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# Weekly Review

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15 November 1974

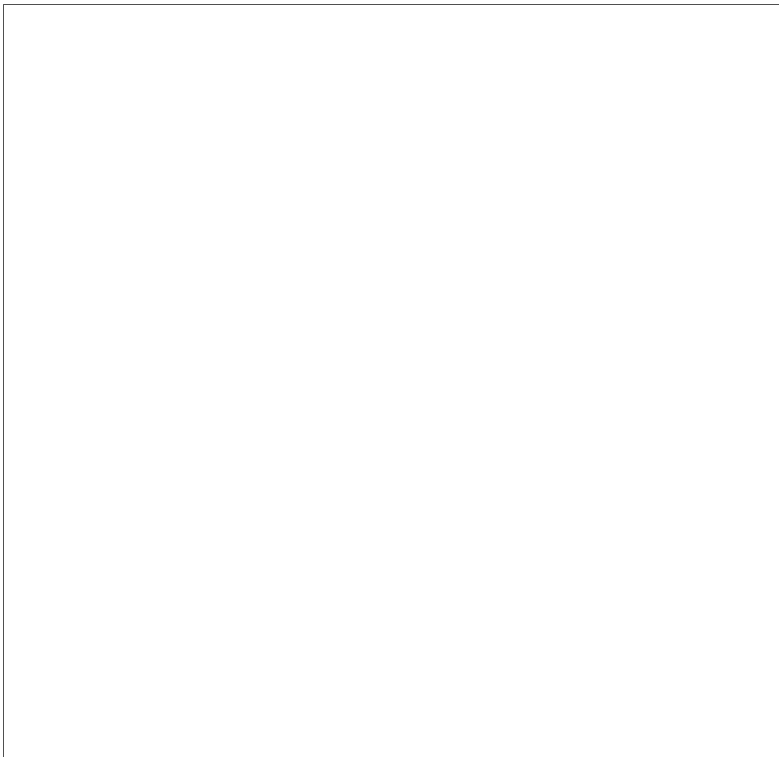
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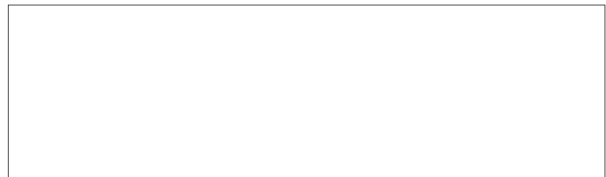
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Members of the Palestine Liberation Organization arrive at the UN

## Palestinians at the UN

Palestine Liberation Organization chief Yasir Arafat asked the UN General Assembly on November 13 to back the Palestinians' right to return to their homeland, to determine their own future, and to establish a national authority on any Palestinian territory "from which Israeli occupation is removed."

These points were drawn from a comprehensive policy statement approved by the PLO's parliamentary body in Cairo last June. Arafat, in his address at the UN, did not repeat the more radical planks of that platform, notably the standard PLO threats directed at Israel. In June, Arafat approved a statement that the PLO would use all means, "foremost of which is armed struggle," to liberate Palestinian land; at the UN, he asked that there be no more bloodshed.

Arafat did not repeat either the Palestinians' usual rejection of UN Security Council Resolution 242, which provides the legal basis for the Geneva peace talks, or their frequent denunciations of Jordan's King Husayn. These omissions almost certainly reflect the PLO leaders' current

inclination to hint at compromises with Israel and Jordan in the hope of gaining a meaningful role in peace negotiations and eventually winning control of a truncated Palestinian state.

Arafat's resort to intangible appeals for justice for the Palestinians and his tactic of avoiding threats to Israel were designed to gain wide support for the Palestinians and to avoid giving offense to Israel's backers, particularly the US. The PLO chief decried US support for Israel, which he charged is not in the interest of the "American masses." He appealed to the American people for friendship and for more fruitful relations with the Arab world.

Because the Palestinians have no official status at the UN, Arafat did not offer a specific proposal for a resolution on the Palestine question. Such a proposal will be introduced later in the debate, probably by Egypt.

Arab delegates are unanimous in their assessment that the Palestinians would be satisfied with a modest resolution that demands a Palestinian

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entity but recognizes—at least implicitly—Israel's right to exist. Such a resolution, they believe, would achieve two important objectives: win international recognition for the political rights of the Palestinians and create a better image for the PLO. The Arabs expect such a resolution to be passed by an overwhelming majority. They are hopeful the US will abstain.

Debate on the Palestine question is expected to last until November 21. In order to ensure that its views are heard, Israel has reserved the right to address each session. The Arabs responded by claiming the same prerogative for Syria, their spokesman.

In an initial reaction to Arafat's UN speech, Israeli Prime Minister Rabin said it challenged

Israel's very existence and was made on the assumption that Jews have no right to a state. Rabin emphasized, however, that Israel would continue the search for peace with the Arabs in every way—directly or indirectly.

Arab residents in the Israeli-occupied West Bank staged several demonstrations in support of the PLO this week. A general strike called for on the West Bank by PLO broadcasts to mark Arafat's UN debut met with only limited success, however, in the face of intensive Israeli pressure. The major exception came in Nablus—long a hotbed of anti-Israeli activity—where the strike was almost totally effective.

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## The Middle East

### OPTIONS NARROW

Arab and Israeli reaction to Secretary Kissinger's visit last week, as reflected in their respective media, has been muted, and neither side has struck any notes of optimism on the prospects for further peace negotiations. The circumspect press commentary is partly due to the fact that so little information on the visit has been made public. Even more, it probably reflects recognition on all sides that the options for restoring negotiating momentum have narrowed considerably since the Arab summit last month.

Both Egypt and Israel still appear to be focusing on a further disengagement in the Sinai as the only means of breaking the present deadlock. The Israeli press has speculated that Secretary Kissinger may pursue this subject in another visit to the Middle East next month or else invite Egyptian and Israeli representatives to begin talks then in Washington. Israeli Foreign Minister Allon, however, has stated publicly that "a great deal of clarification is needed before negotiations can be revived." The US embassy in Tel Aviv adds that the Israelis are not optimistic because, as one

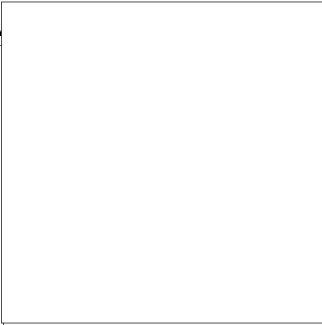
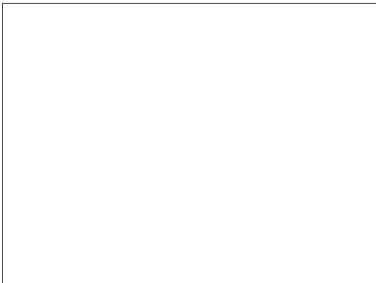
leading daily noted, there is an "abysmal gap" between Israel's demands for a political settlement with Egypt and the more narrow military agreement Egyptian President Sadat is prepared to concede.

During the Secretary's visit, Sadat publicly affirmed his belief that a step-by-step approach remains viable, and he clearly would prefer to pursue unilaterally a further disengagement in the Sinai. Nevertheless, there were indications during the Arab summit that he was heavily pressured by other Arab leaders not to proceed before extracting a commitment from the US and Israel that Syria would also be included in any future phase of negotiations. Syria thus continues to play the pivotal role. Prospects for breaking the deadlock on the Arab side appear to hinge on whether or not President Asad believes that Sadat is ready to insist on linking another Israeli withdrawal in the Sinai with one on the Golan Heights.

Sadat has continued to hedge his bets on this subject in public. He has claimed both that the Arab summit decisions have not impaired Egypt's freedom to negotiate and that future negotiations

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must be "on all fronts."



tion would provide Israel with a justification for attacking Syria. 25X1

Asad's military advisers presumably recognize that hostilities, once begun, could not be confined to a repetition of the artillery duels and patrol actions that Syria employed to reinforce its bargaining points in the disengagement talks last spring. If Asad should decide that ending the mandate involves too much risk of a destructive Israeli attack, he might justify a limited extension of a few months as necessary to allow time both for more vigorous diplomatic efforts and for the completion of military training and defense construction programs.

Despite the persistent Syrian misgivings about a step-by-step approach and about Egypt's attitude, it seems most likely that Sadat has had to give Asad some private assurances that Egypt will demand simultaneous progress in negotiations and, perhaps, even that Egypt will support Syria if it is attacked. The crucial question at the moment appears to be whether or not Syria can be sufficiently mollified to allow some form of preliminary Egyptian-Israeli talks to take place that could be billed as the first step in a "simultaneous" negotiating process.

When Asad makes his play on the mandate issue, it will be based as much on political as on military factors. He probably believes that the negotiating options have not yet been completely exhausted. As usual, however, he has his cards very close to his chest.

**MORE EXERCISES—NEW PLANES**

Syria's principal concern is that the opening of any new Egyptian-Israeli discussions would reduce its leverage on Israel and give Tel Aviv an excuse for postponing further any consideration of concessions on the Golan Heights. Earlier this month, Prime Minister Rabin reiterated that Israel is ready to resume negotiations with Syria, but there have been no indications that the Israelis are preparing to make new proposals. If Israel continues to balk, Asad could attempt to force the issue by pressing for reconvening the Geneva conference.

Egyptian military exercises continued at a high level during the week. Syrian and Israeli forces also maintained their vigilance, but there were no indications that either side took any unusual measures to increase the alert levels of their forces. 25X1



What Syria does about the renewal of the mandate of the UN observer force on the Golan front, which expires at the end of this month, has been regarded as a key indicator of Asad's attitudes and intentions. Speculation continues that he may refuse to extend the mandate to demonstrate at home and abroad his dissatisfaction with Israel's failure to offer concessions. This week there were some signs that military considerations could prevent Asad from playing this card. The Jordanian ambassador in Damascus said that he was told that Syria will be forced to agree to extend the mandate out of fear that cancella-

The exercise probably reflects Egyptian concern that the Israelis would use their three landing craft in the Mediterranean to seize Port Said from the sea as part of a general offensive to regain control of the Suez Canal. These landing craft could carry about 1,000 Israeli men for an amphibious assault. 25X1



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## Austerity Measures in Israel

The cabinet announced a number of new economic measures this week, highlighted by a 43-percent devaluation of the pound. The new measures are the latest in a series of steps designed to correct the country's economic ills caused by the burden Israel's military program places on the country's resources. Last July the government implemented a number of measures aimed at slowing the rate of inflation and trimming nonessential budget outlays. A third economic package that will concentrate on wage, income, and tax reforms has yet to be announced.

The latest measures deal almost exclusively with slowing Israel's foreign currency drain. In addition to the devaluation of the pound from 4.2 to 6 per US dollar, the government has moved to:

- Freeze imports of certain luxury goods, including autos, for six months.
- Raise the foreign travel tax.
- Increase utility taxes and the prices of petroleum products.
- Reduce subsidies on many basic commodities.

- Extend the national wage agreement for one year.

Finance Ministry officials said the new economic program was made imperative by the large decline in foreign exchange reserves. At the end of September official reserves stood at \$1 billion, a drop of \$800 million since the beginning of the year. According to Israeli officials, the new measures will save an estimated \$700 million in foreign exchange.

Israel's current account deficit has soared to \$3.5 billion this year from a deficit of only \$1 billion before the war. Arms purchases from abroad have accelerated and put added pressures on reserve holdings. Defense imports this year will probably total \$2.4 billion, compared with \$500-600 million a year before the war. Although the US is covering the bulk of Israel's arms imports with official aid, Israel apparently has purchased up to \$400 million in arms under commercial contracts. The sharp rise in world food prices also has contributed to Israel's trade woes.

The new measures will surely aggravate inflation, which has increased 40 percent since the war. The reduction in basic foodstuff subsidies

alone has caused the consumer price index to rise 17 percent—some officials are speculating that prices could rise as much as 50 percent within a year.

Much will depend on whether the Histadrut labor federation, whose support is vital to the program's success, agrees to go along with the government's desire to hold the line on wages. Prime Minister Rabin's bargaining position was strengthened when the Knesset voted 59 to 41 on November 12 to approve the economic package. Nevertheless, Rabin will probably have to make some concessions to the Histadrut. The government has already promised to work with the union to ameliorate the effects of price increases

on low income groups, large families, poor elderly people, and welfare recipients.

Although the Israeli public anticipated many of the government's actions, their severity when officially unveiled came as a shock and led to a series of demonstrations, brief strikes, and rioting in parts of Tel Aviv. Arabs in the Israeli-occupied West Bank—which is closely linked to the Israeli economy—also demonstrated against the rise in price of basic commodities. Violent protests such as occurred in Tel Aviv were the exception, however. Press commentary on the new program was generally favorable, conceding the necessity for harsh measures, but cautioning the government to ensure that their impact is distributed equitably.

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Bodyguards hold back protesting Israelis as Prime Minister Rabin (seated) looks on



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Karamanlis

## GREECE: FIRST ELECTION IN A DECADE

The conservative New Democracy Party led by Prime Minister Karamanlis is favored to win the elections this Sunday. Much is riding on voter confidence in Karamanlis, who has made his experience and proven ability to govern one of the main issues in the campaign. The size of his victory will determine how flexible he can be on Cyprus, NATO, and in relations with the United States. It will also influence Greece's future political structures, as the new parliament is empowered to revise the constitution.

Should Karamanlis fail to gain an outright majority in parliament, he will form a coalition

government with the centrist Center Union - New Forces led by George Mavros, which is expected to come in second. Such a coalition would be much like that which took over this summer when the military stepped down. Mavros is less flexible than Karamanlis on Cyprus and NATO and less favorably disposed toward the US. A coalition dependent on Center Union support might therefore prove unwieldy at times, but can be expected to keep Greece on a basically pro-Western course and act responsibly on the Cyprus and Aegean issues.

Issues in the campaign have been overshadowed by the leading personalities, most of whom were active in politics before the 1967 military coup. The parties have been reconstituted, however. Karamanlis has dropped conservatives who collaborated with the junta and has tried to broaden the base of his support by bringing in a large number of new faces. Mavros has picked up several colorful candidates who had been associated with resistance to the junta, such as the would-be assassin of ex-President Papadopoulos. Mavros' leadership and party organization is weak, however. More important, as Karamanlis' former foreign minister, he has found it difficult to establish a separate identity for himself and his party, which is, in many ways, ideologically similar to that of Karamanlis.

Popular discontent with the past seven years of military rule plus anti-American sentiment over Cyprus provide the left wing with promising terrain to exploit, but the left is split between Andreas Papandreou's Panhellenic Socialist Movement and the United Left. Papandreou has been exploiting themes of betrayal in Cyprus, hostility to NATO, neutralism, a vague socialism, and anti-Americanism to obtain considerable popularity among intellectuals, radicalized students, and youth. He is mistrusted by the farmers and the middle class, as well as by the establishment, however. In addition, complicated registration procedures and the requirement that voters must cast their ballots in their place of origin may limit the turnout of student voters. Papandreou is also running more political unknowns than any other party and is fielding candidates in only 33 out of 56 electoral districts. He and the Center Union -

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New Forces are expected to split about 40 percent of the vote, with the Center Union getting the larger share.

The United Left, a grouping of two Communist parties and a former communist-front group, is the only major group in the election that has been ruled a coalition by the Supreme Court. This means that the United Left must obtain 30 percent of the vote in order to be eligible to participate in more than the first "distribution" of seats under Greece's complicated proportional representation law. Most observers do not give the United Left more than 15 percent of the vote. With perhaps as much as 30 percent of the vote the leftist groups—the United Left plus Papan-dreou—could be a vocal factor in the new parliament.

Except for Papandreou, the parties have treated the Cyprus issue gingerly. They all support a solution "safeguarding the rights" of their ethnic brothers on the island. The Panhellenic Socialist Movement and the United Left have urged the return of Archbishop Makarios. The Center Union urges a solution through inter-communal talks, while Karamanlis has been reminding voters that a strong Greek government with a decisive policy is in the best position to handle the Turks.

Punishment of those who supported the junta has been a key issue. Karamanlis has defused it somewhat by exiling the five key members of the junta that overthrew the civilian government in 1967 and promising legal action against them. He has avoided taking harsher measures in order not to alarm the army and the extreme right.

Right-wing forces, represented by the National Democratic Union led by Petros Garoufalias, are unlikely to win more than 5 percent of the vote. They are apprehensive about the legalization of the Communist Party and other measures they interpret as a leftward drift, but appear to be willing to give Karamanlis time to work things out. Although pro-junta forces cannot be completely discounted as potential perpetrators of a coup against Karamanlis, they probably lack sufficient support in the army to bring Kara-

### ENERGY: THE NEUTRALS

Sweden, Austria, and Switzerland have decided to join the US-backed International Energy Program but with certain conditions attached that relate to their neutrality. The decisions represent an important political milestone, given the fact that the neutrals have heretofore consistently avoided alignment with any politically committed group. Joining the program will mean a break with that tradition, even though it does not portend moves toward closer cooperation with Western Europe on political and security matters.

The realities of the oil shortage and the memory of last winter's oil embargo compelled the three to give serious consideration to joining. Each is concerned, however, that its neutral status not be compromised. In order to soften the impact of an affirmative decision and to justify it domestically, the three are insisting that a neutrality statement be attached to final acceptance of membership. The neutrality declaration is not intended to act as an escape mechanism, and the three have promised to adhere strictly to the obligations of membership.

The International Energy Program was developed by the Energy Coordinating Group established last February in Washington. Under the emergency plan, the US, Canada, Japan, and all of the EC countries except France would share oil reserves and reduce energy consumption in the event of a future oil embargo or cutback in production. Europe's other neutral, Finland, reportedly is studying the possibility of some sort of affiliation with the IEP, but will have to consider the likely Soviet reaction before making a final decision.

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manlis down. Nonetheless, the unofficial campaign slogan of New Democracy—"Karamanlis or the tanks"—is probably an effective reminder for the voter of the past seven years of military dictatorship.

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## TURKEY: NEW PRIME MINISTER NAMED

With the naming of Sadi Irmak as Prime Minister-designate, President Koruturk appears to have found a formula for breaking the eight-week-old political stalemate. Irmak, a political neutral, has begun a series of talks with leaders of Turkey's major political parties in an effort to put together a broad coalition that will move the nation toward early elections next spring or summer.

The breakthrough apparently came after President Koruturk threatened to resign unless the party leaders reached agreement on forming a government. Democratic Party leader Bozbeyli then proposed a broad coalition government that would be headed by an independent and would exclude the participation of party leaders. Most of the party chiefs had rejected former Prime Minister Ecevit's call for early elections as a condition for a new government, but Koruturk reportedly has persuaded them to accept that idea as well.



The 70-year-old Irmak, who was inactive in politics for 24 years before he was named to the senate as a presidential appointee this year, will have difficulty molding this disparate group into a working government. His primary role will be to act as caretaker until new elections can be held that will give one party or another a clear mandate to govern.

Despite the preliminary approval the party leaders have given to this formula, Irmak still has several hurdles to clear. The formal process of organizing a government requires Irmak to:

- Name a full cabinet, which with presidential approval will become the acting government of Turkey.

- Prepare a government program for submission to parliament.
- Present this program for debate and a vote of confidence.

There are a number of pitfalls along the way: particularly the distribution of cabinet portfolios. Although the agreement arranged by Koruturk reportedly calls for the coalition parties to share the posts on a basis proportional to their representation in parliament, disputes could arise over which parties will get the more prestigious assignments. Irmak could also run into difficulty persuading parliament to go along with early elections, inasmuch as many of the deputies will fear that Ecevit's national popularity—as a result of Cyprus—will carry his Republican People's Party to victory.

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Except for the right-wing National Salvation Party, there appears to be general agreement among Turkey's political leaders on policy toward Cyprus. Irmak has announced that he plans to continue the Cyprus policy of former prime minister Ecevit,

If Irmak succeeds in forming a "national coalition," it might defuse Cyprus as a political issue by sharing among all the likely contestants in the next election the accolades or blame resulting from any effort to negotiate a settlement with the Greeks.

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## EC SEARCHES FOR ENERGY POLICY

EC deliberations on a common energy policy are picking up after being stalled for years. There is concern lest community functions be usurped by the new International Energy Agency to be inaugurated November 15 as an autonomous body within the Organization for Economic Cooperation and Development. Movement on an EC

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policy is also seen as a way to induce France to join the international agency and to assure a role for the EC as an entity in the conference between producers, consumers, and developing countries that France has proposed.

French President Giscard's bid for a conference early next year to discuss oil prices caused embarrassment among Paris' EC partners. They have not wanted to rebuff a French initiative, and they share to some extent the French desire to avoid an atmosphere of "confrontation" with the Arab producers. Nevertheless, they know that the French plan would not adequately allow for the prior development of a consumer position, one of the principal aims of the US-backed international agency.

France also wants a common EC policy that would, among other things, lay down guidelines for restrictions on consumption and for developing alternative energy sources. Most of France's partners may now be taking a friendlier look at EC Commission proposals along these lines, not least because agreement on EC measures—even in a watered down form—could be hailed a success of the December summit of the Nine.

French Foreign Minister Sauvagnargues himself made an attempt at this week's ministerial EC political cooperation meeting to marry Paris' own earlier proposals with Commission proposals and to take account of responses to the conference idea. While calling for agreement by the summit on elements of an internal EC policy—deliberately left vague as to targets and dates in order to minimize possible opposition—the new proposal is more positive about the contribution the international agency could make toward cooperation among consumer countries. In return, the French want the EC leaders to "note with satisfaction" France's proposal for the consumer-producer conference and to agree that the EC intends to participate in it as a single entity.

France's conciliatory suggestions—including an observer role for the Commission at the international agency—found initial favor among the

Nine, although the British still appear quite reserved about the consumer-producer meeting. By aiming at positive decisions at the December summit, Paris may be implicitly recognizing its partners' criticism that a "preparatory meeting" this month for the consumer-producer conference would be premature.

Although Paris will continue to press for such a conference, which would enhance French pretensions to be an honest broker between consumers and producers, this week's EC meetings seem to have reinforced the priority to be given consumer cooperation within the international agency, on the one hand, and to establishing common EC internal policies, on the other. The UK may still be an obstacle to early agreement on internal measures. London would prefer that the summit give a boost to the Labor government's hopes for renegotiation of its EC membership terms rather than concentrate on energy matters. Differences between France and its partners persist, moreover, over how free a common EC oil market should be.

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Sauvagnargues (r) and Irish Foreign Minister Fitzgerald (l) at the meeting

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**SPAIN: NEW DEFENSE TIES WITH US**

Spanish negotiators formally advised a visiting US delegation last week that Madrid intends to seek a new defense relationship with the US. For some time the Spanish press has been citing the inadequacy of the present agreement of friendship and cooperation that covers US use of base facilities in Spain. Suggested solutions have ranged from calls for a mutual defense treaty all the way to demands that the US get out.

During the initial round of negotiations on renewing the present agreement that expires next September, the Spaniards stopped short of asking for a mutual defense treaty. Nevertheless, by emphasizing the desirability of joint military planning and coordination of the Spanish defense role with that of the US and NATO, the Spaniards made it clear that a treaty is what they want.

The Spaniards are trying to use the bilateral Declaration of Principles governing relations between Spain and the US, which was signed in July to parallel the NATO declaration, as a lever to get a firmer defense tie. They argue that the declaration went beyond the provisions in the present agreement governing the use of defense facilities in Spain and signaled a stronger US commitment to grant the Spaniards the same treatment in the defense field as that accorded the NATO allies. Consequently they want the new agreement to incorporate the spirit of the declaration. The Spaniards argued that they could no longer justify to their people the increased threat to Spain brought on by the presence of US bases without being able to cite closer Spanish defense ties to the West.

The principal US negotiator has asserted the willingness of the US to continue and strengthen defense cooperation, but argued that the US believes this could be accomplished within the framework of the current agreement.

The next plenary session will be held early next month in Washington. The agenda will cover the nature of the defense relationship and closer coordination of Spain's defense planning with that of the West. The chief Spanish negotiator

stated that these two items constituted the main concern of his government and would have to be agreed upon before Spain would consider two other items proposed for future meetings: renegotiation of terms governing use of facilities provided to the US as well as conditions governing their utilization, and renegotiation of the military quid pro quo.

Two additional items were also proposed: economic, technical, and cultural cooperation—which will be considered by specialized study groups—and the composition and functioning of joint institutions to administer the agreement.

At the December session the Spanish negotiators can be expected to make a strong pitch for a treaty in spite of US warnings of the difficulty of getting congressional ratification. This will reflect sentiment expressed with growing frequency in the Spanish press that Madrid is negotiating from a position of strength. The installation of a leftist government in Portugal and the threat to the eastern flank of NATO created by the Cyprus crisis may have convinced Madrid that base rights in Spain are all the more vital to US interests and will enable Spain at long last to insist on the security treaty that many Spanish officials have long wanted.

**Western Europe  
CIVIL AIRCRAFT SALES DOWN**

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Major manufacturers of civil aircraft in Western Europe—concentrated in France, the UK, West Germany, and the Netherlands—have been rocked by new developments in the already troubled industry.

- Recent financial reports show severe losses for many international airlines, including several in Western Europe.
- Spain's Iberia Air Lines canceled an order for four of Europe's consortium-built A-300 Airbuses. Ironically, Spain is a member of the consortium.

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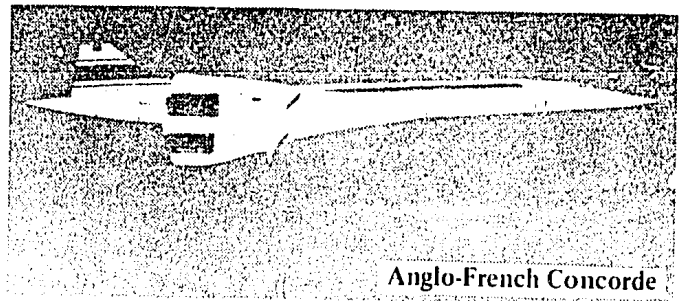
- Hawker-Siddeley decided to halt development work on the new four engine HS-146, a 70-100 passenger short-haul feeder-line aircraft.

These events are part of the general economic uncertainty facing the civil aircraft industry in Western Europe. Rising fuel costs and lagging traffic demand are cutting into the operations of many international airlines, and the carriers are reluctant to make commitments for additional aircraft, either in Europe or elsewhere. Consequently, Europe's consortium and national aircraft programs have suffered, and the industry has kept going only because there are still backlogs of unfilled orders.

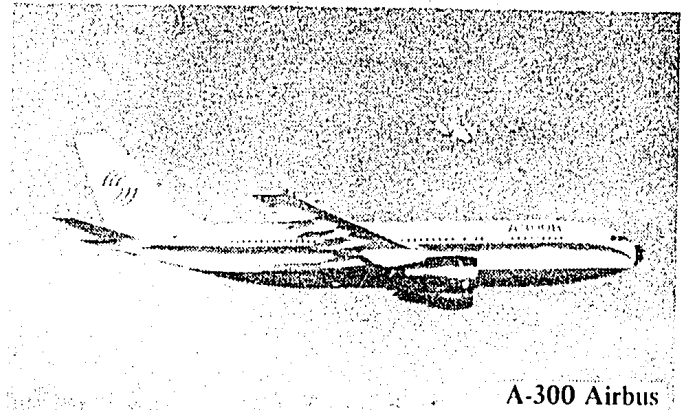
Both of Europe's major consortium aircraft—the Anglo-French Concorde and the Airbus—are in trouble. Despite technological successes, mounting costs for the Concorde are severely limiting sales. French support—which in the past was unwavering—now appears in doubt. Some government officials have mentioned that any aircraft produced after the initial production run of 16 might cost \$90 million. At the current \$45-million price, which is triple the original estimate, only 9 Concordees have been sold to the captive markets of Air France (4) and British Airways (5). Iran, which may buy 2 by the end of 1974, is the only other country expected to purchase the aircraft in the near future.

Orders for the A-300 Airbus—a joint effort of five European countries—have been poor. Sales were hurt by delays in early production schedules in 1969-70, allowing US manufacturers to get at least a two-year jump on deliveries of the similar widebodied McDonnell Douglas DC-10 and Lockheed L-1011. These delays, coupled with lagging traffic, have limited sales over the past several years to 23 aircraft—less than one tenth of the estimated break-even point of 250. Despite this slow pace, however, many Europeans remain optimistic about the aircraft's long-term prospects.

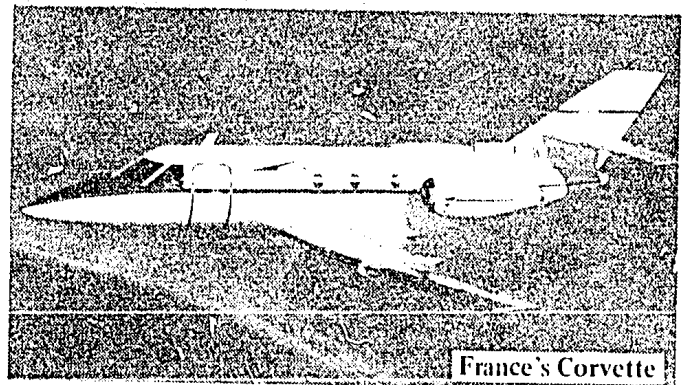
The failure of consortium programs has undermined many of Europe's national civil aircraft activities. In France, problems have been compounded by a host of difficulties with new



Anglo-French Concorde



A-300 Airbus



France's Corvette

aircraft, including the 150-passenger Mercure, the feeder-liner Falcon 30, and the Corvette Exec jet. In the UK heavy costs involving the Concorde have undermined development of new commercial aircraft and forced the industry to rely on existing orders for aircraft currently in production. West Germany and the Netherlands have benefited from lesser involvement in the major consortiums and met with some success in the jointly manufactured F-28 and the new VFW Fokker 614, both shorter range aircraft of a type not currently being produced elsewhere

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## ITALY: CRITICAL CROSSROADS

The search for a new Italian government entered a decisive phase this week. Although there is no hope for reviving the center-left coalition in the immediate future, Foreign Minister Moro may secure agreement on a formula for a caretaker government that would keep the center-left alive in principle. His negotiations, however, have left the dominant Christian Democrats in a difficult position.

Moro, who leads the Christian Democratic left, is trying to set up an all-Christian Democratic cabinet supported in parliament by the other coalition parties. During the postwar period, Italian politicians frequently resorted to this arrangement—the so-called “monocolore” government—to let the dust settle after a major political blowup. Such an administration would preserve a semblance of partnership among the parties and could pave the way for a later attempt to resuscitate the center-left coalition, still the only workable non-Communist government that can be drawn from the present parliament.

Among the former coalition partners, only the Social Democrats refuse to support such a solution. The Social Democrats have maintained throughout the six-week-old crisis that any government relying on Socialist support would be “open to the Communists”; they now insist that the loose structure of a “monocolore” administration would make it doubly vulnerable to Communist influence.

The Socialists and the other parties are playing down the Communist issue, and Moro would like to put the matter on ice for the time being. He wants to first nail down an agreement on economic policy; the parties are close to a compromise on bread-and-butter issues.

Moro would just as soon dump the Social Democrats if they remain adamant in the face of agreement among the other parties on economic

policy. The key question is whether he can persuade the rest of his party to take such a step. Although Social Democratic support is not needed for a majority, the Christian Democrats have kept them in the cabinet to dilute Socialist influence.

Dropping the Social Democrats from the parliamentary majority of a caretaker government could establish a precedent for excluding them from the next center-left coalition—a move that would inevitably strengthen the influence of the Socialists and give the coalition a more leftist complexion.

Moro appears to have qualified support from Christian Democratic boss Fanfani, and this could tip the balance against the Social Democrats. There is still resistance to the idea, however, in the party's key center faction and among right-wing Christian Democrats.

All of this means that the Christian Democrats may have to choose the lesser of two evils. If they jettison the Social Democrats, they eventually will have to yield more of the perquisites of power to the Socialists. If, instead, they side with the Social Democrats against the Socialists, they will not be able to muster a center-left majority. At that point, the only thing standing between the Christian Democrats and new elections—in which they would probably lose votes—would be a right-leaning coalition including the small, conservative Liberal Party. Although it is a numerical possibility, such a coalition could not govern effectively or for long against the opposition of the Socialists, Communists, and labor unions.

The Communists are lying low. They have little to lose no matter what the Christian Democrats decide. The Communists prefer to avoid an electoral battle now, but if it came they would probably do well. On the other hand, if the Social Democrats end up in the opposition, the number of anti-Communist voices in the government will have been reduced.

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## USSR

## QUIET ANNIVERSARY

The 57th anniversary of the Bolshevik Revolution last week brought forth the traditional speeches and ceremonies, and few surprises. Foreign Minister Gromyko—representing the Politburo—delivered the major address on November 6. He concentrated on a routine cataloguing of Soviet foreign policy accomplishments and positions, replete with flattering references to Brezhnev. His moderately optimistic remarks included a statement that the USSR favors agreement with the US on halting the quantitative and qualitative arms races. He said the Soviets will strive to make the Vladivostok summit a meeting of great importance to the continued improvement of US-Soviet relations.

Gromyko called again for an early conclusion to the European Security Conference, implying that a successful outcome in Geneva is a prerequisite to progress at the Vienna force reduction negotiations. He was particularly pleased with the state of Soviet relations with France, West Germany, Finland, and India among the non-Communist nations and exhorted Japan to match Soviet overtures of good will.

Turning to the Middle East, he reaffirmed Soviet support for Palestinian statehood and predicted that Brezhnev's visit to Egypt in January would be of "tremendous significance."

Gromyko reiterated earlier Soviet accusations that China's leaders have aligned themselves with the enemies of detente and against the Soviet Union and the socialist community. His tough statement provoked a walkout by the Chinese ambassador, a ritual occurrence in recent years. Gromyko's speech preceded by four hours a Chinese broadcast of greetings to the Soviet government, a message containing an unexpected proposal for dealing with the Sino-Soviet border dispute.

On November 7, Defense Minister Grechko made a brief speech in Red Square prior to the traditional parade. He acknowledged the reduced threat of nuclear war, but pledged to defend the gains of socialism against the "forces of international reaction" which, he said, have not laid down their arms. He expressed satisfaction with the Soviet armed forces and assured his listeners that the Soviet party and government are paying urgent attention to strengthening the country's defenses.

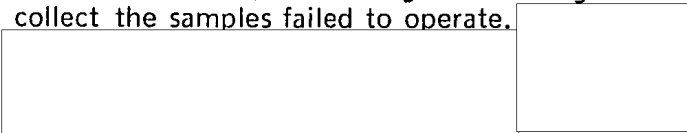




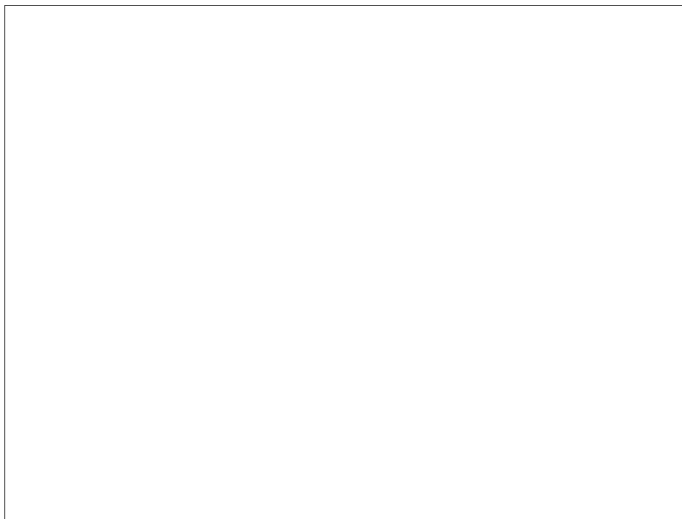
The military parade included no new weapons systems. The civilian portion was canceled, apparently at the last moment, with inclement weather given as the reason. This unusual step may have been taken to guard the health of aging Politburo members, most of whom were reviewing the proceedings from atop Lenin's tomb.

**LUNAR MISSION FAILS**

Early this week the Soviets suffered another failure in their program for obtaining soil samples from the moon. The Luna 23 spacecraft—launched from Tyuratam on October 28—was damaged nine days later while landing on the moon in rough terrain, according to a Tass statement. As a result, the drilling device designed to collect the samples failed to operate.



The Soviets continue to have difficulty landing spacecraft of this sort on the moon. Of the five soil-sampling spacecraft that have reached the moon, only two—Luna 16 in September 1970 and Luna 20 in February 1972—landed intact, collected samples, and returned to earth. Because of limitations in the method used for returning the soil sample to earth, the Soviets are restricted to collecting samples from an area near the lunar equator.



**BULGARIAN GOVERNMENT CHANGES**

The government personnel shifts announced on October 31 reflect Sofia's continued concern over ideology and the economy. The changes seem to have been designed to give the Bulgarian Council of State new responsibilities in these two areas.

Two deputy premiers—Ivan Popov and Petur Tanchev—were transferred to vice presidential slots on the State Council. Popov, a noted scientist who advocates greater use of Western technology to modernize the economy, is a trusted adviser of Zhivkov, who is also the council's chairman.

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Tanchev was deputy premier for agriculture, and he may retain this responsibility on the council. He is also the working head of the Agrarian Union, the so-called opposition party, and his transfer may be intended to give substance to the contention that the council is, in fact, the "corporate head of state" it was designed to be when created in 1971.

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Among the other changes, Mitko Grigorov, the party's former ultraconservative ideologue, was promoted from member to vice president of the council, and Evgeni Mateev, a talented economist, was made a member. Neither man has been among Zhivkov's friends, and their promotions will probably lead to speculation that the move was a concession to a faction within the party leadership. It is more likely, however, that their assignments were part of the effort to strengthen the council rather than the result of political infighting. In any case, none of the changes affects the balance in the top party leadership.

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The new appointments also preserve the balance of the Council of State's membership, which from the outset has embraced representatives of all sectors of Bulgarian society. In addition to its protocol and ceremonial duties, the council will probably now become more deeply involved in the day-to-day running of the country. It may take some of the burden off the Council of Ministers for supervising local and district administrations. Up until now, the Council of State and Council of Ministers have shared this responsibility.

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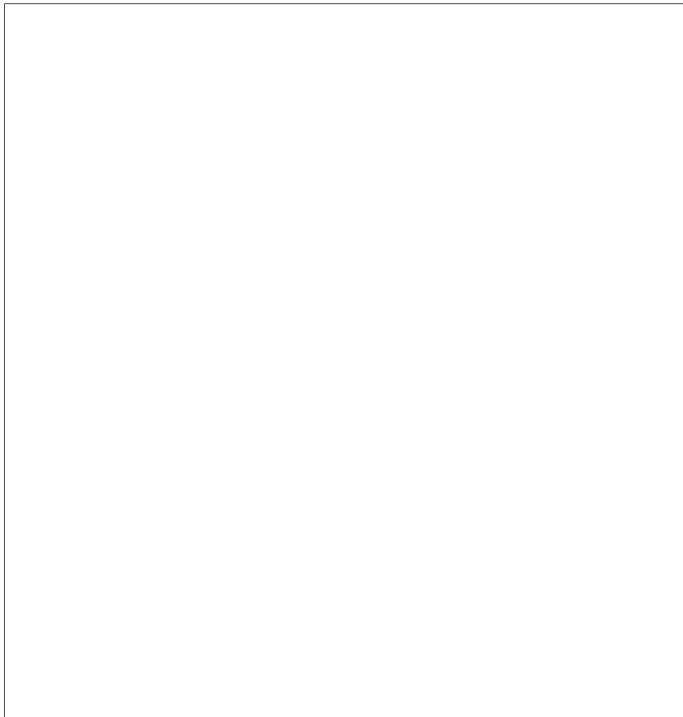
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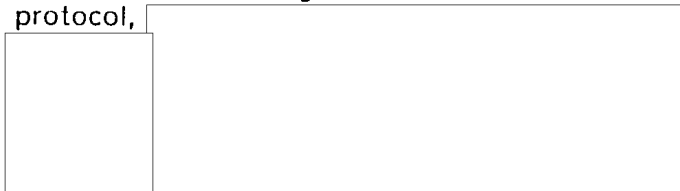
### IRAQ-USSR: STRAINED RELATIONS

Important military and civilian leaders continue to shuttle between Baghdad and Moscow in an attempt to smooth over problems in Soviet-Iraqi relations. Although the Soviets are disturbed by signs that Iraq is seeking better relations with the West, more recently their concern has centered on Iraqi demands for increased Soviet support in the war against the Kurds.

Signs of Iraqi displeasure with Moscow began to appear last summer, when Baath Party strong man Tikriti's bid to visit Moscow was apparently rebuffed. He had hoped to persuade the Soviets to exert pressure on Tehran to end its assistance for the Kurds.



The Soviets, however, still look upon Baghdad as their principal ally in the Persian Gulf and seem to be moving to prevent a further deterioration of relations. They are still providing substantial military assistance. Soviet advisers are providing technical support, and Soviet pilots may even have flown combat missions. The Soviets have just signed a new economic aid protocol,



Now that winter is diminishing the prospect for intensified fighting, the Soviets may feel less reluctant to meet Baghdad's military demands.



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Tikriti (l) with Kurdish leader Barzani

The Soviets have never publicly endorsed the campaign against the Kurds and have privately called the Iraqi military effort "a mess." They are particularly concerned that intensified military operations could lead to more Iranian help to the Kurds and greater strains between Moscow and Tehran. The Soviets cognizant of Iran's growing oil wealth and regional influence seem interested in improving ties with Iran; the Shah is slated to visit Moscow later this month.



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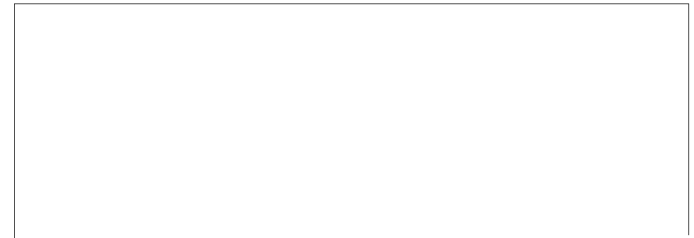
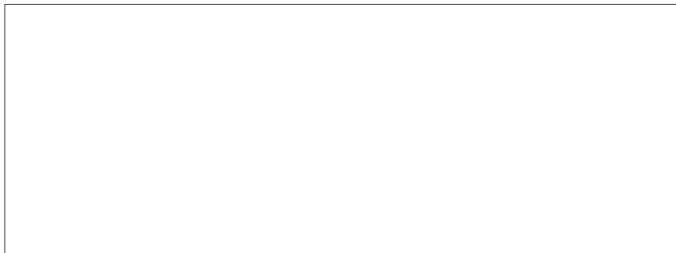


Minister of Interior Rocamora announces nationwide state of [redacted] 25X1

### ARGENTINA: THE VIOLENT LINE

Guerrillas favoring a hard line against the government have prevailed over a faction that questioned whether terrorist tactics could in fact topple Mrs. Peron's government. It is thus highly probable that further acts of urban and rural violence will occur soon.

The decision to stick to militant revolutionary tactics was made after a debate among top leaders of the People's Revolutionary Army—the country's best organized extremist group. Although those favoring a more moderate approach may be resentful, a major split does not appear imminent. Discipline within the organization tends to be strong, and the terrorists may have concluded that President Peron's declaration of a state of siege last week shows that their tactics have succeeded in making the government appear shaky.



[redacted] the People's Revolutionary Army and the Peronist Montoneros are now collaborating despite ideological differences. The two groups may have cooperated in the recent assassination of the country's top police official. Such joint action occurred during the guerrilla campaign waged against the military regime prior to Juan Peron's return to power. The terrorists probably hope that by joining forces they will be able to engage in more spectacular violence and make a mockery of government measures to exterminate them.



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## WHITHER THE OAS?

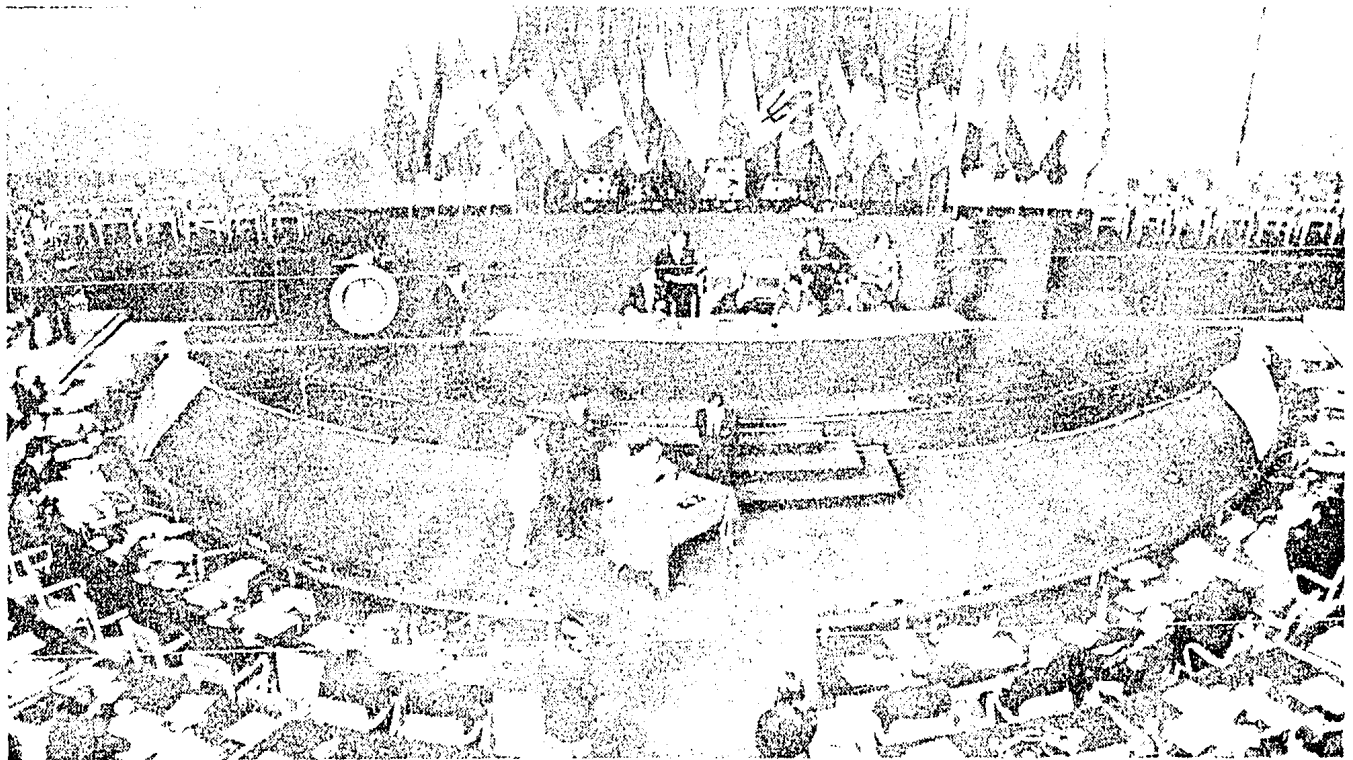
The practical and political consequences of this week's OAS vote on the proposal to rescind the sanctions against Cuba, which fell two short of the needed two-thirds majority, will be a mixed bag. The final tally--12 for, 3 against, and 6 abstentions--provides certain domestic satisfactions for all the delegates. The 12, which either already have diplomatic relations with Havana or want that option open, now feel that their obligation to respect the sanctions has been wiped out by the recorded opposition of a clear majority of the OAS members. The three voting against the proposal took home a major and unexpected diplomatic coup, since it had been widely assumed that the sanctions would be rescinded. The six have offended no particular portion of their constituencies.

The outcome, however, deals a hard blow to the OAS, which was already considered by many a weak and unresponsive organization. It is too early to measure the damage to the dialogue established this year between the US and Latin America, but many governments are making no

secret of their unhappiness with the neutral position of the US throughout the Quito conference.

Various delegates left with a particular sense of defeat or concern. Costa Rica's foreign minister, one of the sponsors of the aborted resolution, suffers the special embarrassment of having given personal assurances that he had the required two-thirds majority wrapped up. The Ecuadoreans, as hosts, will be chagrined that "Quito" stands, in many minds in the hemisphere, for an inter-American debacle. The Argentines, who are set to host the next scheduled foreign ministers' meeting next March, are probably particularly unnerved. They were given the task of polling the Latin and Caribbean governments on whether Cuba should be invited to the Buenos Aires meeting.

Fidel Castro was sitting pretty no matter what the result of Quito. He could have played a vote to lift the sanctions as a vindication of Cuba. But he is probably even more pleased to have the sanctions juridically in effect but flouted in



practice. Several Latin American governments have announced their intention to establish relations with Havana, as seven OAS members already have done. Castro has made clear his preference that such ties be made in violation of OAS rules. He remains unalterably opposed to the organization and would like to be able to take credit for its demise. [redacted]

### BOLIVIA: ELECTIONS CANCELED

President Banzer has temporarily strengthened his position by using last week's abortive coup attempt as justification for banning political activities and canceling the national elections set for next June. Even before the small insurrection occurred in an outlying province, however, Banzer reportedly had the consent of his military commanders to call off the elections.

Last Thursday, Banzer quickly put down a rebellion by a few dissident politicians and an army infantry unit in the provincial capital of Santa Cruz, located approximately 350 miles southeast of La Paz. The fact that Banzer personally commanded reinforcements in restoring order indicated that he had full confidence in his senior military advisers who remained in the capital.

Banzer then announced that elections would be postponed until at least 1980. In his speech he sought to emulate other military strong men in South America by stating that the government intends to fulfill its mission of national reconstruction. Although development policies have consisted largely of empty promises and rhetorical flourishes, this stance makes Banzer look good when compared with his disorganized and inept opponents. 25X1

Banzer has taken other measures to stabilize his government. Official charges of subversion against two cabinet ministers, who had been involved in previous moves against the President, have resulted in a minor cabinet reshuffle.

Military support has rallied behind the government for the time being, but Banzer now depends solely upon the good will of his generals for his political survival. They have previously told him that he must soon step down in favor of an acceptable military replacement. The current front-runner is General Juan Lechin, the second highest official in the government. If Banzer balks at stepping down, the members of the high command will probably abandon their current efforts at achieving an orderly transfer of power and force him out of office. [redacted]

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### SOVIET SHIPS LEAVE CUBA

The small Soviet naval group that had been in the Caribbean during the past eight weeks left Cuba on November 10. The ships—two Kresta-class guided-missile cruisers and an oiler—are now southeast of Bermuda and will probably cruise the western Mediterranean for a short time before returning home to Northern Fleet waters.

During the Cuban stay—the 12th such visit since 1969—the Soviet ships made visits to Havana and Cienfuegos. Unlike other recent visits, there was only a minimum of joint activity with the Cuban navy, probably because no Soviet submarines were included

in the latest group. In the past, the surface ships usually were accompanied by a submarine, which acted as a target for Cuban patrol boat training. Although two submarines were observed trailing the Krestas across the Atlantic en route to Cuba, the Soviets apparently changed sailing orders as the submarines neared the Caribbean, and the two units returned to home waters. No further information has become available regarding this change in plan.

If the Soviets follow the pattern of the past two years, another naval task group will visit Cuba next spring. [redacted]

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**China-USSR  
PEKING PROPOSES NONAGGRESSION PACT**

Last week Peking surfaced a proposal for dealing with the Sino-Soviet border dispute. The proposal, contained in a message to the Soviets on the occasion of the anniversary of their October Revolution, called for a pact renouncing aggression and the use of force, a mutual troop pullback from disputed border areas, measures to avert conflicts, and maintenance of the status quo of the border itself.

The Chinese had made a similar proposal in private during the early rounds of border talks in 1969, but had never before publicly urged a non-aggression pact. Peking had greeted earlier and well-publicized Soviet calls for such a pact with public silence and private contempt. The Chinese have consistently argued that any nonaggression and nonuse-of-force pact would have to be accompanied by a withdrawal of Soviet forces from the frontier, a position that the Soviets have categorically rejected. Because this linkage remains in the new Chinese proposal, Peking almost certainly expected that Moscow would find the package unacceptable.

There were other indications that the proposal was a tactical maneuver. Chinese diplomats were quick to scotch speculation that the package signaled an upturn in Sino-Soviet relations, pointing out to American and Japanese diplomats that the proposal contained nothing new. The message still has not been replayed by the New China News Agency nor has it been broadcast inside China, something Peking would almost certainly do in case of a major new development in Sino-Soviet relations. The substance and tone of Chinese and Soviet propaganda directed at one another, moreover, have not changed in any way since the proposal was made.

Moscow maintained official silence on the substance of the package and has withheld publication of Chinese terms for agreement. Soviet spokesmen have privately claimed that Peking has not offered anything new and that border talks can resume whenever Peking presents a fresh proposal. The Soviets are probably reluctant to make any authoritative response until they can determine whether Peking intended anything



**Soviet border guards along the Ussuri River**

more in publicizing its proposal than to gain some propaganda advantage.

In their message to the Chinese on PRC National Day, the Soviets included references to their own proposals for lowering Sino-Soviet tensions. The Chinese, not to be outdone in this display of flexibility, have replied in kind. In a clear public relations gesture, moreover, the Chinese embassy in Moscow took special pains to distribute the full text of the proposal to foreign embassies and news services there after the Soviets had published it only in censored form.

The Chinese may hope to enhance their leverage both with the US and USSR by conveying an impression of a more forthcoming attitude regarding the Sino-Soviet dispute and by implying that China is less concerned about the Soviet threat than it was a few years ago. By appearing accommodating, Peking also probably hopes to create a favorable impression among foreign Communist parties and complicate Soviet efforts to organize an international Communist conference. [redacted] 25X1

[redacted]

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## VIETNAM

### CALLING FOR TALKS

Saigon last week called on the Communists to resume political and military discussions without preconditions. The South Vietnamese initiative was, in effect, the government's response to a Viet Cong statement on October 8 that called for the removal of President Thieu as a precondition for resuming negotiations and implementing the Paris Agreement. The Communists quickly rejected Saigon's initiative, characterizing it as a "deceptive move" designed to confuse public opinion. Viet Cong officials in Saigon and Paris repeated their demands of October 8 and maintained that there would be no new talks as long as Thieu remains in office. Hanoi's party journals quickly publicized the Viet Cong rejection.

Political talks between the two sides were suspended by the South Vietnamese in April following the North Vietnamese capture of a ranger outpost north of Saigon. At that time, the government sharply curtailed the privileges of the Viet Cong and North Vietnamese military delegations in Saigon, which in turn led to a Communist walkout from the Saigon military talks. These discussions were resumed by the two sides in June, following the government's restoration of privileges to the Communist delegations, but they were quickly broken off again by the Communists.

The latest South Vietnamese move meshes neatly with other recent actions of President Thieu designed to answer the charges of his political opposition. By placing the onus for the present lack of movement on negotiations squarely on Hanoi, Thieu no doubt hopes to undermine the efforts of Buddhist dissidents to exploit public frustration over the continuing hostilities and the ineffectiveness of the Paris Agreement. Neither Buddhist nor Catholic opposition leaders have as yet reacted to Saigon's call for the resumption of negotiations. Opposition activity continued at a low level during the week with protests confined to rallies and meetings in pagodas and churches.

### A LOOK AT THE MILITARY ACTION

Communist military activity picked up early in the week in the delta provinces, but the gen-

erally moderate to low level of action continues throughout most of the rest of the country. The usual Communist midmonth mini-highpoint in the delta went off, but the action was spotty and concentrated in several areas. In Vinh Long Province—one of the hardest hit areas—at least ten government outposts were lost and several roads interdicted, necessitating the movement of troops of the 7th Division into the province for the first time in several months.

Deteriorating weather conditions and heavy casualties on both sides have somewhat slowed the ongoing battles for a number of strategic high-ground positions in the northern provinces. Several of these positions have been retaken by government forces, but the South Vietnamese 1st Division has been unable to make significant progress against Communist forces dug in just south of Hue. The regional commander is contemplating moving in fresh combat units to help out, because he considers these positions vital to the defense of the lowlands south of the city.

The current lull in fighting in the central provinces can best be described as an intermission for the opposing forces while the monsoon moves to the coast and the highlands begin to dry out.

The South Vietnamese thus far have been successful in blunting Communist efforts to establish a commanding high-ground position overlooking the North Vietnamese supply route in the An Lao Valley of Binh Dinh Province. There has been an increase in Communist harassment and interdiction of key roads, especially the lateral routes from the lowlands to the highlands and north-south Route 1.

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The military scene also remains reasonably quiet in the provinces around Saigon with the Communists continuing their terrorist and sapper attacks. Most of the Communist main-force combat units are being refurbished for dry-season action

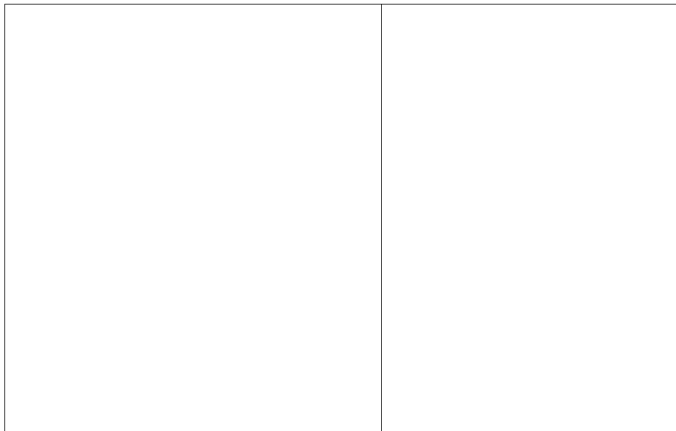
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### CHINA: MAO SETS THE TONE

A statement by Chairman Mao Tse-tung—in a recently issued central directive—that the Cultural Revolution has gone on long enough underscores the focus on political unity that typifies Peking's current propaganda line. Mao adds that the time is ripe for convening the National People's Congress, China's rubber-stamp parliament; in fact, preparations for the congress are well under way. A corollary to the damping down of political struggle has been an emphasis on production, and both themes have been forcefully expressed in a series of central directives going back to July. As a whole, these developments show that moderate elements retain the upper hand in Peking.

The political and policy trend since last summer has been displeasing to Mao's left-leaning wife, Chiang Ching. Arrangements for the succession to the party chairmanship have apparently been completed. Despite Chiang Ching's most recent attempts to portray herself as Mao's successor—expressed in the form of media articles on an historical empress who ruled China after the death of her husband—youthful party vice-chairman Wang Hung-wen appears to be the one designated. Moreover, two of Chiang Ching's Cultural Revolution opponents seem to have the succession to the premiership locked up between them. The madame has not made much headway with her ambitions.



most significant has been Madame Mao's obvious inability to take advantage of Chou En-lai's serious health problems. Chiang can still hurl propaganda barbs and make her weight felt in the cultural sphere, but

she and her ultraleftist supporters appear to have been outmaneuvered, at least for the present.

The rehabilitation of officials purged during the Cultural Revolution continues, and a reported central directive ordering the abolition of revolutionary committees, if carried out, seems sure to offend leftist sensitivities. Established in 1967, the committees still symbolize leftist Cultural Revolution ideals and have been the object of a political tug of war for some time. An earlier move to replace these committees with people's councils, the pre-Cultural Revolution organs of government control, was allowed to lapse after the campaign to criticize Lin and Confucius began in August 1973.

While the anti-Lin, anti-Confucius campaign is now apparently being phased out, factional differences, although they may be muted, will not disappear. A period of relative calm will probably ensue and improvements in production and social order in several provinces may well result, but the political contestants will keep their hatchets close at hand. In particular, Chiang Ching and her leftist allies will remain vigilant for an opening, and current succession arrangements, no matter how clearly defined, will be tested when the time comes for them to be put into effect.



Posters criticizing Lin Piao and Confucius





- Protest activities will be orderly and will cause a minimum of disruption.
- Most Japanese political groups, the press, and a large majority of the public welcome the President's visit.
- Although Tanaka may well resign before the end of the year, he and his rivals within the ruling Liberal Democratic Party have declared a truce until the President's visit is over.

### The Current Atmosphere

During November, a more favorable atmosphere for the President's visit has been developing, and opposition groups have trimmed their scheduled activities accordingly. Last week, one opposition party withdrew from further demonstrations against the President, and others have yet to agree on a unified effort.

The major groups still opposing the visit—the Communists, Socialists, and the largest labor federation—are committed to holding demonstrations, but they are emphasizing their nonviolent character. The themes they will stress, moreover, focus more on inflation and Tanaka rather than on the US and the President's visit.

In an effort to avoid a sense of confrontation over the trip, the major rallies in Tokyo are scheduled for days when the President will not be in the city. Socialist leaders are now saying that they do not intend to harm good relations between the US and Japan, but are opposing the visit solely out of fear that it will lead to a stronger military alliance between the two countries. Opinion polls, meanwhile, show a majority favoring the visit, and Japan's major news dailies weighed in late last week with supporting editorials. In short, a consensus is developing that a courteous reception is in order, and a massive security effort by the Japanese police should contain any attempts by radical youth groups to cause problems.

### A TROUBLED JAPAN

President Ford will be visiting Japan next week at a rather turbulent time. A controversy over the alleged presence of US nuclear weapons in Japan has generated some opposition to the President's visit. Moreover, Prime Minister Tanaka is in the midst of a political crisis stemming from charges of financial corruption.

These issues, along with continuing high inflation, will be the subject of demonstrations and strikes while the President is in Japan. But there are mitigating factors:



A Besieged Tanaka

These more favorable trends have not eased Prime Minister Tanaka's problems and his political liabilities are rapidly becoming acute. Tokyo is rife with speculation that Tanaka is on his way out as prime minister because of recently published charges of financial corruption. Tanaka has long been vulnerable on this account; in over 25 years in public office, he has become a very wealthy man. Early in his political career, he was indicted in an illegal coal mine transaction, and during the party's last major money scandal—the Black Mist of 1966-67—he was forced to retire temporarily as secretary general. His blatant use of money in last summer's upper house election also helped set the stage for the recent charges against him.

Tanaka is clearly in a tough spot. Additional details of his financial transactions will apparently be published soon, and opposition parties are prepared to press the issue in the Diet session beginning December 1. Extensive disruption of legislative business by the affair would complicate the many problems facing the party and increase Tanaka's personal liability—perhaps beyond the point of no return.

At present there is no clear successor to Tanaka. Despite his many ups and downs and his sagging popularity, he retains considerable power in the party, and carrying out an orderly transfer of such authority can be a difficult and time-consuming process under the best of circumstances.

Late last month, however, Tanaka privately raised the possibility of a caretaker government headed by party Vice President Shiina until the party convention next summer. Under such an arrangement, Tanaka would give up the prime ministership but remain party president and retain considerable power.

This proposal was initially shelved, but is still being discussed and could be adopted if the party decides an early resignation is in order—a decision it might reach soon.

Tanaka, meanwhile, is struggling to salvage his position. In a press conference earlier this week, he denied wrongdoing, noted that a detailed accounting of his financial transactions was under way, and indicated that the findings would be made available at some point. He then reorganized his cabinet to prepare for the new Diet session. The new lineup, however, remained much the same in terms of factional balance, indicating no real change in intraparty alignments since the previous shuffle last July.

Tanaka and his rivals within the party have clearly agreed to hold their differences in abeyance during President Ford's tour. But thereafter Tanaka will find it exceedingly difficult to stabilize his position and retain the prime ministership for long.

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## SOUTH KOREA: RECESSION

South Korea's economy is in its first pronounced slump in over a decade. Although real growth in 1974 will amount to 8 to 10 percent, most of the gain came during the first six months. The growth will continue slow well into 1975. Although the long-term outlook remains bright, near-term prospects have dimmed because of the continued economic downturn projected for major Western industrial nations that take the bulk of Korean exports. In the past, brisk foreign sales have been the basis of Korea's rapid economic growth.

Industrial output through June was more than 25 percent above last year's average, but has dropped since then. The downturn has been limited so far to a few consumer-oriented export industries. Hardest hit are the labor-intensive textile, clothing, plywood, and electronics industries. Heavy industry, in contrast, continues to do relatively well.

Unemployment, although not yet serious, is rising. Some 100,000 workers have been laid off so far this year, a cut of some 6 percent of the manufacturing work force. The unemployment burden has thus far been borne mainly by young women rather than male heads of households.



Korea Exchange Bank in Seoul

Nevertheless, labor unrest in the cities is growing as inflation cuts deeper into real income, and unemployment threatens to increase. In response, the government is encouraging businesses to reduce work hours rather than cut payrolls, and will back generous pay hikes even at the risk of aggravating inflationary pressures next year. Labor is pushing for hefty wage increases as pay boosts this year have generally not kept pace with the rising cost of living—consumer prices have already risen 25 percent this year despite subsidized food prices.

Seoul has also shifted from curbing inflation to bolstering output and employment. This year's budget, which showed a surplus through September, is now in deficit, and next year's budget provides for substantially greater spending on defense, industrial projects, public works, and welfare. Seoul is also extending loans to financially pressed small- and medium-sized firms to help avoid a rash of bankruptcies and is offering loans to hard-hit larger firms in labor-intensive industries to help them maintain employment levels.

Sluggish export growth and soaring import costs—the oil import bill has tripled this year to around \$1 billion—has sharply increased the trade deficit. As a result, the current payments deficit will reach some \$1.5 billion, or five times last year's deficit. With direct foreign investments sharply off last year's pace, Korea has stepped up its foreign borrowing, especially short-term credits. Korea's good international credit rating and relatively low debt service burden have enabled it to meet its financing needs.

For next year, Seoul hopes to reduce short-term borrowing by obtaining more long-term capital, although this may prove difficult. As a precaution, besides borrowing from its usual lenders, Seoul is seeking increased credits from the International Monetary Fund and Middle East oil producers. Seoul has attracted a \$20-million loan from Abu Dhabi thus far. Direct foreign investments are likely to pick up next year, however, as several leading US and Japanese firms are going ahead with investment plans involving over \$800 million.

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**OPEC: 1974 OIL RECEIPTS**

OPEC countries will earn more than \$105 billion and actually receive about \$94 billion from oil exports in 1974. The difference results from an average two-month lag in payments by oil companies to the producing countries. The bulk of 1974 OPEC oil receipts will be concentrated in the last half of this year—\$60 billion, compared with \$34 billion in the first half. Second half receipts will reflect all of the January and most of the July price increases and are inflated by an additional \$10 billion in retroactive payments resulting from nationalization moves.

The bulk of OPEC oil receipts in 1974 will go to relatively few countries. The two largest producers, Saudi Arabia and Iran, will receive about \$43 billion, over two thirds in the second

half of the year. Together, the five largest producers—Saudi Arabia, Iran, Nigeria, Venezuela, and Kuwait—will account for over 70 percent of total OPEC revenue this year.

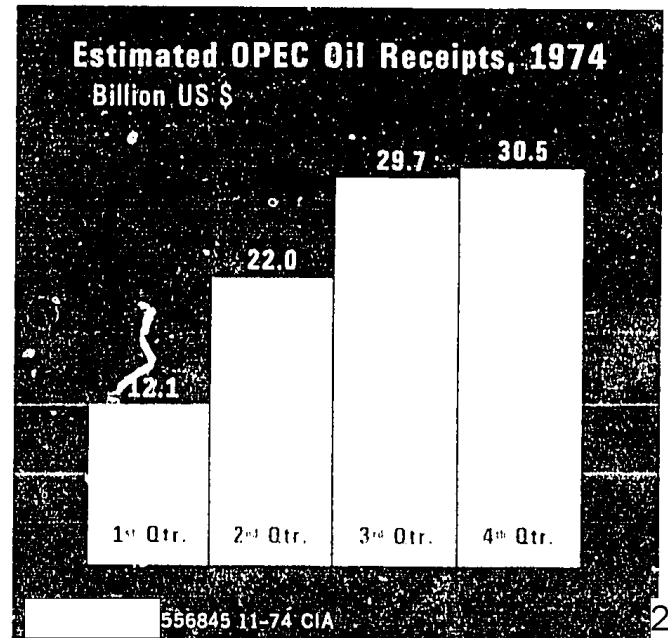
OPEC oil receipts should decline when the retroactive payments are completed early next year. Any further price increases will be partly offset by decreased demand. If present production and prices are maintained, oil payments in the first quarter of 1975 would total \$26.9 billion—almost \$4 billion below the level of receipts in the third and fourth quarters of 1974. Even if currently anticipated price hikes are instituted, payments will still drop by about \$2 billion for the first quarter of 1975.

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**Estimated OPEC Oil Receipts by Country, 1974**  
(In million US \$)

	1st Half	2nd Half	Total
Algeria	1668	2061	3729
Ecuador	355	197	552
Indonesia	1111	1835	2946
Iran	6963	11196	18159
Iraq	2173	2904	5077
Kuwait	1215	6162	7377
Libya	3459	3226	6685
Nigeria	3063	5563	8626
Qatar	610	915	1525
Saudi Arabia	7446	17159	24605
United Arab Emirates	1829	4720	6549
Venezuela	4207	4263	8470
<b>TOTAL</b>	<b>34099</b>	<b>60201</b>	<b>94300</b>



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