness statistics of the World Bank. See WORLD BANK DEVELOPMENT REPORT, 1978, op cit, p 117.
11. Cf Helen Hughes, "The International Indebtedness of Developing Countries," FINANZIERUNG UND ENTWICKLUNG, Vol 14, No 4, 1977, pp 22 ff; also, United States Senate, Subcommittee on Foreign Policy, Washington, 1977, pp 51 ff.
12. Cheryl Payer, "Third World Debt Problems: The New Wave of Defaults," MONTHLY REVIEW, New York, Sept 1976.
13. Edgar Kroeller, op cit, p 29.
14. "United Nations, Debt Problems in the Context of Development," REPORT BY THE UNCTAD SECRETARIAT, New York 1974, pp 18 ff.
15. Ibid; also, "Debt Problems of Developing Countries," REPORT BY THE UNCTAD SECRETARIAT, New York, 1972.
16. The group of "nonaligned" countries is a union, now of more than 80 countries, which since 1955 met together at seven conferences. See Bundesministerium fuer wirtschaftliche Zusammenarbeit [Federal Ministry for Economic Cooperation], JOURNALISTEN-HANDBUCH ENTWICKLUNGSPOLITIK [Journalist Handbook, Development Policy] 1978, Bonn, 1978, p 178.
17. The "group of 77" has been in existence since the First UN Conference on Trade and Development (UNCTAD I) in Geneva, 1964; by now, about 120 members belong to this group. Ibid.
18. From the end of 1975 to mid-1977, representatives of 27 states and communities of states participated in the so-called "Paris dialog;" ibid, pp 154 ff. See also the documentation about the final conference of CIEC [Conference for International Economic Cooperation], EA 17/1977, pp D 469 ff.

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19. By now, 45 developing countries belong to the Most Seriously Affected Countries, MSAC. BMZ [BERLINER MITTAGS ZEITUNG, Berlin Noon Newspaper], JOURNALISTEN-HANDBUCH ENTWICKLUNGSPOLITIK, 1978, op cit, pp 176 ff.
20. Thirty countries belong to the Least Developed Countries, LLDC (the double L is used to distinguish this appreciation from LDC which stands for Less Developed Countries). Ibi!, pp 174 ff. (Africa, Ethiopia, Benin, Botswana, Burundi, Gambia, Guinea, Cape Verde, Cameroon, Lesotho, Malawi, Mali, Niger, Upper Volta, Rwanda, Somalia, Sudan, Tanzania, Chad, Uganda, Central African Republic, Asia and Oceania, Afghanistan, Bangladesh, Bhutan, Yemen Arab Republic, People's Democratic Republic of Yemen, Laos, Maldives, Nepal, Western Samoa, Latin America, Haiti.)
21. Deutsches Institut fuer Wirtschaftsforschung [German Institute for Economic Research] "Indebtedness of developing Countries: Case by Case or Universal Solutions?" WOCHENBERICHT, No 8, 1976, Berlin, 1976.
22. For difficulty in defining indebtedness problems and for hitherto attempted analytical forecasts, see Hans J. Petersen, "On Early Recognition of Critical Indebtedness Situations of Developing Countries," DIW VIERTELJAHRESHEFTE ZUR WIRTSCHAFTSFORSCHUNG [Quarterly Journal of Economic Research] No 3, 1977 pp 180 ff.
23. UNCTAD, "Selected Issues Relating to the Establishment of Common Norms in Future Debt Reorganizations, Note by the UNCTAD Secretariat," TD/AC.2/9, 13 Oct 1977.
24. UNCTAD, "Report of the Intergovernmental Group of Experts on External Indebtedness of Developing Countries on its Second Session," TD/B/685, 21 Dec 1977, Sections 43-46; also Appendix III, "Position of the Experts from the Socialist Countries of Group D."
25. Seventeen countries and the Common Market belong to the DAC (Development Assistance Committee). See OECD DEVELOPMENT COOPERATION, op cit, Statistical Appendix, Table A 9 ff.
26. For classification of differentiated complexes of causes and development-policy starting points, see OECD, DEBT PROBLEMS OF DEVELOPING COUNTRIES, Paris, 1974.
27. For practice, up to now, see UNCTAD, "Present Institutional Arrangements for Debt Renegotiation, Note by the UNCTAD Secretariat," TD/B/C3/Ac8/13, 26 Feb 1975.
28. On this, see Hans-Bernd Schaefer, "Gradual Abolition of Foreign Indebtedness in Developing Countries and the German Development Policy," Guenther Esters (Publ), NORD-SUED-POLITIK--UEBERLEGUNGEN ZU AKTUELLEN WELTWIRTSCHAFTLICHEN PROBLEMEN [North-South Policy--Thoughts on Actual World Economic Problems] Bonn, 1977, pp 80 ff.

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29. For review of the intensity with which this principle is defended, see Deutsches Institut fuer Wirtschaftsforschung, DIW, op cit.
30. Cf World Bank, WORLD DEVELOPMENT REPORT, 1978, op cit, pp 30 ff.
31. For development aid of OPEC countries, see OECD "Development-Cooperation, 1976," REVIEW, Paris, 1976, pp 99 ff.
32. UNCTAD, "The External Indebtedness of Developing Countries: A Background Statistical Note, Note by the UNCTAD Secretariat," TD/B/695, 27 Feb 1978, pp 8 ff.
33. Ibid.
34. UNCTAD, "Debt and Development Problems of Developing Countries, Resolution Submitted by the President of the Trade and Development Board," TD/B/L 501, 3 March 1978.
35. A press release of the Federal Ministry for Economic Cooperation published on 4 Oct 1978 comments on the issue: "The Federal Cabinet has decided that development aid loans promised in the past years to the least developed countries can, after examination of each individual case, be converted into subsidies for the time they still have to run, if the respective country requests it.... The regulation on procedure decided on today applies to the group of the 30 very poor countries, as determined by the United Nations. They are labeled as 'least developed countries' (LLDC) and they suffer under particularly severe structural development problems.... The regulation will take effect at the earliest on 31 Dec 1978. It will apply to repayments and interest payments due on and after this target date. The existing loans will not be universally converted; each case will be carefully examined. Those least developed countries that receive new aid from us can enjoy the benefits of our action. On petition of the respective country, the conversion itself is arranged for in a government agreement. On this basis are previously concluded loan agreements appropriately altered by supplementary contracts. Provisions about utilization of funds, project commitment certain conditions and controls, are not touched." The Federal government points out further, that with this remission of debts that supposedly amounts to a grand total of more than 4 billion DM, it has abided by the March 1978 request of the UNCTAD council; and it expresses its expectation that therefore, apart from other countries which have already decided on similar measures, the other donor countries "including donors which do not belong to the circle of Western industrialized countries," will follow with equivalent measures. It is explicitly emphasized that the lower revenues of the Federal budget, caused by the remission of debts, will not lead to a reduction of new development aid to be budgeted for the affected LLDC countries; on the contrary, above average increases in the development aid budget are planned for the next few years.

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36. UNCTAD, "Selected Issues Relating to the Establishment of Common Norms in Future Debt Reorganizations," op cit.
37. UNCTAD, "Present Institutional Arrangements for Debt Renegotiations," op cit pp 7 ff.
38. Hans J. Petersen, "On Early Recognition of Critical Indebtedness Situations of Developing Countries," op cit, p 182 and Summary 1, p 185.

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FRANCE

CHARACTER OF PSF'S MICHEL ROCARD VIEWED

Paris PARIS MATCH in French 8 Dec 78 pp 77, 113

[Article by Arthur Conte: "An Untouched Portrait of Michel Rocard"]

[Text] Politics is a hard and cruel business. Not without some sadism, chance plays a disproportionate role in it. In order to succeed, rather than talent or genius, it is luck that one needs. Take Francois Mitterrand, for example. One may well wonder whether he was not born under the sign of misfortune and mischance. He may well wonder himself if he has not worked for 20 years for nothing, pained by vain imaginings! He will not even be able to claim the credit -- highly illusory at the outset -- for having re-invented socialism. A mocked ally, disavowed prophet, wounded soldier and now a leader questioned by his best lieutenants, he may soon find himself with nothing but a shattered crystal ball in his hands. Perhaps, by virtue of his supreme talent as a magician, he will still succeed in safeguarding the theoretical unity of his party until the European elections in June -- elections that are going to provide him personally with an unexpected way out. Barring a supreme blessing of chance, it is highly likely that not only will he not be a candidate for the third time in the presidential election because of his age and self-exhaustion -- the same thing that happened to Adlai Stevenson in the United States following his two defeats in 1952 and 1956 -- but he will not be able to prevent his party, which got too big too fast, from experiencing the most serious internal upheavals, even the splits and quarrels that characterized it "before Epinay." We need a Plutarch to tell the tale of such a dramatic spectacle, illustrated by his star with an exception theatrical sense.

Will Francois Mitterrand even know how -- or want -- to prepare for his succession? The observer immediately wants to take a closer look at how he acts with the contenders, especially the leading one: Michel Rocard, to better observe how Michel Rocard himself works.

And who is this Rocard after all?

I once called him "Tintin" because of his jerky style, his candid reflections, his deceptively artless look, his label as a defender of the innocent

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and his mop of unruly hair. I would have done better to dub him "Lucky Luke" if I had taken a better look at his protruding ears or his nervous mouth, or if I had described him at a time when his dark eyes burn with anger or sadness. His companions from Scouting days called him the "erudite hamster." His enemies could not find a more cruel nickname than "Waldeck-Roquet." Others labeled him the "pink squirrel," the "little sparrow," the "Arab among the stubborn," and finally, "the fastest man in the socialist stable." What all of these epithets have in common is the attempt to describe the man's most apparent quality: his spontaneity, his quickness. You see a bird perched on a branch; it sings beautifully. You stop, but the bird has already flown to another branch, sings again, then tries out an oak rather than an ash, still challenging you with his amused glance. That is Rocard. Freshness is his first sign.

The second has to do with the zodiac: Virgo. He was born in late August 1930, a year when, in one of Andre Tardieu's cabinets, Aristide Briand, well-established for years at the Quai d'Orsay, could still dream of making France "the torch of nations," when the last French Occupation soldier was leaving the Rhineland and when Briand had a famous, vain memorandum sent to the 26 European governments belonging to the League of Nations for the construction of the European Union. Virgo is the sign of Ronsard, Alfred Jarry, Goethe, Charles de Foucauld and...Saint-Just. It essentially points to a nervous temperament. All the strength of those born under the sign is in their intelligence. They are intelligent because they are curious, curious because they are restless and because they abhor prolonged stops. "Apart from their emotional life, they easily become careful observers, attentive analysts who let nothing escape their scrutiny of the facts." Their greatest weakness is perfectionism. They are never satisfied with others or themselves. Out of self-defense, their principal merit is their love of culture and work. Our subject is faithful to the description of the zodiac.

Michel Rocard's third main sign is that he is a Protestant. He shares this trait with Gaston Defferre, plus that of loving sailboats and the sea. Actually, he is basically quite austere, very strict. While he does not like high mass and its organ music, he is always impeccably dressed with a neat suit, well-chosen tie, a casual but confident elegance. He must have remembered the advice of Paul Ramadier, who liked to tell young deputies: "You do not make yourself look more like the people by being messy. At my public meetings, with farmers or with miners, I have never taken off my coat." Rocard certainly also followed the training of his father, a Polytechnical School graduate, director of the Advanced Teacher Training School Laboratory and one of the creators of our atomic bomb, who taught Rocard respect for proper style. He is so Protestant that for 15 years, he remained a Boy Scout -- that is, a Calvinist Scout -- and, choosing a pseudonym for his first articles, he selected "Georges Servet," Georges being the first name of his mother's brother and Servet being the name of a 16th century doctor-theologian who was burned alive in Geneva under Calvin. This would rather lead one to intransigence, which is the case. If one looks at the face a little closer, the smile is charming and youthful, but it suddenly

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turns into a network of bitter wrinkles; it is a smile of sternness. His voice is charming also, like a cello, but he speaks too rapidly, too volubly, and suddenly there is a whole burst of fire: The cello one was admiring has already turned into a machine gun.

The fourth sign marking Rocard is that he has character, he knows what he wants. At the age of 17, he was studying political science even though his father wanted him to attend the Polytechnical Institute. So what if Daddy was to get mad, cut off his allowance and stop speaking to the rebel! Rocard got a job as a miller-turner to pay his way through school and, having discovered socialism through the friendship of a Trotskyite foreman, performed brilliantly and entered the National School of Administration and then the Finance Inspectorate. Nor was he to be taken for a page. When he was 39, there was a presidential election for the successor to General de Gaulle. Georges Pompidou's main opponent was Alain Poher. Francois Mitterrand could not get on the track; Pierre Mendes-France did not want to, but that was no obstacle! The little Tintin became secretary general of the small PSU [Unified Socialist Party], a dissident faction of the Socialist Party, which put Gaston Defferre up as a candidate. Rocard boldly and fearlessly declared himself to be a candidate, without complexes or conceit. He was a young man who dared. An amazed France discovered this tiny, almost unknown imp who had jumped out of some magic box.

He won nearly a million votes, almost as many as Gaston Defferre.

Other signs: Rocard plays chess, like Napoleon's generals. When he skis, he swoops down better than he does the slalom. When he speaks, he uses concise language, makes a minimum number of syntactical errors, and then suddenly, the eternal student, the native of Courbevoie, becomes capricious and says: "Then bang! What did the kid say?" or "Bang! Right in Marchais' nose!" or "You know, Debre's not really a whole lot of fun!" or even "Politics is a real bawdy house!"

His qualities: promptness, perception, a certain niceness, a great deal of expertise, which caused him to be named finance inspector by Michel Debre, secretary general of the important National Auditing Commission by Valery Giscard d'Estaing and adviser by that other great strict Protestant, Maurice Couve de Murville. He is also undeniably sensitive.

His weaknesses: excessive haste, which prevents him from remaining at a sufficient distance to take the exact measure of an event and a decision; raging anger that does a disservice to any statesman worthy of the name; the growing heaviness that can come from a machine, the party remaining the old party, just as slow, cumbersome and superstitious as always, still distrustful of unorthodox talents. He is small, but he does not act small. He is perhaps sectarian, but he is very human. He is a technocrat, but he is capable of denouncing "bureaucratic appropriation." He knows all the ins and outs of high finance, but he has remained a simple man. One can be sure that an important role awaits him and that he is even capable of not letting himself be devoured in his own party. Above all, while he is a methodical

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analyst, he is just as capable of synthesis. He is even undoubtedly one of the few French politicians to have an overall view, to serve a coherent concept. Mitterrand possesses the genius of the virtuoso. Above all, Rocard thinks. Despite his jerky style, he confidently follows his persevering and well-thought-out convictions. He is a patient, strict, concentrating chess player, while Mitterrand is rather a poker player. He can therefore break through, as they say, and break through in high places.

It remains to be seen whether, beyond the in-fighting of the political jungle, he will be able to pursue something higher: achieve the metamorphosis of the old machines, impose the real problems of the future, tear away the old masks, give up the vain fetishes of outdated doctrines, boldly build or help to build the humanistic front of the men of good will which alone will bring about justice, save basic freedoms and achieve the triumph of the "open worlds" over the "closed worlds," and finally, go beyond narrow-minded mediocrities to reach the potential of the universe. Alas! We are still far from being able to tell whether our unruly-haired Tintin will truly be able, even if he is gifted for all the games of the forum, to escape the shoals and reach the summit!

For our observers at least, it is a climb that has become extremely thrilling!

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FRANCE

**FURTHER DISCUSSION OF 1979 DEFENSE BUDGET**

Paris TAM in French 12 Oct 78 p 4

[Article by Jean Laruelle: "The 1979 Defense Budget that will be Presented to Parliament: Everything You Need To Know"]

[Text] "I say it in all frankness: I am a minister who is satisfied with his budget. To have a good budget is not an end in itself but it is satisfying because it enables one to continue with a course of action that has already begun." Thus concluded Mr Bourges, minister of defense, who had just outlined the major aspects of the 1979 defense budget to a press conference held on 25 September 1978.

An examination of the figures shows as a matter of fact that considerable effort has been made, in spite of the economic circumstances currently affecting the country, to adhere to the provisions of the 19 June 1976 law pertaining to program development. It is of course not possible for us to give a detailed account of the minister of defense's press conference. But it seemed to us that it would be useful, inasmuch as the budget is about to be discussed in parliament, to give our readers the major points.

The 1979 defense budget is set at 92.24 billion francs,\* or 3.26 percent of the gross domestic product. This compares to 2.9 percent in 1975, 3.12 percent in 1977 and 3.2 percent in 1978. In relation to the 1978 budget it represents a real increase of 14 percent. This growth is distinctly greater than that of the budgets of the other ministries (an overall average of 11.9 percent). This increase is due principally to increased expenditures for equipment: 33.345 billion francs (up 17 percent). Our armed forces will thus have equipment that is more modern and effective.

The growth in allocations to the various programs--42.892 billion francs-- is also very significant: an increase of 24.6 percent in 1979. This increase will permit an increase in funding for the nuclear forces, an increase in expenditures for research and development and the carrying out of programs to equip the three armies.

\* Including 15.129 billion francs for pension payments.

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#### The First AMX 10 RC

Insofar as the land army is concerned: 60 AMX 30's, 60 AMX 10 RC's,<sup>1</sup> 95 AMX personnel and PC's, 350 VAB's, 22 Gazelles, 250 large cargo trucks and 2350 tactical vehicles will be ordered, all of which will increase the mobility of the ground units.

The first 5,000 Famas 5.56 rifles will be delivered to units [iterated in accompanying brief].

Insofar as the air army is concerned, research on the Mirage 2000 and the M53 engine will continue. Also, 8 Transall<sup>2</sup> and 22 Alpha jets have been ordered. By 1980 orders for the F1 and the 200 series Jaguar will be completed. And finally the 4 supplementary sections of the Crotales will be started along with 56 of the dual 20mm guns for the anti-aircraft artillery.

#### The Sea: A "Naval Plan" in Preparation

Insofar as the Navy is concerned, ignoring the SNLE's, 9,000 tons of new ship construction will begin in the shipyards next year. In 1979 there will thus be under construction: 2 SNLE's, 3 nuclear attack submarines, 6 corvettes (4 antisubmarine and 2 anti-aircraft), 7 gunboats, 5 mine sweepers and 2 oilers, or 25 ships representing more than 85,000 tons. Between 1980 and 1986 a total of 17 new ships will enter service.

On the other hand, no decision has been made and none will be made prior to 1980 regarding any new aircraft carriers due to the fact that the nature of the aircraft that will be embarked is not yet known. The only budget items planned are for the propulsion systems for the future carriers since in any case they will be nuclear powered.

In total and without counting the SNLE's, the goal to be reached by 1990 is 109 combat ships and 26 support ships which will have capabilities far superior to those of the present fleet.

#### Preparing for the Future

Notice should also be given to efforts authorized for the strengthening of the gendarmerie and the release of initial funds for the construction of a new school in Lyon for the Military Health Service.

<sup>1</sup> The 9th Hussars Regiment in Provins will be the first unit to be equipped with the AMX 10 RC.

<sup>2</sup> They are improved Transall's able to transport 14 tons instead of 8 tons over a distance of 4,000 km and capable of in-flight refueling.

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And finally, the continuing effort put forth by the ministry of defense to prepare for the future will go on; the amount of funds allocated to research and development has been considerably increased. It is felt that an army that failed to prepare seriously for the future--working in close collaboration with civilian research centers and laboratories and giving impetus to the development of research and technical and technological innovation--would be very quickly left behind.

**Nuclear Energy: Still a Priority**

The minister also acknowledged that priority is still being given to the area of nuclear armaments. Two new programs are planned:

One program concerns a medium range air to ground weapon. It is a tactical weapon that will be fired from an aircraft and will continue by means of a static-reactor engine. This armament will equip the Mirage 2000 which will be operational in 1982 as well as the embarked Super-Standard's.

The second program involves a nuclear submarine that will fire a new type of missile known as the "Inflexible". The M4 missile will have multiple warheads and a range that is much superior to those of current types and will be much more precise and have strengthened defenses. The ship itself will have better navigational capabilities but the most important feature is that the missile firing system will be different; the firing will be more rapid and more direct.

**More Intensive Training**

Operating expenditures (43.766 billion francs) are rising less but nevertheless at 11.72 percent the rise is comparable to that of other government budgets. The military condition will be improved (1050 jobs for majors will be created), the pay for draftees will be raised (270 francs per month beginning on 1 July 1979) along with special progressive pay, the size of the gendarmerie will be increased (1000 positions including 63 officers, 150 non-commissioned officers, 567 gendarmes and 220 auxiliary gendarmes) and funds will be increased for fuel and programmed maintenance.

The activities of our armies will increase accordingly in 1979. For the ground army this will mean 100 days of sorties for all regiments of which 49 days (compared to 45 in 1978) will be devoted to maneuvers utilizing the full complement of a unit's equipment and material.

For the Navy it will mean 94 days at sea (compared to 92 in 1978). This increase may seem insignificant to the layman but in reality is important for training. As for the air army it will be able to log 450,000 hours of flight time, compared to 432,000 in 1978, which will among other things enable combat pilots to maintain their high operational readiness.

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The above is thus a brief overview, without going into too much detail, of the proposed budget for 1979 which will soon be examined by our representatives.

It reflects a policy that is not content with correcting a few imperfections or insufficiencies, but rather is committed to a continued and persevering effort toward a fixed goal.

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FRANCE

**BRIEFS**

**FIRST AMX 10 RC DELIVERIES**--The year 1979 will mark the first deliveries to the ground army of the AMX 10 RC antitank combat vehicles (AMX 10-mobile cannon). The equipment, which was decided on in 1975 and manufacture of which began in 1976, will go to the reconnaissance regiments in our armored corps as well as to the light armored cavalry regiments in the new infantry divisions. It will replace the EBR's (armored reconnaissance vehicles) which have been in use in our units for more than 20 years. The performances turned in by the first production models prove the exceptional qualities of the AMX 10 RC. The vehicle has six wheels. It is amphibious, pressurized, has great operating range (800 km or 18 hours of combat) and is operated by a 4-man crew. Its role is that of an antitank weapon. Armed with a high muzzle velocity 105 mm cannon firing a hollow charge shell stabilized by a fin, it has a very precise fire control system utilizing laser telemetry. Instruments for night vision in the turret also enable it to engage in night combat with excellent effectiveness. The 9th Hussars Regiment in Provins will be the first unit to receive the new antitank vehicle in 1979. Vehicles on order include: 1976: 20, 1977: 10, 1978: 40, 1979: 60 and 1980-82: 220. [Text] [Paris TAM in French 12 Oct 78 p 4] 7779

**MAS 5.56 ASSAULT RIFLE**--It was in 1975 that the minister of defense decided on the development of a 5.56 caliber assault rifle built by the Saint-Etienne Arms Manufacturing Company. By August 1977 the rifle was ready. A total of 20,000 of the rifles were ordered in 1977, 27,000 in 1978 and 48,000 in 1979. Final orders will total 400,000 units. Contained in the 1979 budget are orders for 95,000 arms and 380,000 cartridges from French industry. The delivery schedule provides for the first 5,000 arms to arrive in 1979. The most modern assault rifles manufactured in the world (some such weapons have been around for more than 20 years), the Famas 5.56 is completely modern in design and manufacture. This explains the attempts that were initially made to discredit it, attempts which have since ceased, since the Famas 5.56 is very competitive with comparable weapons in use in other armies. It has a caliber of 5.56, weighs 3.7 kg and although it has a longer barrel, at a length of 76 cm it is more than 20 cm shorter than most of its competition. It has a muzzle velocity of 950 meters per second. Its rate of fire includes single shot as well as short and long bursts (it has a variable burst selector

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and a mode of fire switch). It can fire a grenade weighing up to 500 grams. As a grenade launcher it can fire an "anti-personnel" grenade by means of a curved trajectory a distance of between 60 and 300 meters, and by direct fire up to 100 meters. For antitank grenades it is capable of direct protective fire up to a distance of 100 meters. It is also equipped with a bayonet. [Text] [Paris TAM in French 12 Oct 78 p 4] 7779

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ITALY

COMMENTARY ON WORLDWIDE IMPLICATIONS OF U.S.-PRC TIES

Turin LA STAMPA in Italian 17 Dec 78 pp 1-2 LD

[Commentary by Frane Barbeiri: "The Triangle Is Closed"]

[Text] Carter and Hua took everyone by surprise when they announced the "historic event" in relations between Washington and Peking. At least, Carter was not expected to decide on such a step before meeting with Brezhnev. But it almost always happens in top-level politics that when the most surprising and least expected events occur, they suddenly appear most logical and most normal. The same applies here: Indeed one wonders why it did not all happen before. The normalization of Chinese-American relations at last closes the triangle of the major powers, which has already been outlined for some time in the world constellation. The strict American-Soviet bipolarism was waning since it could no longer embrace all the ferments in an increasingly diversified world.

The triangle which has now been formed does not put an end to the interplay: It rather opens it up, spreading it right across the world chessboard. The two powers representing the two worlds are joined by another born against the background of the emerging Third World. The picture of the globe is being changed. Even the picture of Asia is being altered. America seemed to be excluded from the continent and to have withdrawn and entrenched itself on the nearby islands; China did not manage to fill the gap left by the Americans and indeed seemed more and more surrounded by Soviet penetration, first into Mongolia and then India, Indochina, Afghanistan and now probably also Iran; the agreement with Japan opened up a breach in the encirclement, which was so important that it prompted serious Soviet remonstrations in Tokyo.

The bond between Peking and Washington must not be regarded solely as a breach. It is a turnabout which enables China to roam politically across the entire world. America is not setting foot on the continent on the old strategic terms, but with a masterly stroke of the still disjointed and contradictory Carter policy it is gaining much more: It is creating the space needed to strengthen China, a natural Asian force keen to counter Soviet expansion on the yellow continent.

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Hua Kuo-geng emphasized two points in the agreement. First: "We have normalized relations with the United States, just as relations between Moscow and Washington have been normalized." Second, "The new relations will make a contribution to the struggle against small and large-scale hegemonism." Carter also stressed two characteristic aspects: "The United States wishes to take part in the current thrust for industrial modernization which should lead China to adopt the role of an advanced and strong nation in the industrial field and all other fields." "I do not believe that this development could have even the slightest repercussion on U.S.-USSR negotiations."

Together, Carter's and Hua's points indicate that China is entering fully onto the world scene without being challenged any longer as a pressure tool in the hands of either of the two superpowers in the bipolar trial of strength. At least, America is ceasing to regard it in this way, insofar as China's role as an independent power is useful to it. The advantage to the Soviet Union is undoubtedly smaller, but if China manages to establish itself as a fully fledged power Moscow will be left with no alternative but to accept it and treat it as such. One cannot see how it could, without a rash violent coup, again reduce China to a giant slave of the bipolarism on which Moscow's entire strategy still hinges (and this delay now highlights more than ever the Brezhnev diplomacy's critical lack of creativity and incapacity for renewal).

However, in view of the latest "historic event," it is difficult to establish who is the winner and who the loser, except if one maintains that everyone wins. One can only hazard a forecast of how the forces will move in the field. China will take the opportunity to spread politically and economically across the world in the quest for its four modernizations and in an attempt to establish itself as the Third-World anti-power. America, involving China in the great interplay, will no longer be tempted to return to the bipolar rules and "hotline" diplomacy.

While Hua has managed to deprive Moscow of its position as the exclusive representative of the communist world, Carter is to an extent rendering the separation between the two great communist capitals definitive. The move is so important that Washington has even accepted the consequences of the lack of confidence and disappointment which will certainly spread from Formosa right across the island fringe of the continent.

What is more difficult to predict, undoubtedly, is Brezhnev's attitude to the historic event, which involves him against his will. Will he accept the triangle or will he try to break it, by challenging both America and China? This is the biggest unknown factor at the moment. On various sides it is also considered the most dangerous.

On the one hand it is feared that Moscow might emerge benefited by some allied governments' loss of confidence in America--principally in Asia. On the other hand--mainly in Europe--it is objected that the challenge

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to the USSR is perhaps too great and that the strengthening of China is not worth a clash with Moscow. There might also be a danger if the Kremlin does not manage to adapt itself to the situation. Nevertheless, it would have been equally dangerous to keep a colossus with a billion inhabitants isolated, segregating it from the rest of the world for the sake of a precarious bipolarism.

For Europe the innovation lies not only in the need to adapt to a new triangular, rather than bipolar, policy; it is more a question of entering as soon as possible into the new dialectic in order to transform the triangle into a rectangle, with a united Europe as the fourth world power. In China it could only find an ally.

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PORTUGAL

GOVERNMENT ATTEMPT TO DEAL WITH AZOREAN REBELS FAILS

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 25 Nov 78 p 6

[Text] C.G. Lisbon, 24 November. The separatism on the Azores islands belonging to Portugal is coming to a head: according to a report of the Lisbon paper JORNAL NOVO in early October, an attempt at unilateral declaration of independence on the island group failed; now a member of the military revolutionary council, Major Canto e Castro is said to have been in the Azores and to have tried to move the feuding wings of the independence movement FLA (Frente de Libertacao dos Acores) to join together. JORNAL NOVO is close to the conservative social democrats, who possess an absolute majority in the Azores and Madeira and comprise the regional government. Concerning the unusual events the Revolutionary Council in Lisbon has now declared that this body is not involved in contacts with the FLA; Major Canto e Castro is said to have undertaken "individual actions," which he must "explain himself."

Minister President Mota Pinto spoke for 2 hours with the head of government of the autonomous region of the Azores, Mota Amaral, in Lisbon. The appointment of the president of the regional parliament of the Azores, Monjardino, as minister at the initiative of President Eanes is welcomed by Mota Amaral, but nevertheless regarded as an "attempt at colonialization" by the FLA. It is said that in the FLA a radical wing under FLA chief Almeida, supported by a German resident for some years in the Azores, is feuding with a moderate majority group; Almeida and the German urge immediate independence of the island group, it is said, and are fighting against Amaral as a "traitor," while the moderate majority group maintains contact with the regional head of government and is striving with Mota Amaral mainly for the realization of regional autonomy, and only later wants to expand this step gradually to full independence. Due to insufficient support by the majority group, which has support among the businessmen of the islands, and due also to the intervention of police and the army ordered by the regional government, the declaration of independence planned by Almeida on one of the Azores islands is said to have bogged down in early October; until now there has been silence in Lisbon about it. October is said to have seemed favorable to Almeida for his action, because at that time the Nobre da Costa had been overthrown in Lisbon and the new government not yet appointed.

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The major from the revolutionary council is said now to have called upon the moderate opponents of Almeida and the German, for motives as yet unclear, not to permit a complete break between the factions. The German is said to be on the right politically, as is also a large part of the FLA; at the same time Communists are said to link their interests with those of the FLA. Weapons are said to be present among the FLA, the Communist, and other left radical groups in the Azores. Activists of the FLA are said have been trained in South Yemen. The American airbase Lajes, important for the southern North Atlantic, is in the Azores. The head of government of the autonomous region of Madeira, Jardim, recently said that the separatists active on Madeira (FIAMA) have been supported by the Soviet Union, because they served the strategic aims of Moscow.

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UNITED KINGDOM

BRITISH PRESS REACTS TO U.S. INITIATIVE ON PRC

Editorial Report

[Editorial Report LD] All major British newspapers give extensive coverage to the U.S. decision to establish full diplomatic relations with the PRC and to end the defense treaty with Taiwan. In early reaction on 17 December London's THE OBSERVER reports on the frontpage that "A political storm broke in Washington yesterday" over the decision, with angry republicans and some conservative democrats saying that "by abandoning a long-standing ally, the Carter administration would seriously weaken America's standing in the world."

Also on the 17th, a DAILY TELEGRAPH editorial on page 18 sees the decision as the "Natural almost inevitable climax to a process set in motion more than seven years ago." Speaking of Taiwan's fate, the editorial says "For the world at large, not excluding America's NATO partners, it is a grim reminder that no alliance can last forever and that, ultimately, there is no substitute for maximum self-reliance to ensure one's own security." The editorial adds that "This is not to condemn America's decision in those broader perspectives against which Washington has seen it."

THE FINANCIAL TIMES on 18 December carries several signed articles on the subject, including two articles by its U.S. editor Jurek Martin. Mr Martin feels the decision was "logical" and adds in his frontpage story that the administration "Felt that the old 'Free China Lobby' has lost its once vaunted steam." He adds: "It is believed that those in the Senate who oppose Mr Carter over China were bound equally to oppose him over a Strategic Arms Limitation Agreement with the Soviet Union."

"Some people here remain nervous about the Soviet response but the administration appears convinced that President Brezhnev wants a second SALT Treaty as much as President Carter does...."

More provincial interests are expressed on page 26 of THE FINANCIAL TIMES 18 December issue. An article by Michael Cassell says: "The move to establish normal relations between the U.S. and China will be greeted with mixed feelings by British industry. Although it should provide further impetus to China's policy of increasing the scale of her trade with the Western world generally, the full participation of the Americans will inevitably increase competition for Chinese business."

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On page 14, the financial page, the DAILY TELEGRAPH on 18 December also considers the financial aspects in a report from its New York correspondent James Srodes, which says: "Both the American government and United States business leaders are serving notice that they want to get into the race to develop China in a big way."

The DAILY TELEGRAPH's defense correspondent Claire Hollingworth writes on page four of the 18 December issue: "The strategic scene in the Far East and the Western Pacific, where Soviet military power has increased since the end of the Vietnam war, will benefit from the establishment of diplomatic relations between Washington and Peking. For the Chinese leaders, Chairman Hua Kuo-feng, is anxious the region should be tranquil in order to enable the People's Republic to become a great industrialized nation by the turn of the century."

The DAILY TELEGRAPH on 18 December also frontpages a report by its Moscow correspondent Richard Beeston which says that "The new diplomatic embrace between Washington and Peking has sent a cold shiver down the spine of the Kremlin leadership, and aroused fears of worse to come, which were voiced yesterday by the important Soviet Armed Forces paper RED STAR."

THE GUARDIAN in English on 18 December carries a frontpage article by Hella Pick which says the decision "has taken the Soviet Union by surprise" and "it is already reported as having an unfortunate effect on the SALT negotiations and the summit between Mr Brezhnev and President Carter." Ms Pick notes the Soviet attempts to rally Warsaw Pact countries in support of increased defense budgets which it has justified "in terms of the growing closeness between China and imperialism."

Also in THE GUARDIAN of 18 December, John Gittings writes a feature article on the decision on page 15. After examining the impact the decision will have in other Asian countries, he concludes: "If there ever is to be any prospect of some sort of rapprochement between China and the Soviet Union, this weekend's agreement will...have brought it nearer."

Editorially, the London Press on 18 December views different aspects of the decision on U.S.-PRC relations. THE GUARDIAN editorial on page 14 hails the "common sense and courage" of President Carter's decision. The FINANCIAL TIMES in its editorial on page 10 sees the principal task of U.S. foreign policy to be maintaining "A global balance of power." It adds that "the establishment of proper relations with China could contribute to that end, but not if it is seen as an anti-Soviet alliance..."

The DAILY TELEGRAPH editorial on page 12 appreciates the timing of the decision and concludes: "The choice lies between helping China to survive the Russian threat or leaving her--isolated and disgruntled--either to succumb or voluntarily to resume the former alliance with Russia." The Communist MORNING STAR in its frontpage editorial hopes that "China's leaders will resist the blandishments of the White House, and see that China's future lies in close alliance with the other socialist countries and progressive forces throughout the world."

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'DAILY TELEGRAPH'

London THE DAILY TELEGRAPH in English 18 Dec p 12 LD

[Editorial: "The China Connection"]

[Text] Credit for good timing must go to President Carter and Chairman Hua, for their momentous agreement--except, of course, in the eyes of those who are outraged at the dumping of Formosa and worried about the possible development of a tacit alliance with a communist giant. Otherwise, reasonable and moderate men, accepting ecumenicity in diplomacy, legitimately concerned about the world balance of power and rightly eager for mutually beneficial economic expansion, will find that these factors preponderate, in most cases overwhelmingly, over misgivings. "When 'tis done, then 'twere well it were done quickly."

There was no chance of China ever stomaching continued diplomatic relations between America and Formosa or the defence treaty between them. The agreement to disagree over the continued sale of American arms to Formosa was as far as Peking could be expected to go. On the other hand the post-Mao government of Chairman Hua and Vice-Premier Teng exceeded all expectations in the speed and effectiveness with which it has switched to a healthy pragmatism about the West. The remarkable "Democracy Wall" phenomenon in Peking shows that China is in motion, and that the new regime may be prepared to allow it some freedom to move.

There were also external considerations. Russia, expanding her influence and projecting her military power, is getting into the habit of threatening the West: "Don't develop the neutron weapon...don't sell arms to China...or else!" If America had withheld full diplomatic relations from China much longer, she would have look afraid to offend. The agreement with China at the very moment when the Strategic Arms Limitation Treaty seems at last on the verge of conclusion adds point to Mr Carter's assertion of his freedom of action. His move is also timely in view of Russia's apparent intention to use Communist Vietnam as a proxy against China by aggression against China's protege Cambodia.

So far as the balance of power is concerned, the Soviet Armed Forces' paper RED STAR has been quick to see a supposed danger that China (20 years behind Russia and rapidly falling farther behind), Japan (with exiguous "self-defense" forces) and Mr Carter's America will gang up to cause trouble. America has declared that she will not sell arms to China. But the supply of technology will doubtless now speed up and with fewer questions asked. Britain should drop her unjustified inhibitions about the sale of Harriers and other items. And France will see a big green light. Meanwhile China's nuclear deterrent--still decades behind Russia's--will be gathering weight and versatility.

By the end of the century, China will indeed be in a position to throw her massive weight about if so inclined. But this is a risk that the West must take. The choice lies between helping China to survive the Russian threat or leaving her--isolated and disgruntled--either to succumb or voluntarily

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to resume the former alliance with Russia. The West, through neglect and loss of will, are in the same boat. The greatest danger now is that the West will find yet another excuse for sitting back--by leaving it all to China.

'THE GUARDIAN'

London THE GUARDIAN in English 18 Dec 78 p 14 LD

[Editorial: "The Peking Special Relationship"]

[Text] President Carter's decision to come to civilised terms with China and to demote Taiwan from its historically privileged position is an act of common sense and courage combined. China is too big to be ignored, whatever you think of communism. It is common sense to recognise the national identity and government of 900 million people through diplomatic relations. It is common sense also to inform the leaders of 250 million other people in the Soviet Union about what you are doing and why and when. For in his efforts to de-isolate China President Carter seems to have worked hard, with SALT 2 in the balance, to avoid upsetting America's relations with the Soviet Union. Both countries and nations are too big and too proud (and their pride in their achievements deserves understanding) to be ignored. Somehow we must all learn to live together on this planet and President Carter has ventured a long stride in the direction of civilisation and amity.

He deserves much credit also for risking the wrath of the China lobby which was yesterday in full and predictable cry. The China lobby, which now means the Taiwan lobby, became convinced by Pearl S. Buck and others than the only true and enduring representative of the Chinese people was the late Generalissimo Chiang Kai-shek. A whole generation of US citizens believe, even now, that Chiang Kai-shek was God and that Mao Tse-tung was the Devil. President Carter has now decided, in the interests of common sense, to invite the China lobby to do to him its domestic political worst. When Senator Barry Goldwater condemns the President of the United States ("One of the most cowardly acts ever performed by a president") the president is probably right. But no one should underestimate the strength of the lobby or the president's courage. In practice the China lobby has been a powerful force from 1941, when it became clear, at least to the soldiers, that Chiang Kai-shek was using American aid at least as freely to defeat Mao Tse-tung as he was using it to defeat the Japanese. Mrs Barbara Tuchman, the historian of Sino-American relations, has written that after 1941, "the flow of aid became an investment and the need to protect the investment increased the flow until it became a silver cord attaching America to the Nationalist Government. There is no more entangling alliance than aid to indigent friends."

What remains true, in spite of yesterday's historionics in Taipeh, is that the friends--no longer indigent--are still there. President Carter has now given up the pretence (which, to his credit, was nearly abandoned by President Nixon) that the Taiwan government is the real and chosen government of China. But there is no reason why the people of the United States should stop being friendly to the people of Taiwan or of coming to their aid in times of trouble.

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And there is another sense and direction in which the rendering of normal relations between China and the United States can be beneficial. If President Carter can remain on speaking terms with both China and the Soviet Union he can at least hope to be accepted as a mediator in the manifold and murky quarrels which divide two of the world's largest and most important nations. Perhaps he could persuade them to behave and talk more calmly (the Chinese in particular) about navigation on the remote rivers of Asia. Perhaps he could even persuade them to discourage the war-by-proxy which they are fighting on the borders of Cambodia and Vietnam.

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'THE FINANCIAL TIMES'

London THE FINANCIAL TIMES in English 18 Dec 78 p 10 LD

[Editorial: "The World as a Whole"]

[Text] All this year China has been moving outwards. Chinese leaders have visited Yugoslavia and Romania--in Soviet eyes the dissident states of Eastern Europe--as well as South East Asia. There have also been high level visits to the West and there is talk of more to come. At no stage have the contacts been purely political: As often as not what the Chinese have been seeking, especially in the West, has been commercial and technological know-how.

Reverberations

In that sense, it is not surprising that Peking should have wished to accelerate the normalisation of its relations with Washington. If it is access to technology that the Chinese want, the United States after all is as good a place to go as any, not least in the key fields of agriculture, mining and energy. It is also true that the leadership had already come to terms with the other advanced industrial democracies. The signing of the treaty with Japan earlier this year was the final evidence of that. It would indeed have been abnormal if Sino-U.S. relations had remained on a lower level than those between China and other western countries.

It should not be forgotten either that although the announcement of the Sino-American agreement may have seemed to come out of the blue, there had in fact been a steady diplomatic build-up over a period of years. The breakthrough came in 1972 when President Nixon visited China. The joint communique then left open a number of questions--particularly that of the future of Taiwan--but it left no doubt of the mutual desire between Washington and Peking to put their relations on a normal footing.

The question of Taiwan remains open to this day and is perhaps insoluble in the short-term. At the same time, however, there is nothing in the behaviour of the Chinese leadership to suggest that Taiwan will be taken by force. Nor would it be in the Chinese interest to attempt any such thing. All the signs

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are that China is looking outwards to a wider world, and there is no obvious reason why it should not come to live with Taiwan in the way that it has come to live with Hong Kong. Those relations, too, can be normalized over time.

Yet, however foreseeable and however much it can be explained as merely a logical development of past diplomacy, the establishment of full diplomatic ties between China and the U.S. is bound to have reverberations around the world. In particular, they will be felt in Moscow where the Soviet leadership is believed to be on the brink of signing a second Strategic Arms Limitation Agreement with the Americans. They will also be felt in Indochina where a bitter war is still going on with the Chinese and the Russians in many ways acting as proxies. Indeed tensions are likely to increase in any part of the world where Peking and Moscow confront each other, however indirectly. The Russians believe, rightly or wrongly, that they are being hemmed in. The Chinese are breaking out, that is hardly a recipe for stability.

There is thus a special responsibility on the U.S. In the strict sense of the world, the U.S. is the world's only superpower. The Soviet Union may have achieved strategic parity, but is way behind economically and in most areas of technology. China is a great power which is now understandably seeking to play a larger role in the world. It should be encouraged to do so, but it is not a superpower at all and it would be dangerous if it came to entertain delusions of grandeur. Both economically and politically there have been signs recently that it has been taking on too much, too fast. U.S. diplomacy would be wise if it could seek to temper these ambitions.

Strategic

The principal task of U.S. foreign policy must be to maintain a global balance of power. The establishment of proper relations with China could contribute to that end, but not if it is seen as an anti-Soviet alliance--as the Chinese are tending to present it. In other words, there is a difference between normalisation--which is to be welcomed, and rapprochement--which could be misunderstood. It is necessary now for the Americans to continue their negotiations with the Russians and to explain to them what they are doing with China. Equally, the Chinese need to be told not to let their own relations with the Russians get completely out of hand. An anti-soviet confrontation would benefit no-one, not even the West. It is a difficult world in which to maintain stability, but the latest developments are at least a reminder of the necessity to think--in strategic terms--of the world as a whole.

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UK Communist Paper

London THE MORNING STAR in English 18 Dec 78 p 1 LD

[Editorial: "China's Rightful Place"]

[Text] Few things in the modern world were more absurd than the fact that Washington could not bring itself to recognise the People's Republic of China.

Especially since the recognition of that other lusty and development non-existent land, the GDR.

If he had left it until next year President Carter would have been three decades go by before the U.S. accepted one of the great inevitable necessities of history.

The way he has acted and the way in which NATO powers are falling over themselves in the race to sell arms to China prompts one or two questions.

COCOM, the NATO Committee currently reviewing the lift of goods that the Cold War Pact's members cannot sell to China and the other socialist states, has adjourned for the Christmas break.

Perhaps when it resumes, U.S. arms will be on the list of potential sales as well as Harrier jump jets.

Imperialists like nothing more than to see the two big powers of the socialist camp at loggerheads.

THE MORNING STAR hopes that China's leaders will resist the blandishments of the White House, and see that China's future lies in close alliance with the other socialist countries and progressive forces throughout the world.

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