



**Director of
Central
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19 March 1982

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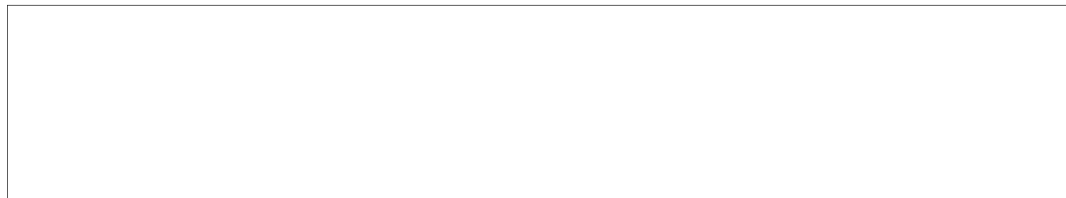
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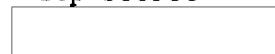
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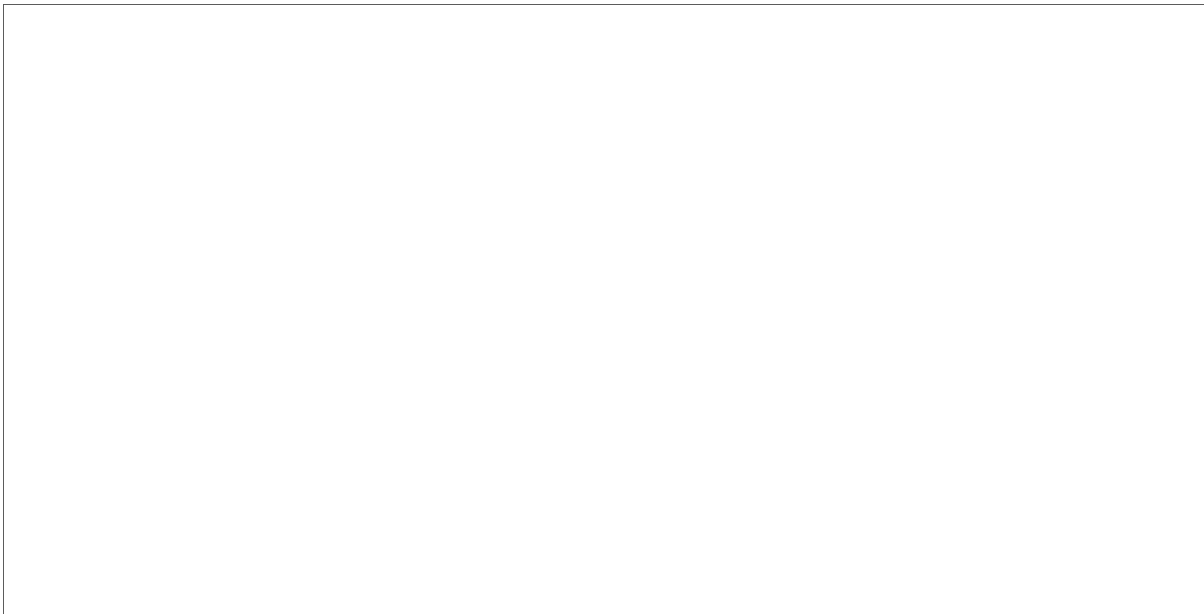


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CENTRAL AMERICA: Sandinistas Active in Honduras

//Nicaragua is increasing its subversive activity in Honduras. Resistance to the presidential election of General Guevara has subsided in Guatemala, and some Christian Democrats may join the new government. The Salvadoran military is exploring possible arms purchases from Chile.// 

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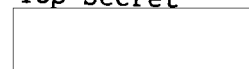
//Comment: //Recent Nicaraguan-sponsored subversive activities in Honduras probably reflect a Sandinista decision to retaliate against Honduran armed forces' collusion in cross-border raids by Nicaraguan exiles. In addition, Managua views with increasing concern the growing willingness of the Honduran armed forces to collaborate in counterinsurgency activities with the Salvadoran military and to make a serious effort to interdict arms shipments to the Salvadoran guerrillas. Moreover, the Nicaraguan regime regards Colonel Alvarez as a hardline anti-Sandinista, whose assumption to the highest command position in the Honduran military increases the chances of a regional united front against Nicaragua.// 

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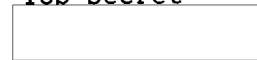
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Opposition Role in Guatemalan Government


Christian Democratic Party President de Leon reportedly is under serious consideration for the position of foreign minister. Other Christian Democrats are opposed to close association with Guevara, but the party will accept the congressional seats and mayoralties it won in the recent election. 

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Comment: De Leon is likely to accept the offer, although Guevara is unlikely to grant him wide authority. The President-elect is probably interested in exploiting de Leon's excellent contacts with Christian Democrats in Latin America and Western Europe in hopes of improving Guatemala's international image. 

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Salvadoran Interest in Chilean Arms

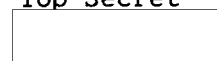
//A Salvadoran military officer visited Chile in early March to discuss the possibility of purchasing armored cars and aerial bombs. The bombs are designed for use by helicopters and light aircraft. The Chileans, however, may not be willing to provide long-term credit for the deal.// 

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Comment: //In addition to Chile, the Salvadoran military recently has been investigating the purchases of weapons and ammunition from Argentina and Taiwan. The high command may be seeking alternatives in case US military aid should be reduced. Without favorable credit terms, the chances of a major deal are slim. 

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ANGOLA-CUBA: Cubans Increasing Combat Role

//Cuban ground and air units, probably operating from camps in south-central Angola, reportedly are participating in operations against insurgent forces of the National Union for the Total Independence of Angola.//



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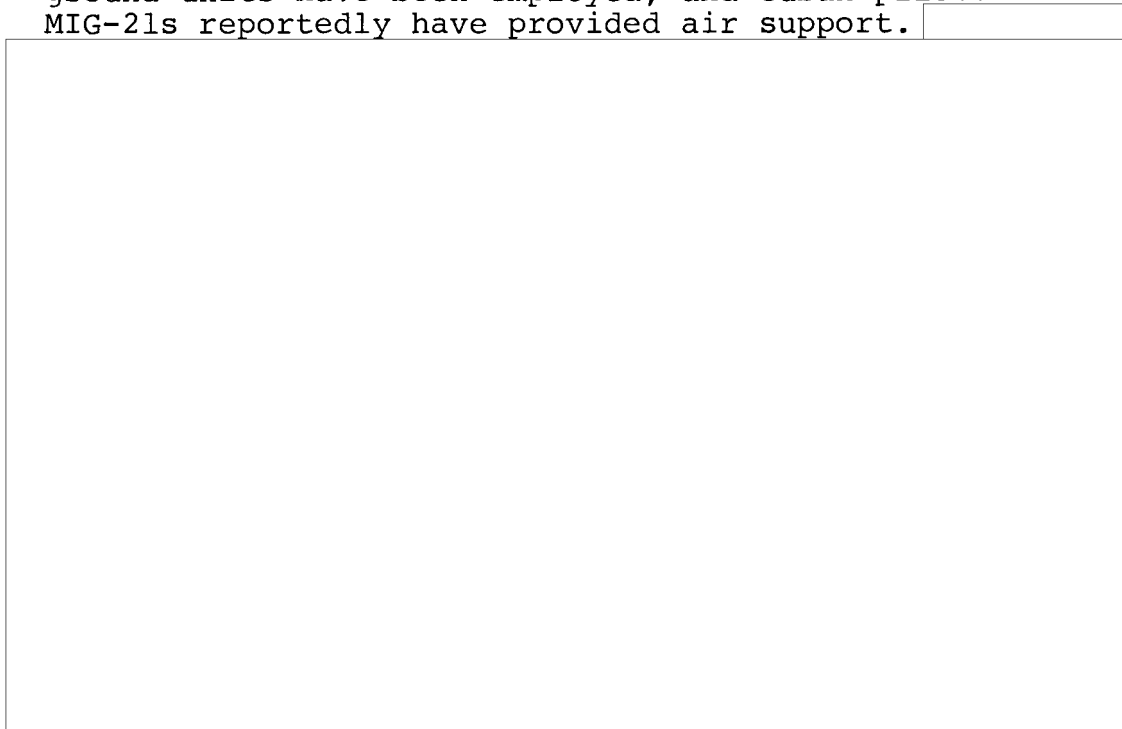
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the Angolans have been conducting large combat operations against UNITA insurgents in the area from Huambo to south of Menongue since early February. Cuban ground units have been employed, and Cuban-piloted MIG-21s reportedly have provided air support.

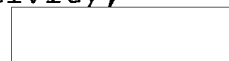
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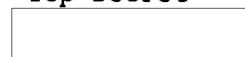
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//Havana's decision to become more involved in combat may be in response to Angolan criticism of the Cuban troops' previous inactivity. The Cubans now are closer to UNITA-controlled areas and are reinforcing Angola's main defensive line. They remain sufficiently distant from South Africa's present area of military activity, however, to make a chance encounter unlikely.//



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OPEC: Ministerial Meeting

An informal OPEC ministerial conference begins in Vienna today to discuss the proposed total production ceiling of 18.5 million barrels per day. 


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Comment: The conference probably will agree to an informal scheme to allocate the output of each OPEC member within the ceiling. The \$34 benchmark price for Arab light crude oil will be strongly defended, but the prices of some other crudes are likely to be adjusted. 


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Libya and Iran probably will object to the plan, if only to protest the comfortable position Saudi Arabia has arranged for itself. If they decline to participate, the other members may ignore them in the belief that their combined production is unlikely to rise much above the 2 million barrels per day allocated to them. 


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High Saudi production has been blamed for OPEC's current market difficulties, and the Saudis will be urged to make further reductions from their new ceiling of 7.5 million barrels per day. Although Riyadh would prefer to keep output high, it has pledged to allow market conditions to determine production levels. 

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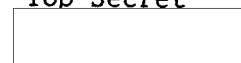
A destructive new round of price cutting could result if no consensus is reached. Any agreement supported by most of the members will be cited as reaffirming OPEC unity. 

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A ceiling of 18.5 million barrels per day would reduce OPEC production by about 1 million barrels per day. Continued use of excess oil stocks is likely, however, and this will tend to keep prices down at least through midsummer. 

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[REDACTED]

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WEST GERMANY: State Elections in Lower Saxony

//The vote totals in the Lower Saxony election on Sunday and the composition of the new state government there will have an important impact on the federal coalition in Bonn.// [REDACTED]

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Comment: //The Christian Democrats almost certainly will get a plurality, and the Free Democrats will be struggling to gain the 5-percent minimum needed for representation in the state assembly--something they failed to do in 1978. The Social Democrats probably will continue to lose support, mostly to the environmentalist "Greens," who are likely to win seats in Lower Saxony for the first time.// [REDACTED]

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//If the Free Democrats win some seats, the Christian Democrats will probably form a coalition with them to obtain a majority in the assembly. Chancellor Schmidt would then count on the Free Democrats allied with him at the national level to counsel their Lower Saxony colleagues not to oppose national policies--particularly the higher value-added tax needed to finance an employment stimulus program.// [REDACTED]

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//Polls indicate that the Free Democrats probably will receive 5 percent. Nonetheless, a poor performance would intensify the feuding between Free Democrats who believe that the party is endangered by its cooperation with the Social Democrats in Bonn and those who oppose forming a coalition with the Christian Democrats.// [REDACTED]

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//A drop in support for the Social Democrats will add new heat to the current debate on party strategy that is likely to concern the party congress next month. Party Chairman Brandt believes that the Social Democrats will have to reintegrate leftist dissidents into the party. The moderates, however, argue that this would alienate the party's traditional working-class constituency, which already is unhappy because it believes the party is moving to the left.// [REDACTED]

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[REDACTED]

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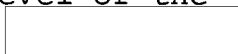
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USSR: Industrial Production Still Down

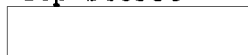
Civilian industrial production in the USSR continues to lag, with output for January and February together below the level prevailing in the same two-month period last year. Production of rolled steel declined by 4 percent, and production of cement and of freight cars dropped 12 and 10 percent respectively. The supply of electric power and gas continues to rise, but declining coal and oil production is keeping energy supplies tight. The decline in oil production--0.2 percent below the first two months of 1981--marks the first time on record that monthly output has fallen below the level of the previous year for two consecutive months. 

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Comment: There may be some recovery later this year, but a record low annual rate of growth is becoming a definite possibility for 1982. 

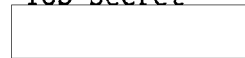
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MEXICO: Shifts in Economic Posts

The recent resignations of Treasury Secretary Ibarra and the Director of the Bank of Mexico apparently were motivated by both personal and political considerations. Ibarra rivaled Miguel de la Madrid for the ruling party's presidential nomination and has not worked well with President Lopez Portillo recently. Two close supporters of de la Madrid have replaced the outgoing officials.

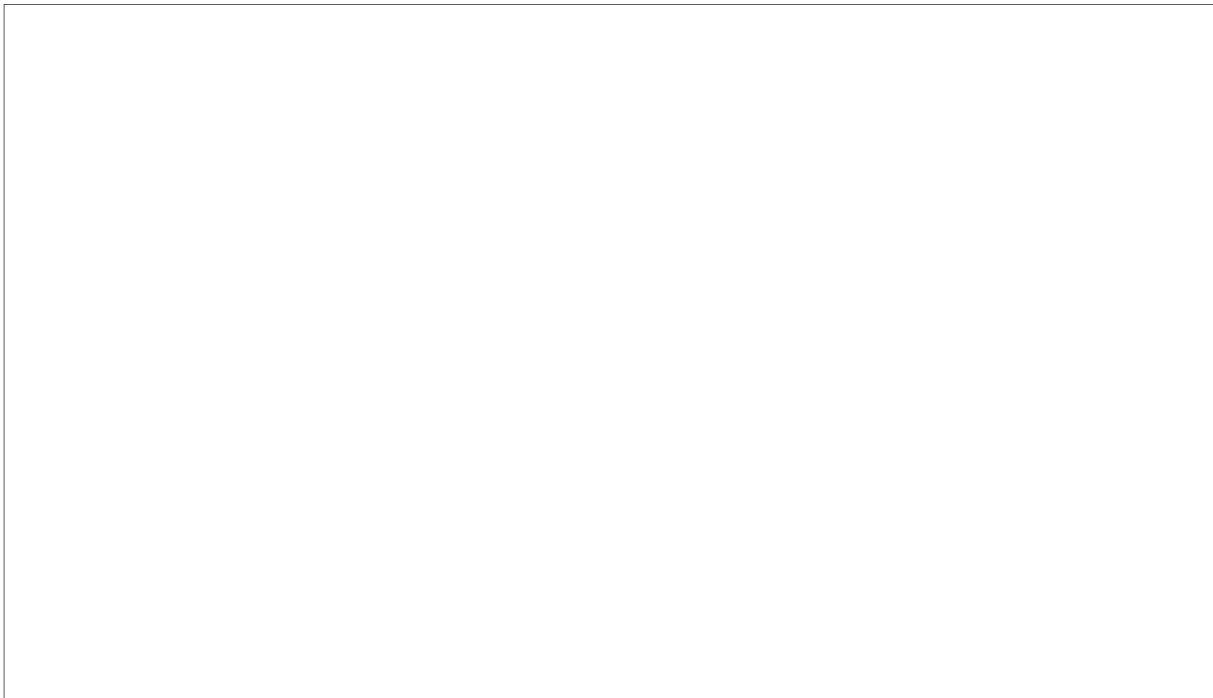


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Comment: By appointing de la Madrid's associates to fill policymaking positions, Lopez Portillo is striving to ensure a smooth transition of power in December, unlike his own experience six years ago. The moves also suggest that he is beginning to share authority over economic policy with his fiscally conservative successor, a view supported by Lopez Portillo's recent reference to himself as a "devalued president."

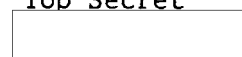


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ZAMBIA - SOUTH AFRICA: Kaunda Offers To Meet With Botha

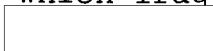
President Kaunda told a South African journalist yesterday that he is willing to meet with South African Prime Minister Botha. Kaunda said that, if invited, he would consider going to South Africa. He added that such a meeting must not be secret. In 1975 Kaunda met with South African Prime Minister Vorster in an unsuccessful attempt to speed Rhodesia's independence. 

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Comment: It is unclear whether Kaunda's offer represents an offhand remark or a calculated gesture. Kaunda recently has been worried about Zambia's security, and he believes that South Africa is pursuing increasingly aggressive policies aimed at subverting the Frontline States. 

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SYRIA-IRAN: Oil Agreement

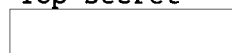
According to initial press reports published on Wednesday in Damascus and Tehran at the close of Syrian Foreign Minister Khaddam's visit to Iran, the two sides concluded a trade agreement under which Iran will begin supplying the Syrians with 175,000 barrels of oil per day--worth about \$2 billion annually. The US Embassy in Damascus notes that if the deal is as large as claimed, it would end Syria's need for Iraqi oil. It also would reduce Iraq's leverage in matters affecting the Syria-Iraq pipeline, through which Iraq pumps about 50 percent of its oil exports. 

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Comment: It is not clear how financially hard-pressed Syria would be able to repay Iran even if Tehran has agreed to extremely favorable terms. 

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SOUTH KOREA: Anti-American Incident in Pusan

South Korean police have launched a massive search for the unidentified arsonists who firebombed the US Cultural Center in Pusan yesterday and who scattered leaflets containing anti-US slogans elsewhere in the city. No Americans were injured, but one Korean was killed, three others injured, and the building was heavily damaged. The last such incident occurred in 1980, when dissidents set fire to the US Cultural Center in Kwangju. 

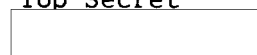
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Comment: //The arsonists probably were South Korean dissidents, but North Korean involvement cannot be ruled out. For the past year South Korean authorities have been concerned about student and dissident use of anti-American rhetoric stemming from their opposition to US support for President Chun's regime. Attacks on US targets will attract little popular support, but they could encourage other dissidents to adopt similar tactics.//



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SPECIAL ANALYSIS

EASTERN EUROPE: Difficulties in Obtaining Credit



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East European countries are having increasing difficulty obtaining Western loans, and Hungary, East Germany, and Yugoslavia may have to reschedule their debts by the end of the year, along with Poland and Romania. The import reductions forced by the lack of credit will, at the least, depress domestic growth and living standards in all five of these countries and have serious implications for political stability in some. Only Bulgaria and Czechoslovakia, because of their policies of financial conservatism, seem immune for the time being. The USSR, facing serious problems of its own, will not be able to provide enough help and in fact is aggravating the problem by cutting oil deliveries.



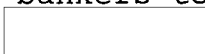
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//The poor climate for borrowing faced by Eastern Europe for more than a year results from bankers' reassessment of the creditworthiness of the countries in the area as a consequence of the Polish and Romanian financial crises and the growing concern over Eastern Europe's economic problems in general. No East European borrower can now obtain a syndicated hard currency loan from Western bankers, and bankers are refusing to refinance some debts as they come due. Even the export credit agencies of some Western governments are not willing to increase their lending.//



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//Eastern Europe's borrowing problems would increase if Western governments were to join the bankers in reducing loans they make available. This would prompt the bankers to curtail their loans further to Eastern Europe.//



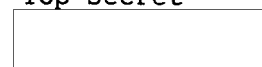
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Credit Interdependent

//Although Poland's private debt rescheduling agreement for 1981 apparently will be signed soon, it cannot hope to earn a large trade surplus or to obtain enough debt relief and credits to cover its debt service obligations of \$10 billion for 1982. Even if Poland manages to avert default, its financial problems are likely to

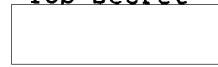
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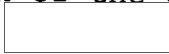
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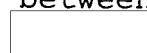
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damage the creditworthiness of other East European countries. A Polish default would delay and make even more difficult the return of the other countries to Western capital markets.//



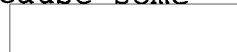
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//Romania is just beginning to negotiate the rescheduling of its private debt. Even with debt relief, however, Bucharest would face a large gap between available funds and its minimum requirements.//

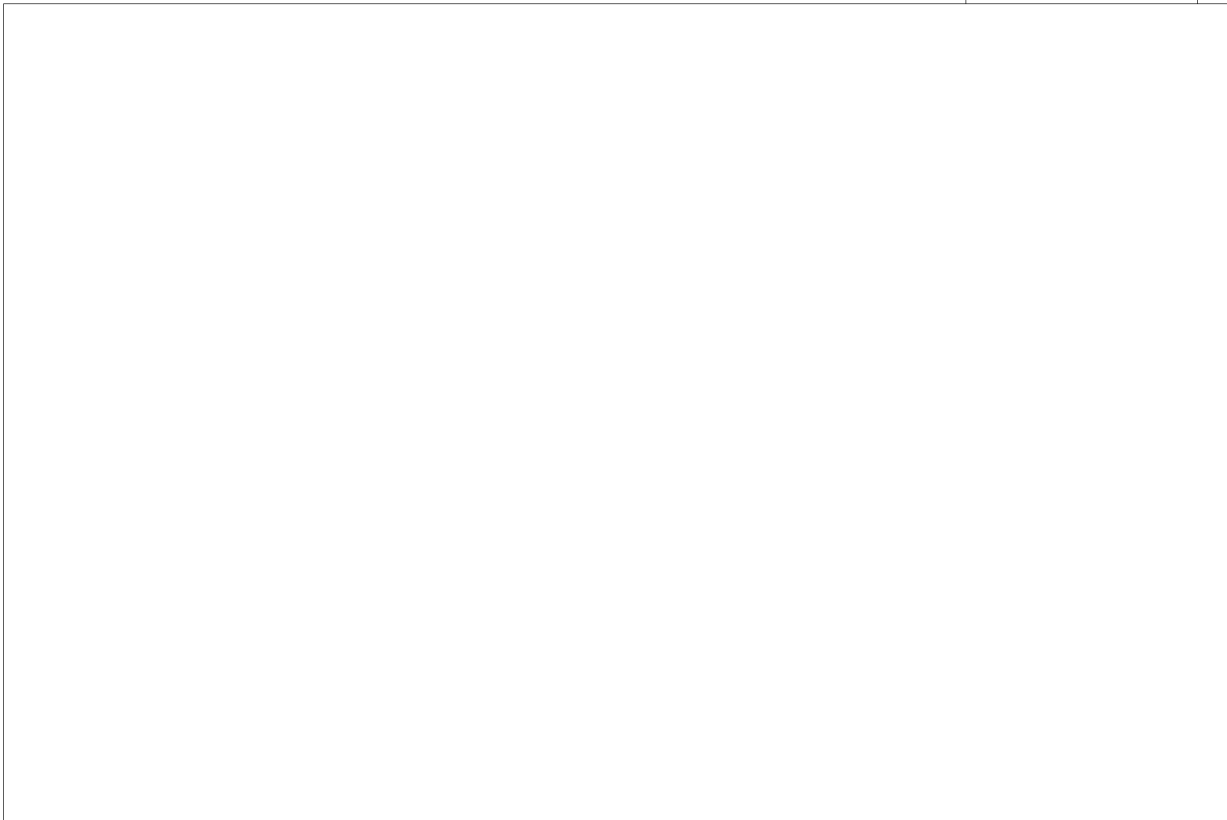


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//Romania cut imports substantially last year, leaving few areas to cut further without damaging the already-strained economy. Reserves are low, and Romania is reluctant to draw from its gold stock, partly because some of it is obligated as collateral for loans.//



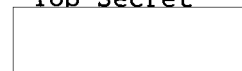
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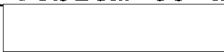


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Implications

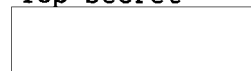
//The East Europeans rely on Western credits to strengthen and expand their economies and to assert some independence from the Soviets. Loss of credit would cause agricultural and industrial output to decline and fewer consumer goods to be available. In most of these countries, the public would tolerate a fall in living standards, but in Romania and Yugoslavia the population will add this problem to an increasing list of other grievances.// 

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//Some regimes may reluctantly decide to turn to the USSR for help, but Moscow will be able to offer little, because it faces serious economic constraints of its own. In fact, the USSR is cutting back on deliveries of oil to Czechoslovakia, East Germany, and Hungary.// 

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