



Director of
Central
Intelligence

(PAS/cab B. Eddy)

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29 November 1982

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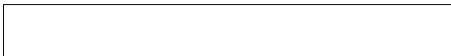
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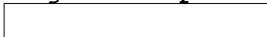


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BRAZIL: Government in Control After Election

Despite impressive opposition gains, the government retains control, particularly of the all-important presidential electoral college. 


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Nearly complete unofficial returns reported by the US Embassy and press services show the government party retaining its two-to-one edge in the Federal Senate but losing its control--by a small margin--of the Chamber of Deputies. It apparently won 12 out of 22 gubernatorial races and gained pluralities in 13 of 23 state legislatures. 

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The opposition parties received an estimated 62 percent of the national vote and fared impressively at all levels in the country's economic heartland and most populous areas. The opposition captured 10 governorships, including the major states of Sao Paulo, Rio de Janeiro, and Minas Gerais. 

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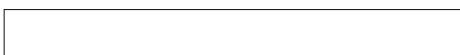
//Preliminary calculations give the government a comfortable majority in the presidential electoral college, which is to select President Figueiredo's successor in 1985. 

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Comment: The regime clearly intends to honor the election results completely, including the potentially troublesome election of leftist Leonel Brizola as governor of Rio de Janeiro. The government probably will seek accommodations with moderate opposition groups to retain control of the presidential succession and the political process generally in 1983-84. 

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[Redacted]

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USSR: Possible Credit for Gas Project

Western bidders may offer the USSR highly favorable financing terms for the large Astrakhan "sour" gas project. [Redacted]

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[Redacted]

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[Redacted] Several US Embassies report bidders are likely to offer official financing at about 8 percent and that Moscow would find this acceptable. [Redacted]

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The project, scheduled for completion in 1985, will develop a special gathering system and processing plants to extract sulphur and natural gas liquids from "sour" gas. [Redacted]

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[Redacted]

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The French Minister of Research and Industry will bring up the project during his visit to Moscow this week to discuss French-Soviet scientific exchanges. [Redacted]

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Comment: Fierce competition to provide credit could crack the fragile OECD consensus on interest rates. The Canadians evidently are considering a lower bid, and the Japanese could come close to the Soviet requirement. Some Western countries, in particular West Germany and the UK, may raise contract prices to compensate for reduced interest rates. [Redacted]

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The French apparently have not yet offered financing below consensus rates. Paris, however, wants French participation in the project in order to help reduce France's growing trade deficit with the USSR. [Redacted]

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[Redacted]

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[redacted]

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USSR: TASS Claims MX Violates SALT II

TASS's chief military analyst charged on Saturday that deployment of the MX missile in a "dense pack" basing arrangement will violate Article 4 of the SALT II Treaty-- which obliges each party not to build new fixed ICBM launchers. He also claimed that the decision to proceed with the MX indicates that the US no longer intends to observe the terms of the unratified SALT II Treaty. [redacted]

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Comment: The TASS charge is more specific than that made in a more authoritative *Pravda* editorial late last week. It is part of a campaign aimed at heightening Congressional opposition to the MX program and appealing to US political forces still pushing for ratification of SALT II. Technically, the MX does not need its silo for launch since its launch control equipment is contained in the canister that moves with the missile. [redacted]

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ISRAEL: Spending for Settlements in West Bank

A Knesset committee has approved an additional \$15 million to support Israeli settlements in the West Bank. [redacted]

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Comment: The new allocation was made to demonstrate the determination of the government under Prime Minister Begin to continue settlement activity. The additional sum is small because the Minister of Finance is trying to cut the government deficit. The current budget probably allocates \$200 million to support the settlements. [redacted]

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[redacted]

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[REDACTED]

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JAMAICA: Seaga Losing Public Support

A poll to be released soon by a usually accurate local forecaster, reveals Prime Minister Seaga's ruling party is losing popular support for the first time in five years. The survey indicates 53 percent prefer Michael Manley's opposition party to Seaga's. Since 1978 Seaga's party consistently has received the approval of more than 50 percent in the forecaster's polls. The next election does not have to be held before late 1985.

[REDACTED]

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Comment: The poll reflects dissatisfaction with Seaga's failure to deliver on his promises of new jobs and higher income. If the trend continues, the important "floating vote," which is crucial in Jamaican elections, could shift to the opposition. Manley's camp is still split, but it is showing more moderation in an attempt to stage a comeback, and it may gain from the defection of less affluent voters from Seaga.

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[REDACTED]

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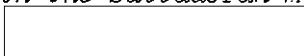
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Special Analysis


HONDURAS: Growing Threat From Radical Left

//Honduran terrorist groups, with major assistance from Salvadoran insurgents, appear determined to continue the expansion of their campaign of violence and subversion against the government. They are supported by the Cubans and Sandinistas, who hope to reverse the country's pro-US, anti-Communist stance. Nevertheless, President Suazo and Commander in Chief Alvarez are continuing to take a hard line against the leftist opposition and to provide strong support for both the Salvadoran military and the anti-Sandinista insurgents.// 

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//The leftist radicals are reacting to the government's growing cooperation with the Salvadoran military. The Honduran Army recently provided a large blocking force for a Salvadoran sweep operation along the border, and it plans similar support for a probable offensive scheduled to begin shortly. In addition, the Honduran Government continues to support anti-Sandinista activities despite increased Nicaraguan protests.// 

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//Salvadoran insurgents have already warned Tegucigalpa that dangerous consequences would result from its actions. Earlier this year the Salvadorans, working with local radical groups, bombed both a Honduran power plant and the offices of several US subsidiaries. More such attacks are likely in the near future.// 

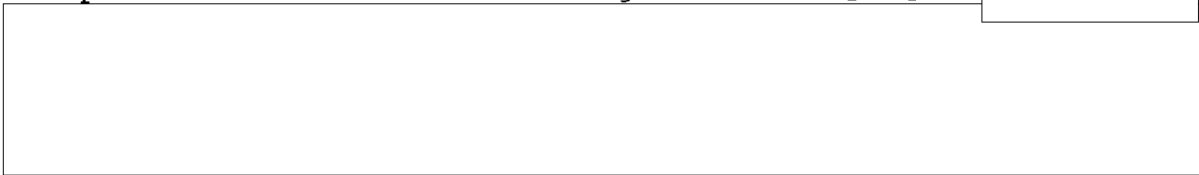
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Leftist Organizations

//Of the six known Honduran leftist groups, the two most active are Lorenzo Zelaya and the Cinchoneros, both of which are small and lack public support but have been responsible for numerous bombings and kidnappings. 

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//The Cinchoneros, established in mid-1980 as a radical offshoot of the orthodox Honduran Communist Party, reportedly have been aided by Salvadoran guerrillas on numerous occasions. These include a kidnaping in 1980, an airplane

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[Redacted]

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hijacking last year, and the seizure of high-level hostages during a meeting last September.

[Redacted]

[Redacted]

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//The Communist Party of Honduras, at Cuban urging, adopted a more radical strategy early this year. This shift has caused considerable internal dissension and a decline in membership and morale. If it receives greater foreign support, however, the party may be able to develop a more effective terrorist arm.//

[Redacted]

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//Several other radical leftist groups occasionally have been involved in subversion. These include the Maoist offshoot of the Communist Party and the local branch of the regional Revolutionary Workers' Party. These groups, however, also lack numbers and significant popular support.//

[Redacted]

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Aid From Cuba and Nicaragua

//Havana is giving new attention to the Honduran leftists because of its belief that Tegucigalpa is acting in complicity with the US against the Salvadoran insurgents.

[Redacted]

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//Nonetheless, the Honduran leftist groups so far have failed to coalesce. Bitter rivalries, tight budgets, lack of experience and training, and internal dissension over adopting a more radical strategy have plagued coordination efforts. This apparently has forced the better organized Salvadoran insurgents to assume a major role in promoting terrorism in Honduras.//

[Redacted]

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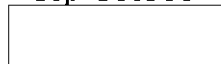
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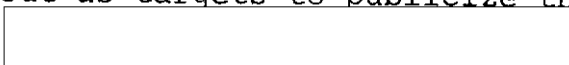
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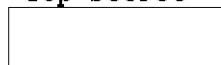
Outlook

//Havana and Managua are determined to make the government under President Suazo pay for its strong anti-Communist stance, and they will continue to encourage increased terrorism. In addition to bombings and sabotage, there probably will be more hostage seizures, kidnapings, and robberies. US businessmen and government officials may be singled out as targets to publicize the US presence in Honduras.//



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Special Analysis

INTERNATIONAL: New Competition for Markets

Brazil, Mexico, Singapore, South Korea, Taiwan, and the British colony of Hong Kong are moving rapidly into direct competition with the US and other industrial countries in the manufacture and sale of technically advanced products. Their drive to manufacture new products for which there are growing markets will add to unemployment in industrial countries. As they compete more aggressively, they will become more active participants in the GATT and other groups. They also may become an alternative source of technically advanced goods for the USSR.



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The progress of the leading newly industrialized countries has heightened the competition in several export markets that in the past have been dominated by industrial countries. The British Trade Minister attending the GATT ministerial meeting said last week the newly industrialized countries are causing major stress in world trade.



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Hong Kong and Taiwan are rapidly becoming established exporters of low-priced computers, mostly counterfeits of popular brands. Taiwan has made significant inroads into the market for automatically controlled machine tools, an industry that has been dominated by Japan.



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South Korea and Brazil are becoming major competitors to the US, West Germany, and Japan in world markets for standard and specialty steel products. In addition, South Korea and Brazil are now among the world's major shipbuilders.



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New Emphases

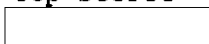
The five newly industrializing countries and Hong Kong no longer enjoy an advantage in producing textiles, footwear, and the other labor-intensive exports that had helped them develop economically. Growing shortages of labor have increased the costs to produce these exports. The competitive advantage has shifted to India, the Philippines, Pakistan, China, and other countries where labor costs remain low.



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The four Asian and two Latin American competitors are placing new emphasis on industries that require more capital, skills, and technology. This emphasis is causing labor productivity to rise in Singapore and South Korea and is attracting more foreign investment, particularly in Singapore. [REDACTED]

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Brazil is acquiring a reputation for reliable design and manufacture of small computers, Singapore for precision engineering products and electronics, and Taiwan for machine tools. Mexico is behind the other five, but its developing industrial base is making it a competitive producer of large generators and steel. [REDACTED]

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Further Advances in Prospect

The newly industrializing countries probably will continue to develop their steel, shipbuilding, and automobile industries. They also will make more of the components used in the electrical products they produce and in other light manufactured goods. [REDACTED]

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In addition, the newly industrializing countries are likely to make substantial inroads into machine tools, telecommunications equipment, small computers, and other low- and medium-technology growth industries. They probably will become centers for financial, business, transportation, and information services. [REDACTED]

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How quickly each of the six countries becomes competitive in these fields depends on the economic vitality of the more advanced industrial countries. To succeed, the newly industrializing countries have to cope with growing shortages of skilled labor; develop marketing, spare parts, and servicing networks; and build a research and development capability. With their more stable economies and advanced industry, the newly industrializing countries in Asia probably will do better than Brazil and Mexico. [REDACTED]

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[REDACTED]

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Implications of New Competition

The US and other advanced industrial countries may benefit somewhat as the six develop their technical production capacity. The demand for US capital equipment and technology will increase, and there will be new opportunities for investment, licensing, and credit transactions. [REDACTED]

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These benefits will be outweighed by the losses incurred, however, as the new competitors make inroads in profitable markets and secure access to raw materials that are in limited supply. The tensions that have developed between industrial and developing countries over the manufacture and sale of labor-intensive products will extend to low- and medium-technology products. [REDACTED]

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The new competitors are likely to use GATT rules to protect their markets for commodities they have been selling for many years, at the same time exploiting them to secure favorable or at least nondiscriminatory tariff treatment. They also will use GATT and other international institutions to protect their domestic markets from sales by less developed countries. The six also may become a source of supply to the USSR for low- and medium-technology products, including computer equipment and software, microelectronic products, telecommunications systems, and machine tools. [REDACTED]

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[REDACTED]

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